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## GENERAL NOTICE

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The **GREEN PAPER ON POSTAL POLICY** for public discussion is hereby published by the Ministry for Posts, Telecommunications and Broadcasting.



**A Green Paper  
for  
Public Discussion**

**Postal Policy**

**The Ministry for Posts,  
Telecommunications & Broadcasting**

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# Foreword

It is my pleasant duty to place this Green Paper on Postal Policy before the South African public and to invite you all to respond to its contents. The Green Paper poses a wide range of questions regarding all aspects of postal policy. Your responses will assist the Government in formulating policy on postal issues for the future.

The postal service is the most basic and most common means by which messages can be communicated and goods delivered. Postal services is a basic link serving the entire population, it also serves as an important medium of communication for business and commerce. Government is committed to facilitating the healthy development of this sector and to ensuring the provision of a universal postal service to all South Africans irrespective of race; class; gender; age or geographic location.

South Africa has inherited a postal policy framework and consequently postal service provision which has been distorted by:

- a) an apartheid legacy which is characterised by inequality in access to postal services, particularly, although not only in the former black communities, rural areas and the former TBVC areas; and
- b) a monopoly mentality which has translated into poor customer service and an unhealthy reliance, by the South African Post Office on an external government subsidy.

The situation is both undesirable and unsustainable. A South African Post Office which continues along this path will require a continued subsidy from government, have difficulty improving and extending services, employ staff with low morale and experience more customer dissatisfaction and defections. Unless the national postal administration transforms, it faces a bleak future. By embarking on a process of reform, we believe that, postal services could benefit significantly from the explosive growth in overall communications world-wide. Moreover, there is increasing evidence, albeit in high-income countries; that careful enterprise reform can bring about greater access; equity; efficiency and enhanced quality of service.

The Green Paper is therefore an important element in the reform process in so far as it contributes to creating an effective macro policy framework. It is neither possible nor desirable to legislate on all the ills of the Post Office. Equally important, in our view, is the restructuring of the enterprise at the micro-level. In response to the immediate financial crisis and consequently, as part of our plan to address the deeper structural and institutional inefficiencies, which impact upon and constrain both the efficiency and the sustainability of the enterprise, it has been necessary to focus resources at the micro level and give more serious consideration to reforming the enterprise. The outcome of this exercise together with the comments on the Green Paper will inform the White Paper on Postal Policy and consequently new legislation, i.e., the new Postal Services Bill scheduled for 1998. Our strategy of combining institutional and enterprise restructuring is designed to reform postal services in order to ensure a more accessible; equitable; efficient and effective postal service for all citizens and business. A process, which we envisage, will transform the postal service into a vital and dynamic component of our communications infrastructure and a valuable national asset.

Our policy must reflect the interest of all citizens and I wish to invite you to participate in this crucial postal policymaking process.

**Jay Naidoo**  
**Minister for Posts, Telecommunications and Broadcasting**

# Introduction

## What is a Green Paper?

A Green Paper is a consultative document. It is designed to pose the questions that need to be answered in order for Government to formulate policy. The Green Paper is not itself a statement of Government policy. A White Paper formulates Government Policy.

A Green Paper is not an academic thesis nor is its function educational. It is designed to stimulate responses from the public and interested parties. It needs to provide a framework of focused policy issues for discussion. Everything about a Green Paper can form the basis of response, including the framework of issues, options and questions.

## The Green Paper on Postal Policy

The main reason for producing a Green Paper on Postal Policy is to provide an instrument for revising and strengthening the policy framework governing the postal sector in general and the universal service provider, South African Post Office, in particular. By asking the public as well as interested parties through the Green Paper for their views on postal policy before producing a White Paper, the Government can be sure that all possible views have been canvassed.

The Postal Green Paper is divided into nine broad policy issues. Each policy issue contains a number of paragraphs that place each issue into context. A broad range of questions is posed in relation to each issue – from the general to the specific.

The responses to the questions raised in the Green Paper will form the basis of the Government's policy on Post. The Government's policy on post will be presented in the form of a Postal White Paper. If the policy in the Postal White Paper is broadly acceptable, the National Assembly will prepare legislation on the postal sector for consideration.

## How to Respond to the Postal Green Paper

The Ministry for Posts, Telecommunications and Broadcasting invites written submissions from the public and interested parties on the questions contained in the Green Paper. In your written submission, please make reference to the questions that you are answering.

The Green Paper on Postal Policy has attempted to identify the most important issues, options and questions that need to be answered in order to formulate a broad postal policy for South Africa. If you think that there are issues or questions that have been left out of the Green Paper, please feel free to formulate your own question and answer it.

The written submissions will be available to the public at the cost of photocopying them. If you want to include any information, which you regard as confidential, please mark it as such and attach it separately to your submission.

The closing date for submissions is:

**12 September 1997**

Submissions should be sent to:

**Postal Policy - Green Paper**  
**The Ministry for Posts,**  
**Telecommunications & Broadcasting**  
Private Bag X860  
PRETORIA  
0001

Fax:

[012] 342 8233 ext 8015

Email:

moffs@doc.org.za

Provide the following detail:

Name

Postal Address

Telephone

Fax and Email address

# Facts & Figures

## Background to the South African Post Office

SAPOS LIMITED (End of 1995/96 operating year)

### Finances

Fixed Assets:	R881,4 million
Turnover:	R1 974,1 million
Capital Expenditure:	R226,553 million

### Legal Status

With the creation of the Union of South Africa in 1910, the provision on postal services was formalised through a state department. In 1968, the Post Office was given greater financial autonomy and a Post Office Staff Board was created to take over the functions of the Public Service Commission with respect to personnel. In October 1991, the Post Office Amendment Act, (1991) separated the traditionally combined Post and Telecommunications services and provided for two corporatised companies to be formed. Telkom SA Ltd. was formed to provide telecommunication services and the South African Post Office Ltd (SAPOS),<sup>1</sup> to provide postal and savings bank services.

In respect of postal services the postal company is constituted as a limited liability company under the Companies Act and is wholly owned by government. The Minister of Post, Telecommunications and Broadcasting holds the shares, on behalf of the state. A Board of Directors governs the company, which is appointed by and responsible and accountable to the Minister as owner. The role of the Board, which can consist of up to 15 Directors, is to decide the policies to be implemented and to ensure that the functions of the company are properly and profitably carried out. The Board also appoints the Managing Director (MD) who is responsible for the management of the company and the staff.

### Mission & Mandate of the Post Office

The principal function of The South African Post Office is to supply postal services within South Africa and to places outside of South Africa. The South African Post Office may also conduct subsidiary and incidental businesses and activities relating to postal services. Consequently its mission is defined as follows:

*"The South African Post Office is committed to rendering quality postal services to all its clients and ensuring the financial sustainability of the business"*

### Volume

SAPOS services over 40 million South Africans and numerous public and private institutions. In 1995/6 it processed 2,1 billion mail items for delivery to over 6,25 million delivery points. Volumes in letter mail have been declining and the Post Office has also lost significant market share in the highly competitive express and parcel markets.

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<sup>1</sup> As at April 1, 1996, the postal services in the former TBVC states were incorporated with the Post Office, through 'The Former States Posts and Telecommunications Reorganisation Act, 1996'.

**Mail Volumes: 1992/93 – 1996/97<sup>2</sup>**

	1992/93 million	1993/94 million	1994/95 million	1995/96 million	1996/97 million
Letters	2 316,2	2 115,1	2 410,1	2 166,9	2 040,8
Parcels	13,9	12,5	11,3	10,5	9,9

**Network**

At March 1997, SAPOS has one of the widest retail networks with 2440 postal outlets countrywide; 27 mail processing centres and currently employs a total of 30 342 staff, including 1 582 part-time employees and 1 471 contract workers.

**Different Types of Outlets: March 1997**

Conventional type Post Offices	Number
Graded	852
Ungraded	535
Part-Time	93
*Mobile Post Offices	11
<b>Subtotal</b>	<b>1491</b>
New Type Retail Post Offices	92
Commercial Service Centres	0
<b>Subtotal</b>	<b>92</b>
Old Type Postal Agencies	212
New Type Retail Postal Agencies	645
<b>Subtotal</b>	<b>857</b>
<b>GRANDTOTAL</b>	<b>2440</b>

Source: SAPOS

**Number of Postal Service Points 1993 – 1997**

No of service points	1993	1994	1995	1996	1997
Traditional Post Offices	1705	1638	1578	1402	1491
Postal Agencies	407	420	453	175	212
Retail post offices	0	0	2	50	92
Retail postal agencies	0	0	0	395	645
<b>Total</b>	<b>2112</b>	<b>2058</b>	<b>2033</b>	<b>2022</b>	<b>2440</b>

Source: SAPOS

The Post Office has extended its retail network and contained costs, by reducing the number of traditional post offices, while increasing the number of retail post offices and postal agencies. The increase in traditional post offices and postal agencies, in 1997, is due largely to the incorporation of postal services from the former TBVC areas.

<sup>2</sup> 1996/97 figures are projected, since the actuals are not yet available

**Number of Inhabitants<sup>3</sup> per Postal Outlet by Postal Region: 1997**

Postal Region	Population per Postal Region	No of Postal Outlets	Inhabitants per Postal Outlet
Northern Region	5,284,200	612	8,634
Witwatersrand	9,755,500	270	36,131
KwaZulu Natal	8,536,100	358	23,844
Central Provinces	6,910,200	429	16,108
Eastern Cape	6,503,700	382	17,025
Western Cape	3,658,300	389	9,404
<b>TOTAL</b>	<b>40,648,000</b>	<b>2440</b>	<b>16,659</b>

Despite the increase in the size of the network, access to postal outlets remains low and unevenly distributed between and within postal regions. The South African average of inhabitants per postal outlet is 1:16 659<sup>4</sup> compared with the European Union (EU) average of 1: 3 484 citizens.

**Services & Products**

SAPOS core business is postal services, which account for 85 % of its revenue. In addition to letter mail and parcel services, SAPOS offers a range of other mail services, courier; international; etc, agency services such as pension payments and the collection of third party payments on behalf of organisations like Telkom; SABC; Local Authorities etc, as well as savings and money transfer services through the PostBank.

**Selected products and services offered by SAPOS**

Traditional Mail	Agency	Other Mail
Letter mail	Pension payments	International Services:
Parcels	Collecting payments:	letter post
Stamps	Telkom	parcel mail
Registered Articles	SABC TV licenses	Speed Services Couriers
Express Mail	Electricity local Authorities	Fastmail
Postal Orders	Selling scratch cards	Parcelplus
	Post bank	Infomail
	Money transfer services:	Advertising mail
	C O D parcels	Business reply services
	money orders	
	Philately Services	

**Key Financial Data**

Since corporatisation, Post Office expenditure has exceeded income with a growing, rather than diminishing reliance on state funding.

<sup>3</sup> The source for population data is the DBSA.

<sup>4</sup> This number reduces to 1:15,532 if we take the latest CSS projection of 37,9m inhabitants.

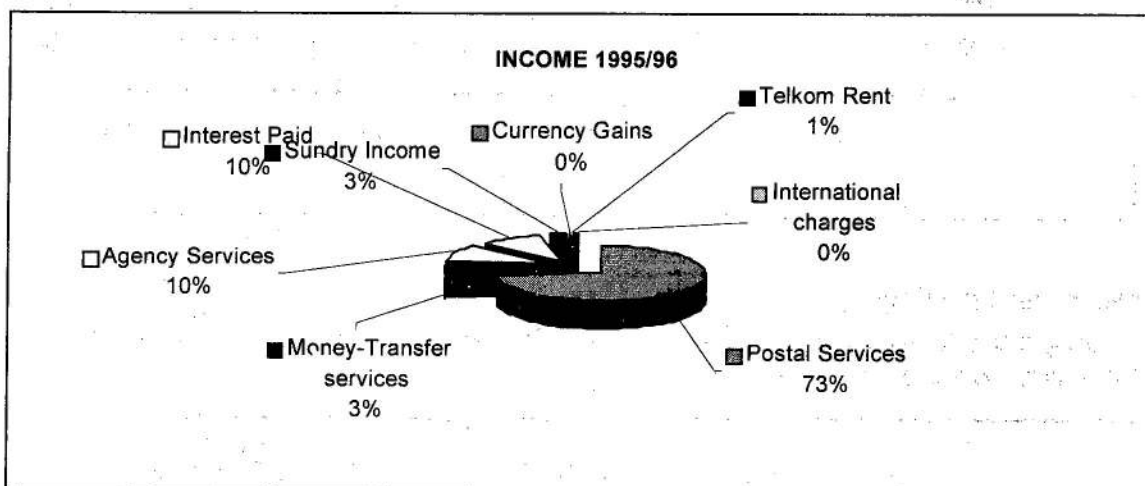


**Income, Expenditure & Subsidy: 1993/94 – 1996/97<sup>5</sup>**

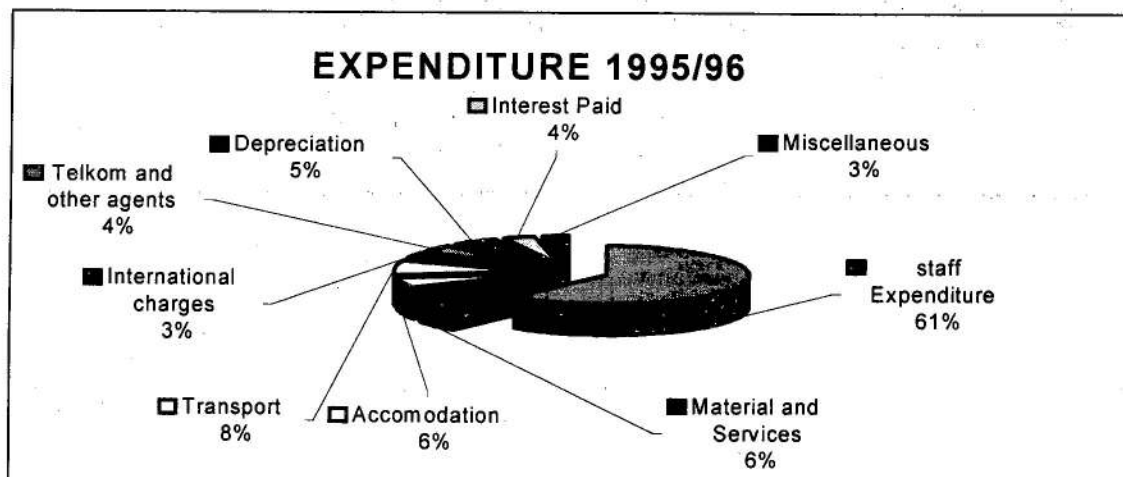
	1993/94 Rm	1994/95 Rm	1995/96 Rm	1996/97 Rm
Total Income	1,771,635	1,678,094	1,974,065	2,217,300
Total Expenditure	2,172,635	2,086,094	2,546,165	2,774,100
Subsidy	401,000	408,000	572,100	n/a

**Distribution of Income by Key Categories: 1995/96**

The traditional mail volume service represent 73% of total income. Total revenue is a function of (tariff \* volume) and mail volume has declined significantly over the last few years. This had a direct effect on total revenue, and therefore profit/loss.

**Distribution of Expenses by Key Categories: 1995/96**

Traditionally staff expenditure represents the biggest portion of total expenditure. International comparisons show on average staff expenditure between (58%-65%) of total expenditure, such as Australia 59% and the UK 62%.

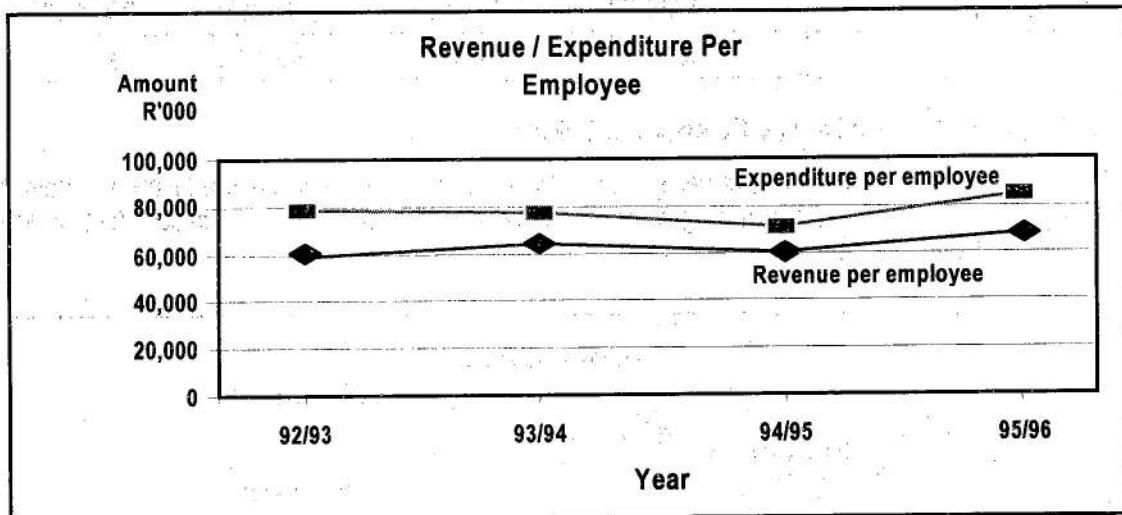


<sup>5</sup> Figures for 1996/97 are, as yet, unaudited.



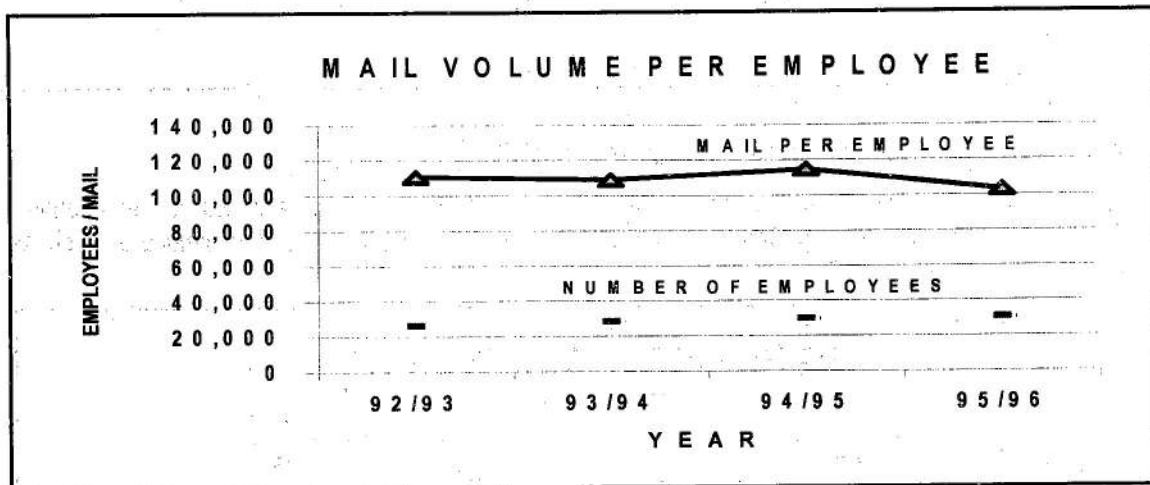
### Employee Productivity

The postal business is labour intensive and labour costs represents 61% of total costs, which is in line with international trends. Nevertheless, productivity levels are low, given the rise in costs and the decline in volume.



### Mail Volume per Employee

Declining mail volumes per employee provides yet another indicator of declining productivity in the Post Office, particularly over the past two years.



# CHAPTER 1

## Postal Services & Development in South Africa

### Introduction

The postal service is the most basic and most common means by which messages can be communicated and goods delivered. Postal services are a basic link serving the entire population, it also serves as an important medium of communication for business and commerce. A viable postal service is an essential vehicle of communication and vital to social and economic activity. Moreover, the postal sector is essential in a world where reliable and speedy communication is vital to the success of rapidly globalising trade, industry and services.

Government is committed to facilitating the healthy development of this sector and to ensuring the provision of a universal postal service to all South Africans irrespective of race; class; gender; age or geographic location. At the same time, government recognises that the means used to achieve this objective must leave the greatest possible flexibility for the provision of whatever specialised services the market may demand.

The monopoly provider, charged with the task of providing universal postal services within the country is the South African Post Office. Like many other postal administrations SAPOS operates with huge inefficiencies and offers a poor quality of service to the public - services that, in addition, have not responded to the changing needs of the market. In South Africa the legacy of apartheid adds additional dimensions of inequality in access to postal services, particularly, although not only in the former black communities, rural areas and the former TBVC areas.

Until recently, postal services could operate with cost and service inefficiencies because:

- a) it was historically sheltered by the joint Post & Telecommunications structure, implicit in which was the notion that telecommunications serviced the higher income consumer and business segments of the market and consequently could and should subsidise postal services as a cheaper, more affordable and therefore more accessible communications service to the entire population and the postal needs of the economy; and
- b) the division of resources and management expertise following corporatisation in 1991 created apprehension that SAPOS could not be self-sufficient or even profitable. Consequently, legislation provided for a subsidy to cover its operating loss up to July 1997. As a state owned enterprise, with legal provision for a subsidy to cover operating losses, it had no fear of going bankrupt and therefore, even less incentive to achieve profitability.

However, this situation is changing rapidly. Some of the key factors acting as drivers for change in the postal sector, in general and on the South African Post Office in particular, includes:

- diminishing public revenue to subsidise these large and growing operating losses;
- diminishing volumes and consequently postal revenue; as a result of
- growing competition from the private sector (courier and the electronic communications industry, as well as illegal competition in the reserved area),
- low productivity and other internal inefficiencies
- changing customer needs
- growing dissatisfaction with poor quality of service and in some instances no service provision

Even with continued monopoly protection in some areas of business, postal volumes face a significant threat of erosion – accelerated by poor service performance and lack of security and reliability of the system. Unless the national postal administration transforms, it faces a bleak future. By embarking on a process of reform, postal services could benefit significantly from the explosive growth in overall communications worldwide. Moreover, there is increasing evidence, albeit in high-income countries; that careful enterprise reform can bring about greater access; equity; efficiency and enhanced quality of service. Government has, therefore, embarked on a process of reforming postal services in order to ensure a more accessible; equitable; efficient and effective postal service for all citizens and business. A process which, we envisage, will transform the postal service into a vital and dynamic component of our communications infrastructure and a valuable national asset.

This Green Paper marks a step along the route towards identifying key objectives, making critical policy choices and decisions and consequently transforming the South African Post Office and postal service provision. This Green Paper provides a platform for participation by the public and other key stakeholders, in the formulation of a new vision for the postal sector and the creation of a policy framework through which these objectives can be achieved.

### **The RDP**

The review of postal policy and the setting of objectives and specific measurable targets, must occur within the guiding framework of the RDP and the spirit of its key objectives, namely:

- meeting basic needs
- building the economy
- developing our human resources; and
- democratising the state and society

Specifically, the Post Office must contribute to meeting the following related objectives:

- ensure greater access through the achievement of universal postal service
- ensure greater equity in respect of the distribution of services, particularly in respect of former African townships, rural areas and the former TBVC states as well as in respect of employment (race and gender)
- ensure a better quality of service and greater responsiveness to customer needs
- improve existing services and create new and diverse initiatives as a way of improving profitability and contributing to economic growth and employment creation
- ensure financial sustainability through a reduction and gradual elimination of cost and service inefficiencies in its operations
- improve productivity and build capacity within the sector and contribute to the development of human resources
- optimise the utilisation of postal services and infrastructure to stimulate and support (local) economic development and employment creation
- encourage more effective utilisation of postal infrastructure to serve as points of access to the global information society
- contribute actively to the economic empowerment of historically disadvantaged South Africans through employment and procurement policy and in respect of new partnerships and joint ventures
- assess and strengthen its role in community development in general and rural development in particular, by actively participating with other agencies in the development and implementation of Multi-Purpose Community Centres

**What should government's objectives for the postal sector be?**

**What should government's objectives for SAPOS be?**

## Universal Postal Service

The cornerstone of all national policy for the postal sector is for government to ensure the provision of a universal service at an affordable price and acceptable standard of service for all citizens. In order to ensure the provision of a universal service to all South Africans, a Universal Service Obligation is placed on the Post Office.

Universal postal service, without any conditions about price, can be provided in the competitive (non-reserved) sector. But, in order for the service to be at a price affordable to all, it is necessary to have sufficient economic returns to scale. **A set of reserved (monopoly) postal services, which confer special and exclusive rights to the universal service provider, has therefore been established.**

## The Current Exclusivity of the Post Office

A distinction is made between reserved and non-reserved (postal) services. The provision of some services are reserved for the universal service provider (in the case of postal services in South Africa the undertaking is the Post Office) under **monopoly conditions**.

The present position in South Africa is that the Post Office was granted the exclusive power to conduct the postal service, subject to the approval of the Minister for:

- the tariff structure;
- the determination of hours during which postal services will be rendered;
- the imposition of any onerous conditions in connection with the provision of the postal service; and
- the termination of the provision of a postal service in any area.

## Reserved Area

Any person is expressly forbidden to breach this exclusive right of the Post Office which is specified in the Act as "receipt, collecting, dispatching, conveying and delivery of letters and the performance of incidental services." (Section 7 (1) (b) of the Post Office Act, 1958 as amended).

The Post Office Act, 1958 does not specify the dimensions of the letter, instead the dimensions are prescribed in Schedule A of Government Gazette No. R. 2329 19 October 1979.

## "Schedule A" - Limits of Mass and Size of Postal Articles

Class of postal article	Limit of mass	Limits of size	
		Maxima	Minima
Standardised postal articles	50 g	120 mm x 235 mm with a thickness not exceeding 5 mm	90 mm x 140 mm with a thickness not exceeding 5 mm
Non-standardised postal articles (excluding "bags containing official government or provincial departments, and examination papers")	2 kg	Length, width and depth combined, 900 mm, but the greatest dimension may not exceed 600 mm. If in the form of a roll, length plus twice the diameter, 1 040 mm, but the greatest dimension may not exceed 900 mm	Having an address side measuring not less than 90 mm x 140 mm, with a tolerance of 2 mm. If in the form of a roll, length plus twice the diameter, 170 mm, but the greatest dimension may not be less than 100 mm. Items of dimensions smaller than those set out above are admitted if they bear a rectangular address label of cardboard or strong paper measuring not less than 70 mm x 100 mm.
Non-standardised postal articles containing books	5 kg	As for non-standardised postal articles	As for non-standardised postal articles
Postcards	—	105 mm x 148 mm, with a tolerance of 2 mm	90 mm x 140 mm, with a tolerance of 2 mm
Newspapers, [posted in terms of regulation 36(7)]	500 g	As for non-standardised postal articles	As for non-standardised postal articles.
Literature for the blind	7 kg	As for non-standardised postal articles	As for non-standardised postal articles
Parcels	10 kg	Length, 1 m; length and girth combined, 2 m	As for non-standardised articles.

\*These items may not exceed 10 kg in mass, but are not subject to limits of size.

With the exception of literature for the blind and parcel services<sup>6</sup>, which are universal service obligations, letters and printed matter, which conform to the above minimum and maximum dimensions, are reserved. Since the regulation specifies a *combined* length, width and depth dimension of 900mm, the Post Office has created a more precise definition, which reads as follows:

### Definition of a Letter

Letters are defined as any flat article that conforms to predetermined size, thickness and mass having the following dimensions:

- Maximum mass 2 kg
- Maximum size 458 mm x 324 mm
- Maximum thickness 100 mm
- Cylinders that have a maximum length of 458 mm and 100-mm thickness are regarded as letters.

The Post Office has special rights in respect of the issuing of stamps and the provisioning of roadside collection.

### Non-Reserved Area

The exclusive rights do not "...extend to any letter:

- sent or conveyed to or from any post office;
- exceeding the dimensions prescribed for letters
- containing process of or proceedings or pleadings in any court of justice or affidavits or depositions;
- exclusively concerning goods sent and to be delivered therewith;
- sent by any person exclusively concerning his private affairs of the bearer or the receiver.

Provided that that no person shall collect any such letter for the purpose of sending it either by post or otherwise." (Section 7(1) (c) of the Post Office Act, 1958 as amended.)

### The Rationale for the Monopoly

In order to ensure the universal service (discussed in more detail below) the universal service provider is usually given some form of exclusive privilege or monopoly protection regarding certain aspect of the postal market, i.e., reserved services. Reserved services are justified economically in order to provide sufficient volume over which the fixed cost elements of the network can be spread, in order to achieve low unit costs and thus prices affordable to all. The rationale being to enable the national service provider to capture the monopoly benefits associated with being the sole provider of the service in order to compensate (financially) for the universal service requirements imposed upon it.

### Universal Postal Union position on Reserved Services

By way of a reminder, the official UPU position as regards the monopoly is given in Hamburg Congress resolution C26/1984 which

"appeals to the governments of Union member countries:

- a) to maintain the postal monopoly in order to ensure that all of their citizens have equal access to a universal postal service;
- b) to define clearly the items which fall within the scope of the postal monopoly; and
- c) where appropriate, to instruct the Customs and other national authorities to assist the postal authorities in enforcing the postal monopoly."

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<sup>6</sup> The maximum weight for parcels has been adjusted to 30kg in line with the international norm and is not reserved.



The establishment of a set of reserved services curtails the operations of the free market and this raises questions in respect of competition (discussed in more detail in chapter 2) on the one hand and regulation on the other (discussed in more detail in chapter 3 and 4, respectively).

In accordance with the principle of proportionality, the size of this set of reserved services should be no larger than is needed to secure the universal service objective. Outside the reserved area, all services are provided in free competition. The Post Office competes with other operators in the provision of non-reserved postal services.

### **The Implications of Establishing a Set of Reserved Services**

The granting of the special rights and exclusive privileges has a number of consequences, namely:

Firstly, it **curtails** the normal operation of the market in respect of reserved services; and secondly, it implies that this privilege of being awarded the reserved services carries certain **obligations**. These obligations are sometimes divided into the following categories, namely, a universal or community service obligation; a commercial obligation and general government obligations.

### **What is Universal Service?**

A Universal Service Obligation (USO) is an obligation placed on the Post Office by the government to provide specified services to the whole community, even though these services may not be commercially viable in their own right. The universal postal service, therefore, implies that all citizens will have equal access to a **basic letter service**:

that is reasonably accessible to all people in the country;

- at a single uniform rate of postage;
- at the lowest price consistent with meeting all its obligations financial and otherwise; i.e. at an affordable rate
- to places outside of the country (international letter services)
- at a standard of performance which reasonably meets the needs of the population

In addition to the letter service the Post Office is obliged to provide other services such as parcel services up to 30 kg even though this service falls within the competitive sector.

In accordance with the Universal Postal Union (UPU) regulations, literature for the blind is handled as a community service and no postal tariff is charged. The Post office estimates the USO cost due to loss of income for providing mail to the blind at R2,2 million per annum.

Since some of the obligations are profitable, there is a need to define and cost those obligations, which are deemed non-commercial USO's. An obvious example being mail services for the blind.

### **Commercial Obligation**

Some countries place a 'commercial obligation' on the universal service provider, which stipulates that the company shall, as far, as is practicable, perform its functions in a manner consistent with sound commercial practice.

### **Should government place a commercial obligation on the Post Office?**

#### **General Government Obligations**

This stipulates that the Post Office perform its functions in a manner consistent with

- any general policies of the government, for example, in respect of the governments RDP and growth strategy (GEAR)
- any directions given by the Minister, subject of course to existing legal and statutory provisions

- South Africa's obligations under any convention.

In the case of the Post Office there are buildings which have been declared National Monuments. These buildings are maintained and operated at an additional cost to the Post Office because they are National Monuments. SAPOS estimates the cost of this 'cultural obligation' at R5 million per annum.

**Are these obligations appropriate? Should government finance them?**

Universal service consequently refers to the provision and maintenance of a basic public postal service, guaranteeing, at affordable, cost-effective and transparent tariffs, nation-wide access to the public postal network within a reasonable distance and during adequate opening hours, including the collection of postal items from accessible postal boxes or collection points throughout the country and the **delivery** of such items to the address indicated in the course of regular scheduled delivery rounds, as well as associated services entrusted, by measures of a regulatory nature, to the Post Office for universal delivery at a specified quality. These **obligations**, in turn, raise a number of critical policy issues namely,

- what is an affordable uniform tariff?
- what constitutes a standard or basic letter service?
- what is an accessible postal service and for whom? – indicators to measure accessibility include the number of outlets where customers can buy stamps; the maintenance of convenient hours of operation and the maintenance of the network measured in terms of delivery points and delivery frequency and ultimately;
- given that the state places an USO on the Post Office, how is the cost of the USO to be financed?

### **Tariff**

Standard letters carried within South Africa are uniformly priced. The standard addressed letter mail postage is currently R1.00 for delivery anywhere in South Africa. Only prices on the reserved services are subject to regulation, the prices for other products and services being regulated by competition in the market. Since tariffs or pricing policy for the reserved service is subject to regulation it will be discussed in more detail in chapter three (financing) and chapter four (regulation).

### **Accessibility of Postal Services - 'Postal Presence'**

Although it has been stated that the fundamental basis for postal policy is the requirement to achieve universal service at an affordable price, often not stated explicitly is what this universal service implies in terms of accessibility by or to customers – that is how easily potential customers should be able to post material and how regularly delivery points ought to be accessed by the universal service provider. In this context, access should be interpreted widely. It refers also to the ease with which potential customers can find out about postal services.

**How accessible are postal outlets to citizens?**

**How easily are potential customers able to post material through counters and roadside collection boxes?**

**How accessible is information on postal (and savings bank) services, especially in the vernacular (mother tongue) and to illiterate segments of the population?**

**Table 1.1 - Post Office and Postal Agency distribution network by Region<sup>7</sup>: at 31 March 1997**

Type	Northern region	Witwaters-rand	KwaZulu/ Natal	Central Provinces	Eastern Cape	Western Cape	Total
Conventional type post offices							
Graded	162	175	116	127	119	153	852
Ungraded	142	45	47	151	75	75	535
Part-time	40	0	2	25	14	12	93
Mobile	1	2	1	2	5		11
<b>Subtotal</b>	<b>345</b>	<b>222</b>	<b>166</b>	<b>305</b>	<b>213</b>	<b>240</b>	<b>1 491</b>
Retail post offices	20	25	36	6	4	1	92
Commercial service centres	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>365</b>	<b>247</b>	<b>202</b>	<b>311</b>	<b>217</b>	<b>241</b>	<b>1 583</b>
Postal agencies	39	-	18	57	96	2	212
Retail postal agencies	208	23	138	61	69	146	645
<b>GRAND TOTAL</b>	<b>612</b>	<b>270</b>	<b>358</b>	<b>429</b>	<b>382</b>	<b>389</b>	<b>2 440</b>

Source: SAPOS

**Table 1.2 - European Union Universal service – collections<sup>8</sup>**

Country	No of Postal Outlets	Inhabitants per Postal Outlet
Belgium	1,850	5,330
Denmark	1,300	3,939
Germany	17,500	3,489
Greece	929	10,728
Spain	12,985	2,978
France	17,000	3,258
Ireland	2,075	1,711
Italy	14,353	3,987
Luxembourg	106	3,472
Netherlands	2,624	5,550
Portugal	1,050	9,881
United Kingdom	21,000	2,074
European Union Average	92,772	3,484
<b>South Africa</b>	<b>2,440</b>	<b>16,659</b>

SAPOS has one of the widest retail networks with 2440 postal outlets countrywide; 27 mail processing centres and currently employs 30 342 staff. The Post Office has extended its retail network and contained costs, by reducing the number of traditional post offices, while increasing the number of retail post offices

<sup>7</sup> The Post Office has 6 operational regions which overlay the 9 provincial boundaries.

<sup>8</sup> Source: EU Green Paper



and postal agencies. Despite the increase in the size of the network, access to postal outlets remains low and unevenly distributed between and within postal regions. The South African average of inhabitants per postal outlet is 1:16 659 compared with the European Union (EU) average of 1: 3 484 citizens.

The ratio of postal outlets to people in South Africa is very high. If we were to establish criteria of 1 post office per 10 000 population the postal network would have to double. Many countries have done this without increasing costs, and in some cases reducing costs by reducing the number of traditional post offices, while expanding the retail network through agency and franchising options. SAPOS has begun to increase the number of postal outlets through increased agency outlets and the concept of 'posspazas' in black areas, but has not introduced the franchising option.

**What average in respect inhabitants per postal outlet should South Africa strive to reach?**

**Do you have a 'posspaza' in your area and is it appropriate?**

**Is franchising an option for increasing the number of postal outlets without increasing costs?**

**Should the retail counter network be franchised to the private sector in order to support the growth and development of the small business sector, particularly in underserved and black areas of the country?**

### **Appropriate Location of Postal Services**

Also important in this context is the locality of the postal outlet. In many cases post offices were established 20; 30; 40 years ago. Since then shopping malls have tended to shift shopping patterns away from traditionally high volume areas to new locations.

**How far away from work, home or convenient shopping area (in kilometre terms) is your nearest postal outlet?**

**How far should it be?**

### **Equitable Distribution of Postal Outlets**

Increasing the number of postal outlets and in some instance, even repositioning postal agencies does not automatically translate into equitable distribution. Post offices and mail service points are currently unevenly distributed within and between regions. We have inherited the situation as a result of previous policies where white South Africans have greater access to a high quality of services, whilst the minimal postal services are not easily accessible to black South Africans. For example, in the former white suburbs of Pretoria there were 71 post offices<sup>9</sup>, while in the black townships of Pretoria there are only 2 post offices. Rural areas and particularly the former TBVC areas are similarly disadvantaged.

**What criteria should be used to ensure that historically black areas and under-served rural areas are adequately serviced?**

<sup>9</sup> this has been reduced to 55

## **Rural (Financial) Services**

The number of transactions (volume) in rural and sparsely populated areas tend to be lower and therefore the cost of providing postal services tends to be more uneconomical than in the bigger urban and metropolitan areas. Nevertheless, the Post Office has the widest 'rural reach' and its retail network plays an important role in pension and other social welfare pay-outs, as well as third party payments, especially but not only in the rural areas. In addition, the Post Office through the PostBank currently plays an important role in the provision of rural financial services. While it is operationally inevitable that the quality of service in rural areas will be less than in urban areas, it is important for government to ensure that the rural areas; - or even whole regions - do not suffer undue poor quality or no services at all.

**Given the current financial constraints on the Post Office and growing pressure from the government for it to become financially self-sufficient and more commercially orientated should these uneconomical post offices be closed?**

**Is it appropriate to introduce different service requirements in low volume areas?**

**The Post Office is also a significant employer in these areas and closure would mean job losses and even further hardship. Is this acceptable?**

The Strauss Commission of Inquiry into the provision of Rural Financial Services recommended a significant role for the PostBank in providing financial services in the rural areas. The Commission recommended that the Minister appoint a technical task team to further investigate the proposals on mobilisation of savings, provision of credit facilities and a broad range of services and new products not currently provided by the Post Office. It is also interesting to note that the PostBank is in fact one of the few profitable business units within the Post Office and may well be one way of subsidising the provision and extension of services to these areas. In addition, it may also be necessary for the state to subsidise all or part of the costs for providing and extending universal services to rural and other under-served areas.

In terms of governments' commitment to the provision of a universal postal service and a basic national communications infrastructure, it is not an option to eliminate service provision in rural and sparsely populated areas. There would, for example, be no reason then to establish a set of reserved (monopoly) services and the market would be free to provide these services only in the profitable urban and metropolitan areas. Instead, it is incumbent on us to find creative, but more economical ways of providing a basic postal / communications service and/or subsidising the provision of these services.

**What criteria should be used to subsidise service provision in rural areas?**

**Due to its extensive retail network and wide 'rural reach' what role should the Post Office play in rural development?**

## **Reconfiguring the Network**

Both in respect of the more profitable urban areas, as well as the less economical rural areas, a key consideration for government is how to reconfigure the postal retail network and rollout of infrastructure to ensure all citizens more equitable access to universal postal services.

## **Convenient Hours of Operation**

A related issue in respect of what constitutes access to postal services relates to adequate opening hours of postal outlets

**Business Hours of Post Office Outlets (as at 31 March 1997)**

- 726 conventional type post offices are open for business at lunchtime
- 20 remain open for business until 17:30
- 8 remain open for business after 12:00 on Saturdays
- Some conventional type post offices in shopping centre's are now open during the business hours of the centre, which include late Friday evenings and Saturday afternoons
- The full range of Post Office products and services are available at Postpoints during the same hours of the Host business (including Saturdays, Sundays and public holidays)
- All retail postal agencies remain open during the same business hours of the host business

**Are these opening hours convenient?**

**Should any post office be closed during 'lunch-time'?**

**Provision of Addresses**

For each household to have its own address is important for the dignity of all citizens. It also makes an important contribution to the economy because it allows all citizens to receive mail and allows businesses to communicate with their clients.

**Delivery Policy**

Since the delivery of letter mail is both a universal obligation and a reserved service, the regularity by which delivery points are accessed by the Post Office and the related issue of and the nature of delivery, i.e., street delivery; address box are important policy considerations. Since the major fixed cost element of the letter post operation is delivery; and in some instance genuinely not viable, i.e., low density rural areas, - we need to establish clear and non-discriminatory criteria for delivery to private property and *post restante* facilities in order to eradicate racial inequality in service provision.

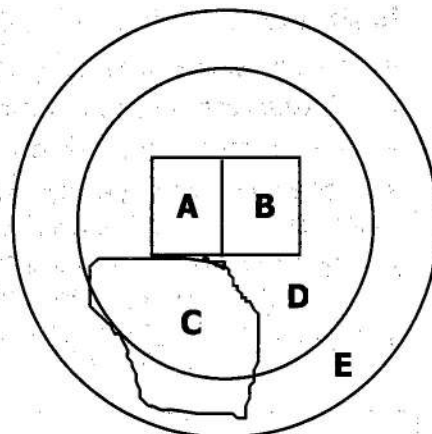
Further, if the universal provider has an obligation to deliver mail to the address indicated in the course of regular scheduled delivery rounds, one of the alarming characteristics of South Africa is the fact that a vast number of households, predominantly African households, do not in fact have 'addresses'. This is more common in rural areas and informal settlements. An estimated 4 million households are currently without access to street delivery or address boxes. Through lobby boxes, the Post Office aims to provide 500 000 additional addresses each year. Since August 1993 a total of 1,1 million postal addresses, of which 95% are in disadvantaged areas, were installed. By October 1996, about 1,7 million address boxes were rolled-out, but the usage level has been very low - only about 33%. The inhibiting factor has been the fee of R15, 00 the Post Office charged to obtain the key for the box. Other problems encountered include the location, maintenance and service standards of address boxes. In comparison, the usage of private boxes is high - 78,6%. There is waiting list of 41 250 for private boxes. Delivery of mail takes place at 3,2 million street addresses at a cost of R282m.

**Current Situation**

Street delivery has not been expanded since the early 1980's. Since 1992, street delivery has been defined as a value added service. The service is currently provided at no additional charge due to the sensitivity around a charge for street delivery. SAPOS estimates the cost of street delivery over and above address box delivery to be in the region of R282 million per annum. The overall objective was to provide each household with a postal address and there would also be five specified delivery service areas as indicated below.

**Serviced - All Cities and Towns**

- A Formal - City centre (street delivery or address boxes)
- B Formal - Suburbs and Townships (same as above)
- C Informal - Squatter camps/Informal settlements  
(Postal service supplied at nearest service centre)

**Non-postal Service Areas**

- D Peri-urban - small-holdings
- E Rural - farms (Private post-boxes at full rental)

Although this policy was perceived to be more equitable, customers (especially those in areas D and E) stated that it was not equitable, as they had to pay an annual rental fee. They were also of the opinion that this was a discriminatory policy as it was not participative of the universal postal delivery service standards.

Due to the above, a new delivery policy, was implemented on 1 January 1997, which differentiates between a **first** and **second postal** address. There will be no annual rental payable on a first postal address, while the second postal address and business/organisation post-box address will be charged the full rental.

**A first postal address is defined as follows**

- All areas where there is street delivery (regardless of whether the client wishes to make use of it or not);
- Address boxes placed in areas where there is no street delivery;
- Post-boxes in areas where street delivery of mail is impossible, for example on farms, agricultural holdings and small-holdings;
- Post-boxes in areas where the Post Office has phased out street delivery, necessitating clients to rent post-boxes;
- All first postal addresses will be provided free of charge;

**A second postal address is defined as follows**

- If a client lives in an area where there is street delivery, but he or she prefers to make use of a post-box;
- If a client lives in an area where post-boxes are provided as a first postal address, but he or she prefers to make use of an additional post-box;
- If a client already has an address box and wishes to obtain another address box (regardless of whether it is in the same lobby or not)
- All post-boxes larger than 20 dm<sup>2</sup>
- Any post-box or address box that is not used at the service point nearest to the client's residential address

**Address Boxes**

Although the current tariff for the rental of a post-box is R100 per annum, a large number of boxes are provided free of charge. This is done for all households not receiving street delivery. The cost of address boxes not currently being paid for is estimated by SAPOS at R182 million per annum.



### Future Delivery Policy

The current delivery policy has inherent inequalities, since the places where people live has been prescribed by apartheid and secondly the provision of postal services, including street delivery has been distorted by apartheid in the first instance and the provision of postal resources in the second.

A key consideration for the future is whether address box delivery is an interim step towards street delivery and if so what criteria should be used for extending street delivery to areas that currently do not receive street delivery? Alternatively, street delivery could be eliminated in favour of accessible address boxes for all households with a nominal charge for maintenance and security provision. This option would result in the loss of jobs. A third option would be to charge a minimum of R100 per annum for the added value of street delivery.

### What other options exist in respect of delivery?

### Delivery / Service Standards

It is insufficient to simply state that a universal service must be provided. The quality of the service also needs to be stipulated, using appropriate criteria in order to ensure universal service at a quality that customers recognise as satisfactory. Here the frequency of delivery as well as reliability and security of the mail delivered is of importance.

**Table 1.3 - Measuring of Delivery Standards**

Product	Number of days		
	Fastmail	Standard and non-standard mail	Insured mail
In-town delivery	2	3	4
Between towns within regions	3	4	5
Between towns and regions	3	4	5
Between rural towns and informal areas and between regions	4	5	6

The Post Office has an obligation to monitor its performance (both internally and independently) against stated targets and to publish these results on a regular (quarterly) basis.

**What additional criteria should be used to measure the reliability and security of delivery standards and quality of postal services in general?**

**What method will meet customer requirements, especially our bulk mail customer requirements, the best?**

**What method will stimulate mail volume growth the best?**

**What method will enable equal treatment of all mail recipients?**

**Should the cost of a stamp cover the whole delivery chain?**

**To what extent must cost considerations determine delivery methods?**

**Should rural and remote areas be treated differently due to distances and the resultant costs?**

### **Financing the Cost of the USO**

It is important to consider the financing of existing universal service provision and the extension of universal service to hitherto under-served areas. As discussed above, postal operators around the world typically finance universal service by exercising a legal monopoly over certain products (and sometimes supplemented by profits from non-reserved business lines, i.e. cross-subsidisation of reserved services from revenue generated in the non-reserved area). The monopoly usually permits the operator to charge a uniform price that is higher than the cost of service for some customers in order to finance the losses incurred where that same uniform price is lower than the cost of the service for other customers. Thus, the typical postal operator generates enough revenues to cover all costs, even though the company loses money on certain business. The South African Post Office currently receives a subsidy from government to finance the gap between cost and revenue. To move to a break-even, if not profitable position, while ensuring a minimum level of service for all citizens, which of the following options should be adopted:

**Increase the operating efficiency of the Post Office (assuming that there are inefficiencies in the system)?**

**Raise prices?**

**Decrease the level of service? This would include the availability of counters; delivery methods and on-time performance standards.**

# CHAPTER 2

## Market Structure in the Postal Sector

### Introduction

This chapter analyses the structure of the postal services market in South Africa. Careful consideration must be given to the supply and demand forces that are fundamental in the shaping of the market structure. It also looks at customer requirements and gives an overview of the postal services, which are intended to meet these requirements, as well as indirect forms of competition, which may be attempting to satisfy these same requirements.

On the supply side the postal services market is dominated by the monopoly provider, SAPOS, which, in terms of the Post Office Act, of 1958, as amended in 1991, has "...the exclusive power to conduct the postal service". A more careful reading of the Post Office Act suggests that the monopoly status only applies to letter mail. In a small but growing number of countries the scope of the monopoly is being reduced, with the main debate focused on the scope of the monopoly and the degree and pace of deregulation.

It is government's belief that the growth of competition in the sector is healthy for the development of the sector, the economy and the public. Competition will be encouraged, subject, however, to the requirements of the achievement of universal service provision and related regulation. The key challenge for government is how to bring about reform in the postal sector that will benefit the public through both the achievement of universal service and greater competition at the same time. Consequently, it is government's intention to gradually reduce the scope of the monopoly; while ensuring a cost effective, provision of universal service and provision for whatever specialised services the market may demand.

However, even with continued monopoly protection in some areas of business, postal volumes face a significant threat of erosion – accelerated by:

- a) poor service performance and lack of security and reliability of the postal system; and
- b) rapid technological change as a consequence of the technological revolution in electronic communications systems for text, data and image transfers is one of the most significant factors affecting postal markets, competition and the future viability of the Post Office.

### Market Overview

Postal services operate in the communications and distribution markets. There are also financial services – but these are provided in the financial services market, which is fully competitive. In respect of mail services there are three main different types, namely, letters, parcels and express.

The communications market covers all the ways in which organisations and/or individuals communicate with each other. The distribution market is very different, particularly in terms of its customer base. Distribution involves the transport and delivery of goods to the addressee.

The global communications market is increasing at more than 5 % a year with the availability of low cost technology and distribution infrastructure and the globalisation and specialisation of business and of business transactions. The growth in hard copy messaging and document transfer is generally static relative to the growth in electronic documents. As a result, although there are likely to be absolute increases in the volume of hard copy Letter Mail for some time, with or without monopoly, the relative share of the total messaging market will continue to decrease.

Furthermore specialised communications and distribution businesses are converging as the telecommunications, information systems, broadcasting, publishing, advertising mail, courier, messenger, transportation, freight and postal sectors are all competing for their share of this market. With trends

towards deregulation and low cost technology, the costs of entry are declining. Niche players serving specialised needs are rapidly fragmenting the market and major service providers are converging into each other's markets.

### Customer Requirements

The fundamental requirement is that all citizens should have access to postal services. For potential users, it is important to know that all potential addressees can be accessed by the universal system. On the demand side there are clearly several market segments, including, but not limited to those who have never had access to even the minimum of postal services.

All customers are looking for a good service/price combination. For the universal service, this will include a fair service, easy access conditions and simple tariff structures. Large customers want service providers to have a flexible approach, and where appropriate, to tailor service packages to the needs of their individual organisations. Moreover, it is useful to bear in mind that while customers have their own individual needs, these are likely to be shaped by the services that are actually offered. These services may be responding to an active demand that already exists, or, in the case of new services, may stimulate a demand that was previously latent. To ensure profitable relationships with their customers the Post Office, like other successful service providers, must re-orient themselves to give the services that are needed, delivered in the manner they are required (increasingly electronically) and at a price that will encourage them to be purchased. The markets in the messaging and distribution sectors world-wide tend to be very sensitive to small variations in price. Even though the Post Office has a monopoly in the area of basic letters, choices are increasingly available in other communications and distributions modes and the customer will find them, should the Post Office be unresponsive to change.

### Markets

Table 2.1, 2.2 and 2.3, below show in broad terms who or what posts mail items.

**Table 2.1: Letters users matrix**

To From	Business	Individual
Business	32.8%	52.8%
Individual	9.5%	4.9%

**Table 2.2: Parcel users matrix - Express Product: 1-3 days**

To From	Business	Individual
Business	90%	10%
Individual		

**Table 2.3: Parcel users matrix - Economy Product: 4-6 days**

To From	Business	Individual
Business	10%	80%
Individual		10%



## Market Segments

In respect of mail services the key customer categories are reflected as follows; Mail order; Advertising; Press; Banking; Insurance; Public Services; Industry; Miscellaneous other. Of these, Mail order; Advertising (Direct Marketing) and Publishing are considered to be the most significant users.

## Mail Order

The mail order is a form of advertising, which permits "distance selling". Mail order companies rely heavily on efficient postal services for customer communication, distribution of catalogues, receiving customers' orders, goods distribution and finally mailing of statements. Growth in this sector is coming from distance learning by correspondence colleges; sales of music compact discs and other home entertainment goods. More and more rural communities are buying clothing and other goods through these mail order companies.

## Addressed and Unaddressed Direct Mail

Direct mail is another form of advertising, which enables the same message to be sent to a large number of individuals or organisations. Direct mail could be sent to specific addresses, which are taken from various databases, such as account holders of major retail companies. Volumes have been declining as companies include their advertising with other mail like their monthly statements.

Unaddressed mail is aimed at the broad public and is distributed by means of street delivery. Currently this practice is being frequented more and more by small companies and distribution is done through the use of contract or casual workers at much lower wages.

The postal needs, of the direct mail marketing customers who are organised under the umbrella of the Direct Marketing Association of South Africa, can be summarised as follows:

- reliable and affordable postal services
- bulk mailing options
- reliable, quick response mechanisms
- options for secure, fast goods delivery
- address lists for South Africa with correct postal as well as street addresses
- efficient change of address notification system
- roll-out of addresses
- more focused and targeted post code system

Postal costs, whilst insignificant for individual households or even some businesses, form a major part of the cost of sales for the direct mail marketing companies. These companies are therefore very sensitive to tariff increases. Addressed direct mail falls within the reserved service area.

## Publishing

The distribution of newspapers and magazines require a reliable postal service and is time sensitive. Daily newspapers are distributed by private companies, which cover street sales, home deliveries and shops. There is a significant increase in the number of publications especially technical and niche market magazines, which lend themselves to distribution via the post to subscribers.

## Mail Services

As indicated previously, the main mail service categories are letters; parcels and express.

## **Letters**

The letter services are mostly subject to the exclusive rights of the universal service provider.

### **Competition in the Letter Market**

Five types of competition in the letter market can be identified. These are:

- Technological Advances
- Low-tech alternatives
- Alternative media
- Private sector initiatives
- Mail rationalisation

### **Technological Advances**

Alternatives to the distribution of the letter are mainly developed through technological innovation and the application of new technology to this market. This is a form of indirect competition and does not contravene the exclusive powers granted to the Post Office. Examples are the telephone, fax, E-mail, internet, telemarketing, direct marketing on television, electronic data exchange, electronic funds transfer and the development of the 'paperless' office.

The growth in electronic telecommunications has caused a tremendous growth in the size of the communication market which reduced the postal services' percentage of market share drastically and which also threatens the volumes of the current postal services. The characteristics of some of the electronic communication mechanisms are shown in the attached table, taken from Ranganathan, Redirecting Mail: Postal Sector Reform (1996).

**Table 2.4: Characteristics of Certain Electronic Communication Mechanisms**

Mechanism	Competes with	Cost	Equipment and Other Costs	Speed	Reliability	Other Features
E-mail/ Internet	<ul style="list-style-type: none"> <li>Letter mail (business and residential)</li> <li>Carriage of publications, catalogues, etc.</li> <li>Express mail</li> <li>Bulk mail</li> </ul>	<ul style="list-style-type: none"> <li>Low within network</li> <li>Higher across networks</li> <li>Much lower than express mail</li> </ul>	<ul style="list-style-type: none"> <li>PC terminal, modem, phone line, E-mail account</li> </ul>	High	High	<ul style="list-style-type: none"> <li>Facilitates data exchange and management</li> <li>Size of network important</li> <li>Lack of standards</li> <li>Document formatting difficult</li> </ul>
Fax	<ul style="list-style-type: none"> <li>Letter mail (business)</li> <li>Express mail</li> </ul>	<ul style="list-style-type: none"> <li>Cost of telephone calls (varies with scanning speed, size of document area, time, day)</li> <li>Transmission can be delayed to economise</li> <li>Much lower than express mail</li> </ul>	<ul style="list-style-type: none"> <li>Facsimile machine and phone line (not necessarily dedicated)</li> <li>PC with fax/modem, phone line</li> </ul>	High	High	<ul style="list-style-type: none"> <li>Facilitates data exchange and management</li> <li>Document not legal</li> <li>Limited capacity of fax machine</li> <li>Document clarity lower than mail</li> </ul>
EDI (Electronic Data Interface)	<ul style="list-style-type: none"> <li>Letter mail (business)</li> <li>Express mail</li> </ul>	<ul style="list-style-type: none"> <li>Low within network</li> <li>Higher across networks</li> <li>Much lower than express mail</li> </ul>	<ul style="list-style-type: none"> <li>PC terminal, modem, phone line, EDI software and subscription</li> </ul>	High	High	<ul style="list-style-type: none"> <li>Facilitates data exchange and management</li> <li>Size of network important</li> <li>Instantaneous transaction/confirmation</li> <li>Restricted type of communication/ use</li> </ul>
EFT (Electronic File Transfer)	<ul style="list-style-type: none"> <li>Letter mail (business and residential)</li> <li>Express mail</li> </ul>	<ul style="list-style-type: none"> <li>Often free for user</li> <li>Or flat fee higher than letter mail</li> </ul>	<ul style="list-style-type: none"> <li>Telephone account with both financial institutions access to an ATM, etc.</li> </ul>	High	High	<ul style="list-style-type: none"> <li>Restricted type of communication/ use</li> <li>Instantaneous transaction/confirmation</li> </ul>
Telephone	<ul style="list-style-type: none"> <li>First class mail (business and residential)</li> <li>Express mail</li> <li>Bulk Mail</li> </ul>	<ul style="list-style-type: none"> <li>Generally higher than letter mail</li> </ul>	<ul style="list-style-type: none"> <li>Telephone line/ connection and instrument</li> </ul>	High	High - medium	<ul style="list-style-type: none"> <li>Recipient of communication generally has to be present</li> <li>Regarded as more intrusive for advertising purposes</li> </ul>
Radio/ Television	<ul style="list-style-type: none"> <li>Unaddressed bulk mail</li> </ul>	<ul style="list-style-type: none"> <li>High cost for broadcasting time</li> </ul>	<ul style="list-style-type: none"> <li>Instrument</li> </ul>	High	Medium	<ul style="list-style-type: none"> <li>Accesses mass audience but does not target</li> <li>Recipient of communication has to be present</li> </ul>
Interactive Television	<ul style="list-style-type: none"> <li>Letter mail</li> <li>Bulk mail</li> <li>Transmission of publications, catalogues, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Variable</li> </ul>	<ul style="list-style-type: none"> <li>Telephone line, terminal, modem, subscription</li> </ul>	High	Selective	<ul style="list-style-type: none"> <li>Capable of multiple uses (communication, shopping, banking, information retrieval, etc.)</li> </ul>

Whilst these technology-driven communications pose a threat to the traditional business of the letter market, it also brings to light significant opportunities.

### Low-tech Alternatives

Low-tech alternatives for unaddressed mail services do not violate the current exclusive powers of the Post Office and do not rely on advancement of technology. In general it is labour intensive and relies on low wages. Employees are often employed on a part-time or contract basis. Examples are "knock and drop", in-house distribution, in-house distribution organisations and distribution franchises. A recent development is that many migrant workers and other city dwellers that want to communicate with their

families in the rural areas are using the mini-bus taxi's to carry post, especially if it contain money and other valuables. This activity may be in contravention of the exclusivity granted to the Post Office.

### **Alternative Media**

Postal volumes, to a large extent, depend on advertising by means of the letter. Alternative media such as the movement to retail tele-shopping, employment of agents and advertising on television, radio and newspapers can erode the volumes within the postal service. This is in competition with the direct mail companies. Newspaper publishers are well established in the targeted unaddressed advertising mail business with specialised national and regional distribution networks.

### **Private Sector Initiatives**

Private companies have addressed the specific needs of customers mainly for same-day or overnight postal deliveries. This effectively could be considered to be in breach of the current monopoly granted to the Post Office in the letter business. However, the size of the envelope could be larger than prescribed by most postal laws. In South African legislation the dimensions of the letter is not defined (refer to detailed discussion on page 11 and 12).

### **Mail Rationalisation**

As customers search for alternatives due to increased postal costs, some of the biggest volume reductions occur due to mail rationalisation. For example, a customer previously mailed a statement and advertising material separately each month; now by combining the two into one mailing item a 50% reduction in volume can be achieved.

### **The Parcel Market**

In the parcel distribution market (below 30 kg) the Post Office renders a universal service at a uniform price, despite the fact that this segment of the market as well as the courier market have been liberalised. Most companies are offering a range of services - from same-day to several days. In the parcel market sector services are also offered on the high volume and localised routes which demonstrates the practice of "cherry-picking." Private sector companies only serve the high volume, short distance, low unit cost routes, whilst the universal service provider has to serve all destinations - long or short, high or low volumes - at a universal price.

### **Courier Services**

The demand by customers for more time effective and efficient means for delivery of goods has become more demanding with the passing of time. Nowadays the letter is transmitted via the fax machine. Large documents are still being delivered through the postal system. Customers, however, expect same day or overnight delivery standards.

In the 1970's and 1980's private courier companies entered the market. These companies targeted the high volume routes and customers are willing to pay a premium in return for fast delivery and other services such as collection and delivery to and from their premises (door-to-door); customs clearances as well as track and trace. These services were developed as private companies seek to enhance and build their competitive advantage in the marketplace. New initiatives involve the offering of warehousing to suit with customers "just-in-time" systems. Specialised market-dedicated couriers that traditionally focused on the health, financial services, insurance and other industry sectors are crossing into new sectors. Many of the traditional inter-city freight services have shifted into the overnight small package business and are competing with couriers. New specialised high technology industry firms are emerging to manage addresses, invoice production and electronic transmission and other steps in traditional mail preparation for major mail users.

**Liberalisation of Postal Services**

Technically, with the exception of the letter market the rest of the postal services market is characterised by fierce competition e.g. the parcel market, the (express) courier market etc. Private operators with significant international volumes - such as DHL; TNT operate in the competitive sector of parcels and express services. There are also a significant number of private operators covering the domestic market for parcel and courier services. This last category probably generates the largest amount of revenue, but is also diversified with many companies sharing the market.

**What is the core business of the Post Office?**

**Is the core business the movement of letters and parcels?**

**Is agency services part of the core business?**

**Is the counter network part of the core business?**

**Is the Post Office a competitor in the communications *and* distribution market? If so, what are the competitive strategies for these two very different markets (eg compete on price or service)?**



**Table 2.5: International Comparison of Reserved Services**

Country	Letters up to	Printed papers	Small packets
Argentina	No Monopoly		
Australia	250g	-	-
Belgium	2kg	yes	-
Brazil	Letters & Postcards		
Canada	500g		
France	2kg	yes	yes
Germany	1kg	yes	-
Greece	2kg	yes	-
India	Letters		
Ireland	2kg	yes	yes
Italy	2kg	-	-
Japan	Letters		
Netherlands	500g	-	-
New Zealand	200g		
Singapore	Letters & Postcards		
South Africa	Letters	-	-
Spain	2kg	-	-
Thailand	Letters & Postcards		
U.K.	Sterling 1	N/A	-
USA	Letters		

UPU: Status and Structures of Postal Administrations, Berne - February 1997

In most countries, with few exceptions, the rationale for maintaining a set of reserved is upheld in order to safeguard universal service provision. Increasingly, however, policy makers are considering the benefits of competition and seeking to introduce a regulatory framework, which safeguards the universal service requirement on the one hand but encourages a gradual liberalisation of postal markets, through for example, a reduction in the scope of the reserved services. In South Africa, universal service has neither been achieved (and one can question whether it was in fact an objective for the previous administration). Nevertheless, the achievement of universal service is a central policy objective for government and due care must be exercised in order to ensure that the viability and future sustainability of the South African Post Office is not compromised by careless and ill-timed deregulation.

**Since government imposes obligations on the universal service provider, some of which are not profitable?**

**Is it appropriate to establish a set of reserved services (monopoly) as mechanism to finance these non-commercial USO's?**

**Should the current monopoly be reduced and over what period?**

## Responding to Competition

Most Postal Administrations, including the South African Post Office, have responded to the challenges of competition with some combination of the following initiatives:

- Clear separation of structures and process from Governments;
- Reduction of the regulatory burden and monopoly protection on most services, essentially down to the level needed to protect basic universal Letter Mail service;
- The transfer of some responsibilities to private sector partners and contractors in such areas as retail franchising, contract transportation carriers, information systems integration and maintenance, and professional and technical services;
- Strengthening and consolidating end-to-end operations control and automation of plants, national and regional operation scheduling and control, the tracking and tracing of the movement of product, a single minded commitment to meet service standards, and quarterly external measurements and public reporting of performance against those standards;
- Rationalisation of high cost service components, such as community mailboxes in new communities, smaller more efficiently laid out sortation plants, location of street letter boxes and non-franchised postal counters and pick up and delivery timetables, while maintaining universal service;
- Focusing on and servicing the changing needs of major mail users, negotiating rates for those willing to simplify and reduce postal distribution and sorting costs and product branding to meet customer requirements;
- Simplification of product lines and pricing structures to make the use of the Post considerably more customer friendly and easily understandable;
- Important steps to motivate human resources toward a service culture and achievement of service standards;
- Investing in and developing electronic messaging services, the capacity to deal with hybrid electronic mail to support new forms of management and electronic commerce, efficient redirection of mail services and value added advisory services to clients and major mail users.
- Significant streamlining of financial, personnel, property and other key management support systems.

All of these initiatives have, throughout the postal world, consumed enormous amounts of time, energy and money and they have brought many of the Administrations into the last decade of the 20<sup>th</sup> century. What they must now do is to thoughtfully position themselves in a framework that will allow them to competitively and usefully serve their customers' twenty-first century requirements.

## The Future of the Postal Service

For postal services in a number of countries, technology has been a 'generator for growth' in physical mail and has been utilised to ensure greater efficiency and productivity in the sector, through, for example, increasing use of transportation technologies to deliver mail more rapidly and reliably; improvements to infrastructure, from postal counters to the automation of the postal processing chain. These productivity improvements and efficiency gains are essential if the Post Office is to become competitive and self-sustaining. Increasingly important is the Post Office's ability to move beyond core physical mail and the range of services they offer their customers, in response to the growth in alternative communications and the threat it poses to traditional mail volumes.

The reduction in the monopoly notwithstanding, the trend to appreciate, when evaluating the future of the Post Office, is the scale and scope of the competition both from the growing electronic messaging services and from the transportation and distribution sectors and to develop realistic policy approaches and expectations.

To the extent that Postal Administrations are positioning themselves to provide universal and affordable services into the 21<sup>st</sup> Century and to meet the competition provided by new, evolving and converging technologies, they are concentrating on developing hybrid electronic services.

### Hybrid Electronic Services

Hybrid services involve both the delivery of a hard copy version of a message that originated from the sender in electronic form, and the translation of a hard copy communication into electronic form for transmission to a recipient by modem or other electronic networks. These services speed the transmission and delivery of hard copy communications and represent a bridge between the present and future of business and consumer communications.

Some of the hybrid products and services that are in the forefront of development are Volume Electronic Mail (VEM) for the transmission and regional delivery of large volume mailing (point to multi point); the Hybrid Data Interchange service that provides both a bridge between trading partners at different stages of adopting electronic communications technology, a fax-on-demand document storage and retrieval service, and Docu Post, which provides document-on-demand access for document owners and their customers using telephone, fax or hard copy, as dictated by the recipient.

These Posts believe that their role in the field of electronic commerce will be much the same as the role they play in the traditional Letter Mail market: to provide services that are universally and uniquely accessible, reliable and affordable. Initially they are focusing on the hybrid market, applying their core competencies and delivery infrastructure in the hard copy Letter Mail market to the challenge of bridging the gap between traditional and electronic communications and commerce.

Other postal administrations are moving further. Canada Post Corporation, for instance, is applying its core competencies to the field of pure electronic services, through the development of electronic directories based on the existing directories of physical addresses in Canada, including information about the recipients' preferred media. Canada Post also believes that its current provision of Government information and services through its extensive retail network (owned and franchised) positions the Company as a strong candidate to provide consumer access to the information highway, including Government services that are provided electronically now or will be in future. Canada's Information Highway Advisory Council supported this belief recently when it recommended that the Government should ensure that all Canadians be able to communicate and interact electronically with its Departments and Agencies and further recommended that the Government should:

***establish and maintain a network of public access points in all communities to enable Canadians lacking other means of access to connect to the information highway. For example, the scope of programs such as the School Net Community Access Program should be extended to meet this objective, and Canada Post service outlets could be equipped for use as public access centres.***

There is no question that Postal Administrations have certain unique competencies and knowledge derived from paper-based communications that can be directly applied to the development and precision of electronic products and services.

Their survival into the 21<sup>st</sup> Century depends on how quickly and how competently they can position themselves to continue to serve the changing needs of their customers, large and small, and the degree to which their shareholder (Government) will support their transition to ensure the relevancy of Posts both from a public policy and commercial approach beyond the next five to ten years.



**Is the Post Office, in its present form, effectively a "sunset" industry to be replaced in years to come, with services provided and managed by other sectors of the economy – for example, the telecommunications sector?**

**As letter mail continues to decrease and competition through electronic substitutes to hard copy increases, the unit cost of delivering letters through the existing infrastructure will continue to rise at an accelerated pace. Taken together, in the context of extension of service this could mean massive investment to support a potentially declining business. Is this appropriate?**

**Should SAPOS continue to provide the messaging link between users in the future?**

**Should government invest in the establishment and maintenance of a network of public access points in all communities to enable South Africans, lacking other means, access to connect to the information highway?**

# CHAPTER 3

## Ownership, Investments & Financing of the South African Post Office

### Introduction

Irrespective of ownership, government has a fundamental obligation to ensure that the provision of universal service is achieved in respect of postal services. The critical policy consideration, is establishing what **institutional arrangements** will best redress the historical imbalances in the South African postal sector, ensure universal service provision; encourage financial sustainability; foster efficiency; improve competitiveness and enhance accountability.

The high and growing state subsidy in respect of the Post Office and the burden it places on the fiscus, has raised concerns from a number of quarters about the financial sustainability of the institution. This combined with the wave of privatisation in the telecommunications sector, both locally and internationally, is one of the forces leading many to suggest private ownership as a panacea to the problems of the postal services as well. While due consideration must be given to this option it is useful to bear in mind that to date, no postal administration has been fully privatised, although this was under consideration in the United Kingdom and is in preparation in Argentina. However, the partial sale of shares of the postal service has been provided for in the Postal Act of the Philippines and has also been undertaken in the Netherlands and Germany.

Probably more significant, internationally and for our purposes as well, is the attention being given to micro-level, enterprise reform processes and packages designed to transform the structure and culture of postal administration and enable the national provider to achieve the following objectives, viz.:

- to improve the quality of service.
- to make postal services financially self-supporting.
- to run the post office on commercial principles.
- to continue to provide social obligations.

### Legal Status of the Postal Service

Postal services may be broadly classified into the following legal structures, in increasing order of enterprise autonomy.

1. A government department under the jurisdiction of a ministry or state secretariat, or an independent ministry
2. A statutory corporation (also referred to as a public corporation or public enterprise), which is generally wholly government owned, and is controlled by the parliament, government, or a special committee
3. A limited liability company under companies' law, which may be:
  - a) A wholly or partially government-owned company
  - b) A privatised company, in which the controlling interest or full ownership lies with the private sector.

These three legal structures are described below.

**Government Department:** This is the most prevalent and traditional legal form for many postal services in developing countries. All functional responsibility for the postal service is assigned to a government department, which does not possess a separate financial or legal status. Because of the lack of financial separation from the rest of the ministry and the ambiguity of accounting principles, the enterprise is often either highly subsidised when it makes losses, or is utilised as a cash cow if it generates profits. As a result, the enterprise is starved for investment and maintenance funds and, consequently, the quality of service deteriorates. Lack of financial separation is also detrimental to the postal service because of low managerial accountability and incentives. Management is aware that it will be buffered by a soft budget constraint and therefore has no motivation to achieve increased productivity or cost efficiencies. Given the multitude of institutional options that have been tried for the provision of infrastructure, there is little justification for assigning all functional responsibilities for the postal sector to a government department. The government's role is more appropriate for providing overall policy guidance and sectoral planning.

**Statutory Corporation:** This is a limited reform step whereby a statutory company is established by an act of parliament. This institutional form allows the company to acquire a financially separate status and is therefore useful in making management accountable for the utilisation of resources in response to competitive pressures. The postal administration is given autonomy in operation and maintenance, and is expected to operate the enterprise like a business.

The parliament, government, or an independent committee generally supervises the postal administration. Explicit cost accounting is introduced which helps identify the revenue and expenditure streams and the viability of individual products. Postal administrations are generally obliged to balance revenue and expenditure and are occasionally required to make a specified financial return. Nonetheless, because ultimate responsibility for the provision of the service and all liabilities of the enterprise rest with the government, the establishment of a statutory company achieves limited results in reforming the postal service sector – although it could be a useful step in the continuing reform process.

**Limited Liability Company:** The establishment of a limited liability company involves the dissolution of a government department or statutory body and the transfer of its assets to a new corporate entity, which operates under company law. The enterprise may still be fully or partially government owned, or it may be fully owned by the private sector. The government exercises limited supervisory authority over a limited liability company and also imposes certain obligations on such a company.

Under this legal form, postal administrations are obliged not only to balance revenue and expenditure, but also to make profits for the Treasury. The enterprise is responsible for meeting its service obligations and also for shouldering all of its liabilities and commercial risks. In return, the enterprise is given a high level of managerial autonomy and flexibility. The monopoly privileges of the postal administration are usually transferred to a licensing system, which is subject to periodic review. The introduction of rigorous financial accounting identifies activities, which are non-remunerative. If these activities remain justified as essential public services, they should be financed by explicit government subsidies or justified on other economic grounds. This institutional form has the advantage of introducing the maximum market pressures and also increases the scope for market based financing.

### Legal Status and Ownership

SAPOS has evolved through some of the stages outlined above. In October 1991, the Post Office Amendment Act, (1991) separated the traditionally combined Post and Telecommunications services, provided for through a state department, and created two separate and independent corporatised companies. Telkom SA Ltd. was formed to provide telecommunication services and the South African Post Office Ltd.<sup>10</sup> to provide postal services.

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<sup>10</sup> At April 1, 1996, the postal services in the former TBVC states were incorporated with the Post Office, through 'The Former States Posts and Telecommunications Reorganisation Act, 1996'.

In respect of postal services the postal company is constituted as a **limited liability company** under the Companies Act and is wholly owned by government. The Minister of Post & Telecommunications holds the shares, on behalf of the state. A Board of Directors, which is made up of the appointees of the shareholder governs the company. Its role is to decide the policies to be implemented and to ensure that the functions of the company are properly and profitably carried out. Finally, the management of the company is delegated to the chief executive officer and the staff.

The existing company structure allows for the splitting of capital into shares and provides a basis for introducing non-governmental ownership should this be desirable.

### **Forms of Ownership**

The following classes of potential ownership of a postal company with private capital need to be considered:

#### **Institutional**

In many countries, only large institutions will have the financial ability to take significant individual shareholdings and ultimately to raise the total amount of capital needed to allow the float of a postal enterprise to succeed. A consequence of this is that such institutions may then be entitled to a seat on the board.

#### **Private Individuals**

Few, if any, postal enterprises have private ownership, apart from some with small shareholdings by employees. However, judging from the policies adopted in the privatisation of other public sector enterprises in numerous countries, it would be expected that the general public would be given the opportunity to share in the ownership of the national postal companies, should this constitute an option in the future.

#### **Employees**

Employee shareholdings are favoured in many countries in both public and private sector companies. Sometimes they form a significant component of the remuneration packages of top executives.

Some management writers doubt the value of employee shares in motivating the employees of a large undertaking such as the post on an ongoing basis. However, such share issues may be seen as a form of bonus, or profit-sharing mechanism and may encourage the acceptance of change by employees.

Incentives to encourage employee share ownership which have been provided when privatising other public enterprises include some of the following:

- Reserved share allotment
- Concessional or discount price
- A free share per so many bought
- Free shares as a loyalty bonus

#### **Foreign Ownership**

The extent of permissible foreign ownership of a national public utility is the subject of national policy. A deliberate policy to encourage some foreign ownership might be designed to bring in needed foreign expertise and perhaps provide links to foreign markets. On the other hand, most governments would not want effective control of a postal company to be in foreign hands, and limits for foreign ownership would be specified.



### **Joint Venture Partners**

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

Joint venture partners, either local or foreign, are sometimes considered for subsidiary company ventures, e.g. in the speed services or mailing house areas. The purpose is to bring to the postal service needed capital and skills. A notable example is GD Express World-wide, the courier services company formed by certain North American and European postal services with TNT. SAPOS has already established a number of subsidiary companies and a joint venture in respect of the PostBank is one of the considerations under review.

### **Competitors**

Ownership of a postal enterprise by competitors to an extent, which could influence the conduct of the enterprise in matters of competition, is undesirable. Some countries have competition laws to regulate this situation.

### **Holding Companies**

Where the government desires to place several enterprises under one overall-governing umbrella, a holding company may be set up to become the immediate owner of the postal enterprise. The value added by such a holding company needs to be critically scrutinised. In some cases, it may provide a pool of scarce financial, legal and business expertise to a group of public enterprises.

### **Control**

If all shares had equal value and voting rights, then the control of a company would in theory be distributed according to the value of shares held by each owner, through the shareholder's elected representatives on the board.

However, some classes of share do not carry voting rights and there are also special or "golden" shares which give control to their owner in certain limited circumstances. The objectives of a "golden share" are not to intervene in management, but to act in exceptional circumstances, such as:

- The risk of an unwelcome take-over bid;
- Voluntary winding up;
- Where an excessive concentration of share ownership is attempted;
- Where a major lay-off of staff is contemplated;
- Where there is gross mismanagement of the company's affairs;
- Where majority voting might pass into foreign hands.

It will be seen that the circumstances given are all serious threats to the future existence of the enterprise, or the circumstances under which it will continue to exist.

### **Additional Options for Private Sector Participation**

Additional options are available in which the private sector is involved in all or some of the postal operations and postal development. Private sector involvement has worked well in other infrastructure sectors such as telecommunications, power, transportation, and water supply and distribution. It is possible to involve the private sector efficiently in postal services despite the fact that natural monopoly

elements may exist in the sector and that the postal service contains certain public / universal service obligations which are considered "non-commercial". Two additional types of private sector participation models are briefly described below – management contracting and a concession system.

### **Management Contracting**

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

### **Concession System**

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

The major difference between a management contract and a concession is that in a concession contract the concessionaire assumes full commercial risk – that is, if the postal operations make a loss, the concessionaire realises the loss. Equally, if the concession makes a profit, the concessionaire will keep it after paying the necessary taxes and dividends. In a management contract the commercial risk assumed by the operator is considerably smaller. In a fixed fee contract, for example, no operation risk is assumed. In incentivised management contracts, part of the operator fee is linked to the operator's performance. Although it is possible to have a management contract that involves investments, in general, if a primary motive for involving the private sector is to bring in private capital to accelerate the development of the sector, then a concession gives the operator greater autonomy, since the operator assumes the full commercial risk.

**Which option, or combination of options, are appropriate for the Post Office in the short, medium and long term?**

### **Financial Issues - The Rationale for Corporatisation**

The rationale for corporatising postal services is usually to create a legal form under which postal administrations are obliged not only to balance revenue and expenditure but also to make profits for the Treasury. The enterprise is responsible for meeting its service obligations and for shouldering all of its liabilities and commercial risks. In return the enterprise is given a high level of managerial autonomy and flexibility. The explicit separation of ownership and management responsibilities (e.g., through a board of directors) is designed to insulate the Post Office from non-commercial pressures and constraints. Despite the high level of managerial and organisational autonomy and flexibility, the enterprise is accountable to



government; operates within the sectoral policy framework set by government and is subject to regulatory oversight by the Department of Communications.

Further, the establishment of such an institutional framework is essentially designed to improve the efficiency and effectiveness of the enterprise to meet certain objectives, in this instance:

- to improve the quality of service
- to run the postal service on commercial principles thereby making it financially self-supporting
- to continue to provide social obligations

### Financial Performance

In the 5 years since the establishment of such an institutional framework - the Post Office has incurred significant operating losses and has failed to achieve other key objectives in respect of universal service; quality and efficiency. This situation is, at the very least, undesirable and unsustainable. Government cannot continue to subsidise the current scale of operating losses. Nor can it allow the Post Office to abuse its monopoly position by offsetting spiralling operational costs against unregulated tariff increases.

### Profitability and Postal Tariffs

Traditionally, postal tariffs have been kept artificially low and have been set through political considerations. This was the case when the Post Office was a government department. On corporatisation in October 1991 it was agreed that tariffs should be increased substantially to address the profitability of the Post Office. In conjunction, then, with these legal and financial provisions, the Post Office was required to draw up a business and strategic plan in February 1992, in which it detailed its plan to achieve a break-even / profitable result by 1996/1997. The 1992 business plan, which was finalised and approved by Cabinet, provided for postal tariffs to be increased by 33% on May 1992 and by 30% on April 1, each year for the following four years. It was projected that the state subsidy would progressively be reduced and by 1995/96 a profit of R81 million would be made. This strategy was followed for the first two years and abandoned in 1994/95 and subsequent years.

**Table 3.1: Increases in Postal Tariffs: 1991/92 – 1997/98**

Period	Tariff (cents)	Actual % Increase	Original Price Projection (cents)
91/01/04	21		
91/01/09	27	28.6%	
92/01/05	35	29.6%	35
93/01/04	45	28.6%	46
94/01/04	50	11.1%	59
95/01/04	60	20.0%	77
96/01/07	70	16.7%	100
97/01/04	100	42.9%	130

Maintaining the tariff at too low a level has, in the past, placed an untenable burden on public finance through increases in the state subsidy to the Post Office. In line with government's macro-economic strategy and its efforts to foster greater efficiency in the public sector, while simultaneously reducing the budget deficit, the Post Office along with other sectors like health; housing; education and so forth is expected to do more with reduced funding from the fiscus. In addition to tariff increases, profitability is also

contingent on strong commercial expertise and greater efficiency. The Post Office will increasingly have to finance its operations and achieve profitability through an elimination of internal inefficiencies; further cost-cutting measures combined with greater financial discipline and through increased revenues from new products and services.

Tariffs on reserved services will continue to be regulated and will be subject to regulatory approval and sound commercial principles. (see Chapter 4 for a further discussion on the regulation of tariffs)

**What new areas of business should the Post Office be allowed to enter in order to generate sufficient revenue to cross-subsidize the physical network required for the network and under what regulatory regime?**

### State Subsidy Provisions

The postal service has traditionally operated at a loss and the shortfall was financed by the more profitable telecommunications service. On company formation in 1991, the Post Office was directed to achieve a break-even or profitable position within five years. The Act provided that in this period the operating loss of the Post Office would be funded from the National State Revenue Fund, which shall be defrayed against the taxes and dividends paid into the fund by Telkom. In terms of the Act, this arrangement comes to an end on 10 July 1997.

In addition, the pension and the medical-aid funds were under-funded and it was agreed that the shortfall would be funded by the state over a period of fifteen years. The Former TBVC States Reorganisation of Post and Telecommunications Act, 1996 provides that the State will fund any operating loss as a result of the TBVC integration for a period of 48 months. As a consequence of these legislative arrangements and poor financial performance the state subsidy has escalated. See table 3.2.

**Table 3.2: Subsidy Paid by the State (Rm.)**

Period	Original Subsidy Budgeted <sup>11</sup> (Rm)	Revised Subsidy Budgeted (Rm)	Actual Subsidy Received (Rm)
92/93	-548	-548	-708 <sup>12</sup>
93/94	-420	-420	-401
94/95	-318	-318	-408
95/96	158	-458	-572
96/97	81	-659	n/a
97/98		-359	

### Cost of Universal Service

It is expected that the Post Office will have to perform a universal postal service. This includes the following:

- The provision of a letter service at uniform price;
- The provision of a parcel service at uniform price;
- The roll-out of service points to provide reasonable access by all citizens to postal services, especially in the disadvantaged areas;

<sup>11</sup>Based on the 5 year plan of 1992/93

<sup>12</sup> The subsidy of R708m was for an 18-month period.

- The rollout of addresses.

**Table 3.3: SAPOS Estimates of the Various Elements of the Universal Service Obligation at 1997/98**

Element	Amount
Free Address Boxes	R182,282,368
Post for the Blind	R2,218,000
Mail Distribution	R247,144,192
Post Offices	R330,239,579
TBVC countries	R141,186,000
<b>Total</b>	<b>R903,070,139</b>

Not all USO's are provided at a loss. Moreover, in order to provide financial support for the USO a set of reserved services, which confer special rights on the Post Office, has been established. Hence, the Post Office monopoly on letter mail up to 2 kg. In addition to the monopoly on standard letter mail up to 2 kg's, the Post Office also operates in a number of other profitable areas and is encouraged to develop new products in order to finance its operations. A key consideration for government is the accuracy of the cost estimates for USO provision. If current and future provision of USO's are based on existing cost structures then by default they include internal inefficiencies. A review of costs is currently underway and will assist in identifying cost cutting measures; identify non-commercial USO provision and make recommendations to government on how this should be funded.

Consequently, external financing, through for example a subsidy or a contract, in respect of non-commercial costs of the Universal Service Obligations will be negotiated on an annual basis and the agreement will be recorded in a formal contract between the Post Office, the Minister of Post, Telecommunications and Broadcasting and the Minister of Finance.

The following principles will guide subsidisation of the Post Office in future:

- An open ended subsidy, with no cap on the size of the subsidy, is not in the interest of government, the Post Office or the users;
- Any subsidy should be transparent, aimed at specific goals, at agreed costs.
- The size and detail of the subsidy will be subject to the normal budgetary process in government.

The current level of government subsidy will, therefore, diminish over the next 5 years. An appropriate enterprise reform programme will be introduced and monitored to ensure that the Post Office achieves break-even, if not profitable financial results within this period.

**Should the state subsidy be used to incentivise the achievement of universal service and efficiency in the Post Office?**

### **Accountability**

Linked to the micro-economic reform programme, mechanisms to achieve greater accountability will be institutionalised and enforced. As part of a process of postal reform the following areas will be subject to rigorous review, namely:

- operational efficiency
- corporate planning

- organisational structure
- staffing and human resources
- affiliates, acquisitions and alliances
- internal reporting and control systems
- marketing and customer-orientation

The Post Office will be required to develop a corporate plan which:

- clarifies its mission and goals and to which it will be held accountable
- clarifies the direction of development for the business, as intended by top management and the Board and;
- develops a contract between government and management regarding the results of the business.

This plan will include both a 5 year strategic plan, with annual budgets; annual performance plan and 3 year rolling plans, in line with governments' normal budgetary procedures.

The Corporate Plan will include:

- A mission statement covering the objectives, major functions and operations of the postal service and its subsidiaries
- Overall management and financial strategies and policies to achieve objectives and discharge obligations
- Performance and financial indicators and targets
- Key factors external to the postal service, which may significantly affect the attainment of objectives
- The estimated cost of carrying out universal service obligations.

The annual performance plan will be consistent with the corporate plan, for the period, and will include the following:

- Financial targets, profitability forecasts and forecasts of capital expenditure (and borrowings)
- Performance goals in objective, quantifiable and measurable form to define the level of performance to be achieved by each operational activity
- Human, capital, technological and other resources required to meet performance goals
- Performance indicators for assessing outputs, quality levels and the outcome of each operational activity
- Performance will be monitored according to a set of indicators agreed to by the Department and the Post Office.

### **Investments**

The first casualty of poor financial performance and asset utilisation is the level of investment. Therefore it is not surprising that the postal sector suffers from chronic low investment levels. While capital investments of a substantial nature are occurring in the sector - the level of investment remains low.

**As letter mail continues to decrease and competition through electronic substitutes to hard copy increases, the unit cost of delivering letters through the existing infrastructure will continue to rise at an accelerated pace. Taken together, in the context of extension of service this could mean massive investment to support a potentially declining business. Is this appropriate?**

# CHAPTER 4

## Regulatory Framework in the Postal Services Sector

### Introduction

Most markets are self-regulating. However, where there is a reserved service operator, it is necessary to have some body responsible for regulating the market. Historically, postal administrations were responsible for the regulatory function governing the postal sector, as well as being the public operator. With the restructuring and growth of competition in the postal sector, this has been recognised as inappropriate and countries have increasingly begun to separate the regulatory authority from any operational function. In South Africa, the responsibility for regulating the sector has been separated from the Post Office (universal service provider) and regulatory oversight is a function of the Department of Communications.

Circumstances under which no distinct regulatory structures are established is in the case of:

1. a state monopoly (usually a state department) in which case the functions of the operator and regulator co-incide and
2. in the case of full competition across the board, in which case market forces are deemed to determine demand; supply and prices and "regulatory" functions are the responsibility of institutions such as competition boards and the courts.

In all other cases regulatory authorities are set up – usually by means of specific (postal) legislation.

A key policy consideration, for the future, is whether the Department should continue to regulate the postal sector; and if not what the structure of a future regulator should be? Related considerations include the purpose and scope of regulation. Moreover, Section 90A of the Post Office Act, 1958 as amended empowers the Minister, after consultation with the postal company and if it is in the public interest, to authorise **any other person** to exercise any part of the exclusive power to conduct a postal service. Furthermore, the Minister may provide that the power of a successor company to grant any other person the right to exercise a power transferred to that company in terms of the Post Office Act shall vest in the Postmaster General. This piece of legislation, confers, amongst other things; authority to the Department of Communications to delegate its monopoly operations through licensing, if deemed necessary.

**Should the Universal Service provider operate under a licensing arrangement?**

**Should operators in the competitive sector be licensed?**

### Licensing Exclusive Privileges

Governments that choose to maintain a monopoly for a portion of the postal market or other exclusive privileges are increasingly considering a licensing arrangement with the national operator. The license grants the operator the special rights and privileges for a fixed period of time only and is subject to periodic review.



### **Purposes of Regulation**

The primary purpose of postal sector regulation is to ensure that the whole country has access to postal services of reasonable quality and price. It should also encourage the general improvement of postal services by encouraging competition within the permitted limits.

Particular attention will need to be paid to ensure that the USO's are provided to standards, which meet the objectives of government and justify the continuation of the reserved services.

If a licensing system evolves, the regulator may need to ensure that the terms of the license are followed.

### **Accessibility**

The regulator should be satisfied that the USO's are met through an adequate infrastructure. This is essentially the penetration of the post office network and of collection and delivery services. It must also recognise that a too extensive infrastructure can be an impediment to commercial efficiency and therefore competitiveness. Ultimately the costs involved must be reflected in the extent of the reserved services and the price of postage generally.

### **Affordability / Tariffs**

Essentially, this means regulation of prices. Where a postal service has been granted full commercial autonomy, this regulation would extend only to the reserved services, because market mechanisms should prevent over-charging in the competitive areas of service provision.

Regulation of reserved services is considered necessary to prevent the potential abuse of monopoly powers by the universal service provider, in terms of overcharging customers for its monopoly services and cross-subsidising competitive services, thereby deterring entry into other market segments through predatory pricing.

The usual mechanisms in place for price regulation are the requirements to achieve overall cost recovery. The guiding principle should be that tariffs should be related to average costs. The consistent application of this principle is the best guarantee of the financial soundness of the postal services. In order to ensure fair treatment for all, cross-subsidies, whether from one service to another, should be minimised and phased out. Tariffs for universal services ought to be related closely to costs. The objective is for tariffs for each service to be based on average costs for that service. Preferential tariffs need to cover at least marginal costs. If subsidies are considered necessary, their objective, their value and their scope should be transparent. Cross-subsidies which are made from reserved services to non-reserved services are unacceptable. However, there could be cross-subsidies from the reserved to the non-reserved area if they were necessary to assure the universal service.

The approval process for revisions to tariffs of reserved services, proposed by the universal service provider, may lie with the Ministry or an independent regulatory authority. On the other hand the universal service provider may be permitted to change prices within a certain limit, such as following a price-cap scheme (RPI-X formula).

### **Quality**

Quality may be judged in terms of time to deliver, the range of services provided, queuing times and the attitude of customers.

Most of these factors are subject to formal measurement, but this does not imply that the regulatory body itself must perform such measurements, only that it should be satisfied that performance is above an acceptable minimum level.

### **Consequently, the objectives of regulation could include the following**

- To ensure that the universal service is provided according to standards which meet the objectives of government in terms of accessibility, affordability and quality of service
- To monitor performance of service providers in terms of predetermined conditions and obligations, especially with respect to universal service goals.
- To determine the scope of reserved services and advise on the monopoly status;
- to ensure that the special rights granted to the service provider who performs the universal service is protected, especially with respect to reserved services;
- to ensure that the public is protected against exploitation by the provider of a service under monopoly conditions;
- to promote fair competition in terms of a clear set rules which exist in the non-reserved areas;

### **Possible Terms of Reference of a Regulator**

To monitor the achievement by the postal service of the objectives of the government as embodied in specified sections of the postal services act.

To monitor the extent to which the postal industry as a whole meets the reasonable needs of the community for the provision of parcels, speed services and all other types of mail service, having regard to accessibility, affordability and quality.

To administer a licensing system for the postal industry, including the enforcement of licensing conditions.

In detail, this would involve:

- setting terms for licenses, within the act and any guidelines authorised by the Minister;
- deciding on the number of licenses if not otherwise decided, e.g. in guidelines;
- granting licenses;
- collecting license fees;
- monitoring the performance of licensees;
- revoking licenses for non-compliance or other reasons such as government directive;
- imposing penalties or prosecuting breaches of license terms.
- to prosecute any person breaching the reserved services provisions of the postal services act.
- to administer ownership rules in the event of a privatised postal service.<sup>13</sup>
- to ensure consumer representation, if a separate body does not exist for this purpose.

Due consideration must also be given to issues the regulator **should not** be concerned with:

- ensuring that the postal service complies with its own rules or regulations where these do not concern matters of fundamental policy;
- performing financial or performance audits (this is the role of the auditor);
- policing of postal complaints;
- policing of postal offences;
- investigation of individual complaints (rather it should focus on the monitoring of a credible complaints handling system);
- philatelic matters.

<sup>13</sup> This may be necessary to ensure that a privatised postal service does not come under the control of parties that the government would not wish to permit, for instance excessive foreign ownership.

## **The Structure of the Regulator**

A major factor deciding on the form of the regulatory body is that effective regulation requires both independence and integrity. This also influences its effectiveness. We will discuss a number of options here:

### **Option 1**

The regulator will be located in the postal administration. This is the case in many countries where corporatisation or commercialisation has not taken place. (Due to the current legal status of the South African Post Office and the move to more a more efficient enterprise through a reform programme, option 1 is not really an option but simply illustrative of existing models)

### **Option 2**

The regulator will be located within a ministry of the government. This is the case in a majority of countries where the postal administration is a separate company operating on a commercial basis. In some countries the regulator is located in the Ministry of Trade and Industry such as in the UK.

### **Option 3**

The regulator is an autonomous body with delegated powers. Some or all of the decisions are subject to review and final approval of the Minister. The regulator will employ its own staff and internal organisation. (e.g., the Postal Rate Commission in the U.S.A)

### **Option 4**

To combine postal regulation with the telecommunications regulator (SATRA).

### **Option 5**

The regulator is an independent commission. It is not answerable to and acts entirely independently of a Ministry, instead, reporting directly to parliament. The role and function of the regulator needs to be clearly set out in legislation. (e.g., the Independent Broadcasting Authority (IBA) as in the case of Broadcasting)

### **Option 6**

No postal regulation *per se*. In the case of full competition across the board, market forces are deemed to determine demand; supply and prices and "regulatory" functions are the responsibility of institutions such as competition boards and the courts. This is the case in Sweden.

**Which option is appropriate?**

**Is there a need for regulation? What should the objectives of regulation be?**

**If there is a need for regulation, what form should it take?**

**Who should be responsible for regulation?**

**Who or what must be regulated? What is the scope of regulation?**

**Should the national service provider operators be licensed?**

**How do we ensure that consumers are protected?**

**Should the regulator monitor quality and standards?**

# **CHAPTER 5**

## **Economic Empowerment of Historically Disadvantaged South Africans**

### **Introduction**

The greatest challenge facing the Government of National Unity is to achieve a balance between maintaining a stable growing economy and redressing inequalities of the past. The Reconstruction and Development Programme (RDP) is the fundamental socio-economic policy framework of the government which strives to address the backlogs in our society. In all areas of public service and private industry, the underlying theme of the RDP is the empowerment of the people who are the victims of past discrimination. The postal industry is no exception to this philosophy. In fact the Post Office has perpetuated many of the inequalities in employment that now require serious and committed transformation.

Fundamental to the discrimination of the past is the fact that the majority of South Africans have been denied opportunities and access to education and skills development. They have been denied access to ownership opportunities.

### **Black Economic Empowerment**

Part of the democratisation process is the economic empowerment of the historically disadvantaged community. In this regard the postal industry has a role to play by ensuring that it assists small, medium and micro enterprises (SMME's) through the provision of appropriate postal services and through its procurement and outsourcing policies.

The combined effect of past racial policies and chauvinist attitudes has led to a situation in which there is not only a scarceness of people from disadvantaged groups in leadership positions in commerce, industry and other key socio-economic institutions, but the entire South African economy has been caused to under-perform. The only logical way to correct the situation is to make productive use of the entire economically active population to stimulate growth in the economy.

The postal sector potentially is a critical engine of growth in the economy through the introduction of new technology and contribution to the creation of an "information society". It is expected to provide enormous commercial opportunities, which can be taken advantage of by historically disadvantaged South Africans through their active participation as workers, managers and entrepreneurs in the sector. The restructuring of the Post Office provides the opportunity to structure mechanisms to create the necessary skills base and resources to enable historically disadvantaged South Africans to play a significant role in this sector.

Outlined below is a discussion of the types of mechanisms, which could be established to achieve genuine and meaningful empowerment in the postal sector.

**What are the goals of economic empowerment of the historically disadvantaged South Africans?**

**What mechanisms can the Post Office and other postal companies' employ to achieve the economic empowerment of the historically disadvantaged South Africans?**



## **Objectives of Economic Empowerment**

Firstly, it is necessary to establish the objectives of a programme of economic empowerment in the postal sector. Black economic empowerment, generally, is a deliberate programme to achieve the meaningful participation of disadvantaged South Africans in the mainstream economy as managers, owners of capital and employees. This programme must include the following aspects:

- provision of services to previously under-served areas
- training and skills creation
- entrepreneur promotion
- clearly articulated targets and the means for their achievement
- monitoring and evaluation

Meaningful participation means:

- substantive participation as professionals, contractors and managers
- substantive participation as owners
- employee development

With specific regard to the postal sector, a programme for economic empowerment should include:

## **Skills Creation and Training**

Training is discussed in the next chapter. Training and skill formation are important cornerstones of any empowerment programme.

## **Entrepreneur Promotion**

Strategies must be developed to promote the acquisition and creation of enterprises managed and controlled by members of the disadvantaged communities and intended employees. These strategies could possibly include:

- market positioning in areas expected to benefit from the introduction of new technology and growth areas of the sector.
- formation of joint ventures or partnerships with businesses or companies, and
- procurement of goods and services from the target communities.

Appropriate support measures must be introduced to such target communities and such businesses.

**What support measures can be introduced to encourage entrepreneur promotion?**

**What kind of support do large economic empowerment consortiums need with regard to the postal industry?**

**Is the promotion of joint ventures and franchising a suitable way to provide capital, expertise and training in the initial stages of this process?**

**What financial mechanisms can be put in place to support and empower entrepreneurs from the historically disadvantaged communities in the postal industry?**

**How can government facilitate the economic empowerment of members of the historically disadvantaged communities in the postal industry? What incentives can be provided?**



## **Role of SMME's in Socio-Economic Development**

Future economic growth and political stability in South Africa will be achieved through the development and support of entrepreneurship.

The policies of apartheid denied black entrepreneurs the opportunity to realise their full potential as businessmen and businesswomen. As a result, the majority of black entrepreneurs are SMME's that are operating at levels varying from survival to marginally profitable. For this reason, a policy that facilitates and pro-actively supports the development of SMMEs will play a significant role in realising the goals of the RDP, which support economic empowerment of the majority. Certainly small business policy is not the sole source of economic developments and growth. However, the enormous benefits of a small business policy have been realised internationally. Empowerment will require the development of national and regional policies that foster an enabling environment for entrepreneurship, SMME creation and growth.

The Post Office will develop its policy on the promotion of SMME's in line with the white paper on SMME's. This policy could play a crucial role in developing the necessary skills to compete in technologically, sophisticated international markets.

### **How can the postal industry facilitate the entry of SMMEs into the sector?**

#### **Equity Partnership**

The purpose of the empowerment mechanisms must be to ensure that historically disadvantaged South Africans own and control a majority of this growth sector in the medium term. One of the principal ways to achieve this would be by providing opportunities to potential entrepreneurs and to enable them to acquire and create enterprises and partnerships in the sector.

#### **Procurement Policy**

The Post Office can make significant impact in empowerment through its own activities as well as a catalyst for companies with which it contracts to provide goods and services. The Post Office can encourage the growth and establishment of SMME's through the revision of its procurement policy to promote the procurement of goods and services from companies owned and controlled by the historically disadvantaged community. Every tender must be adjudicated on the criteria of black economic empowerment amongst other criteria. Where services and products have been identified for allocation to subcontractors, the Post Office must actively search for Black-owned businesses that could cater for the needs identified. Appropriate support measures should be considered in these instances.

Clear targets in the procurement policy must be set in terms of the number and value of contracts awarded to black-owned businesses. For economic empowerment to succeed, it is critical that greater co-operation between the formal and informal sector is encouraged. A deliberate attempt must be made to support partnerships. Broadening the ownership base without supporting it with commensurate capacity building, providing the necessary skills to effectively manage organisations could lead to frustrations. Black economic empowerment is not only a social responsibility, but an imperative for economic growth as well. It is vital that both the financial and business managerial skills are enhanced.

### **How can postal industry development in rural areas and informal settlements be provided in a way that promotes joint ventures and community development?**

**Should there be a specific programme of women's economic empowerment in the postal industry?**

### Monitoring

It is obvious that in South Africa we need to develop in each sector of the economy a comprehensive programme for the empowerment of the historically disadvantaged South Africans. Over the past few years many models emerged with relative success. It has become clear that in each sector we should monitor the different initiatives. It is proposed that the regulator or government monitor the progress with the implementation of an empowerment programme, especially with those institutions that are licensed to operate in the postal sector.

**What mechanisms can government or the regulator put in place to monitor the postal sector on economic empowerment of the historically disadvantaged community?**

# CHAPTER 6

## Human Resource Development

### Introduction

The postal business is labour intensive. Labour costs make up about 60% of the total costs, which is in line with the international trends. Central in our approach to human resource development are skill development, flexibility and the promotion of a positive attitude and commitment by both the management and the workforce.

Human resource development must be future orientated, as the build up of professional competence is a long-term endeavour. As the technology and workplace change rapidly the competencies developed must be portable (transferable). This means that there is a need for agreed upon standards in terms of performance competencies. The development of competence requires resources in terms of infrastructure in the form of training facilities. There is an urgent need to get a nation-wide picture of competence requirements as well as corresponding training needs.

### Human Resource Philosophy

The human resource philosophy should aim to enhance the quality of work-life of all employees in the postal industry. The environment within the postal industry has to be conducive to empowering individuals to achieve optimal levels of performance and work satisfaction. It is imperative that each individual be afforded the opportunity to develop him/herself within an environment, which is supportive of the values of human dignity as well as equality. In pursuit of this, affirmative action is a high priority.

It is imperative that human resource managers in future display strong visionary and transformation leadership qualities if the postal industry is to survive and grow. The growth of the postal sector in a large part depends on the efficiency gains that can be made and the development of new technologies. For this reason we need to promote innovation and the development of a new skills base.

The aim of human resource development in the postal industry should be the following:

- Customer orientation
- A competent, qualified, entrepreneurial, willing and committed workforce.
- Professional and visionary leadership at top, senior and middle management.
- The promotion of innovation
- Flexible and de-layered corporate structure which is adaptable
- Positive climate and strong values with an orientation which promote the new South African culture.

### Training and Development

Effective training is an attempt to further the goals of the organisation while simultaneously providing the opportunity for individual employees to learn and grow in the business. Appropriate training programmes and institutions need to be developed.

For training to become an effective tool of organisational and strategic development in the postal industry, there will need to be a comprehensive review of the nature and quality of existing training provision, and of the relationship between internal and external training providers. Based on this review, a coherent national training strategy is effectively planned, implemented and monitored at the national and provincial levels.

Training should take an integrated approach and be organisationally, nationally and regionally co-ordinated. This should also facilitate mobility and career-pathing. The entrance requirements should not only be educationally based but should also consider equivalent experience and exposure.

The training activities in the postal industry must be developed within the context of the National Qualifications Framework (NQF).

**Should government do a comprehensive audit of existing infrastructure for training as well as training needs in the Postal sector?**

**How can the National Qualifications Framework assist to ensure that training in the postal sector meet the requirements for the future?**

**How can the NQF assist with the development of career-paths in the postal sector?**

**How can currently upgraded and unrecognised skills in the sector best be made use of?**

### **Human Resource Fund**

A training, education and skills development programme must be instituted which will accelerate the creation of expertise and to prepare future leaders in the postal sector. There is a lack of skills and expertise among the disadvantaged communities, not only with regard to postal expertise, but with regard to basic managerial and operational skills as well. In order for blacks to achieve genuine empowerment in the sector, this lack must be addressed. To achieve the objectives of empowerment, we should consider establishing a special fund. The fund will have to determine the most efficient way, within the constraints of finance availability. Funding could be applied to the following:

- bursaries for education
- providing additional, targeted funding to existing training facilities
- providing incentives to the private sector to provide such training

The Fund must ensure it does not displace efforts, which might otherwise be effected by the private sector.

Private companies in this sector that rely on a license from any Government structure to operate, will have requirements built in with regard to training and skills transfer, and thus provide incentives private sector investment in the development of black postal professionals.

In the telecommunications sector the legislation provides for the establishment of a human resource fund. It is proposed that the mandate of this fund be expanded to also include the postal sector.

**Should government establish a human resource fund in the postal sector as a separate entity or part of the fund established in terms of the Telecommunications legislation?**

**Should an industrial training board be established in the postal sector?**

**How can training contribute to address the historical imbalances in employment practices?**

### **Productivity**

Efficiency gains are one of the central approaches to improve the quality of service and profitability of the South African Post Office. This is a challenge to both the management and the employees in the company. Clear targets for improvement in efficiency and productivity must be set. If such targets are not available and followed up no development will occur. Objectives may change due to the development of

the market. The objectives in terms of efficiency and financial viability must be communicated and understood as well as adopted by all employees of the organisation.

### **Affirmative Action**

Until recently black<sup>14</sup> people were systematically excluded from all positions of influence in the state and civil society. Women were similarly disadvantaged; particularly those from black communities. Persons with disabilities, irrespective of race or gender, can seldom be found in any positions of influence with the state or civil society. It is absolutely imperative that the postal industry draws upon the skills and talents of all South Africans, and derives the benefits of the broader perspectives that a more representative workforce will bring.

The main target groups for affirmative action programmes will be black people, women and people with disabilities. In developing appropriate affirmative action programmes, it will be important to ensure that they are based on a detailed analysis of the specific disadvantages faced by these three groups, as well as equally specific and distinct strategies for overcoming them. It is recommended that clear time frames be set to achieve these goals.

Affirmative action in postal industry must eventually achieve a high degree of social equity. Affirmative action is also necessary because of the changes taking place in the market place. Black clients will represent an increasingly dominant share of the market.

**Should there be a specific affirmative action programme for the postal sector?**

**How can equality of access to education and training for the postal sector be ensured and monitored?**

**How can education contribute to redressing historical imbalances in employment practices in the postal industry?**

**What steps should be taken to increase the participation of women at all levels in the postal sector?**

**What steps should be taken with regard to affirmative action for black workers in the workplace?**

**How can in-house training in the sector be used as an effective tool for black advancement?**

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<sup>14</sup> Black is used to refer to African, Indian and 'Coloured'.



# CHAPTER 7

## International Relations

### Introduction

After decades of isolation due to apartheid, South Africa, since democratisation in 1994, has been welcomed back into the postal international community. The integration of South Africa into regional and international postal forums and associations has started to bring with it the benefits of synergy, greater participation in the global economy, improved personal and business communications, expanded trade and revitalised economic growth. South Africa, due to its location in Africa and its African conditions, together with its ability to manufacture products, which are specific to the African market, is well positioned to provide technical, operational and market support to Africa, and to provide African solutions to African problems. Within this framework, the priority of our approach is to place emphasis on our role in Southern Africa. We are part of the Southern African region and our success depends on developing and enhancing healthy relations with our immediate neighbours.

### International and Regional Co-operation

The participation of South Africa in regional and international activities in the postal sector should be considered at two levels: the consultative and the operational.

At the consultative level South Africa participates in the development and harmonisation of postal policies. This is carried out in the context of the Universal Postal Union (UPU) and other international bodies such as the Council of Commonwealth Postal Administrations (CCPA), Pan-African Postal Union (PAPU) and the Southern African Transport and Communications Commission (SATCC). These organisations provide South Africa with the opportunity to take part in international and regional consultations and policy decisions, to learn from the experience of others, and to establish business networks for the industry. South Africa through the Ministry of Posts, Telecommunications and Broadcasting, and more specifically the Department of Communications (DOC), is the signatory to these international treaties, covenants and agreements. The South African Post Office, as the operator, has direct representation on these bodies.

At the operational level, South Africa co-operates and works in partnership with other postal administrations through either bilateral or multilateral agreements relating to letters, parcels and postal financial services.

### Universal Postal Union (UPU)

The world postal industry is made up of 189 national postal administrations at different levels of development, each with a national focus for the largest part of its business. The postal administrations are allied internationally by conventions of the Universal Postal Union (UPU), a specialised agency of the United Nations. All Member States are members of the UPU by virtue of being signatories to the United Nations Charter. At the Seoul Congress in 1994, South Africa was elected as full member of the Council of Administration and the Postal Operations Council and currently plays an active role in the different committees and the formal session of the UPU.

The UPU holds a congress every five years at which it reviews its Convention, the articles of which, if retained, are then re-confirmed. After each Congress, the members of the UPU sign the new Convention. Each signatory signs as representing the Government of their country. The Department of Communications currently regulates the postal sector and represents the regulator at these meetings. The Convention provides the framework for the operational relations between the postal administrations of the world in the exchange of mail. The articles of the Convention are divided into rules and recommendations.

Because the Convention has the status of a treaty into which its government has entered, each member of the UPU must treat the rules as having a binding force.

The next UPU Congress will be held in Beijing in 1999 and South Africa must decide now whether it will bid to host the prestigious 2004 UPU Congress. South Africa, through our President Mandela, has been further honoured by the UPU, by being asked to open the High Level Meeting of the UPU in Berne, Switzerland, in October 1997.

### **Southern African Transport & Communications Commission (SATCC)**

SATCC is a commission in the Southern African Development Community. South Africa was granted observer status in SATCC in 1993 and became a fully-fledged member in 1994. The South African Post Office is currently serving its second term as chair of the SATCC and plays a proactive role in the region. In August 1996, South Africa signed the SATCC protocol on postal services in Maseru which provides for the following:

- harmonisation of postal policy;
- improvement of postal infrastructure;
- establishment of complementary institutional frameworks;
- to promote inter-operability and harmonise operational standards and procedures;
- improvement of postal security; and
- the promotion and support of national training and the development of human resources in the postal services.

### **Pan African Postal Union (PAPU)**

PAPU is a specialised agency of the Organisation of the African Unity. South Africa presently enjoys observer status at PAPU. The Department of Communications is currently conducting an investigation into whether South Africa should become a full member of this institution.

### **Council Of Commonwealth Postal Administrations (CCPA)**

The CCPA comprises all member countries of the Commonwealth. The CCPA meetings are held on a regular basis, especially before the UPU Congress, in order to harmonise, strategise and unify positions of Commonwealth member countries on issues affecting postal services within the Commonwealth.

### **Major International Trends - Changes Ahead**

The universal postal service is undergoing major changes at both national and international levels. Historically, postal administrations have been national in character and have serviced the needs of the domestic market. With 'globalisation', the exchange in goods and services has accelerated. As trade barriers have fallen, large and sophisticated multinational companies, which until now specialised in the express market, are looking more and more to take larger shares of other international physical mail procedures. Not only is there increasing competition in areas previously under monopoly protection, but the providers of expedited mail and new electronic communications products have no national borders. Growing liberalisation; increasing competition and the rapid development of new communication technologies are some of the key factors encouraging the transformation of traditional postal administrations and placing pressure on existing norms and protocols. These changes together with the undermining of terminal dues regulations through the growing phenomenon of remailing activities suggests that increasingly new and revised protocols and policies governing the regulation of international physical mail procedures will have to be formulated and implemented.

## Cross-Border Mail

The legislation of most countries does not distinguish between destinations of the items with which the legislation is concerned – whether the destinations are in the national territory (in the case of domestic mail) or outside (in the case of cross-border mail). The assumption being that out-going cross-border letter mail falls within the reserved area if it meets the same criteria (weight and/or price) that determines the reserved area for domestic mail. Remail is a cross-border mail service offered by private operators in competition with the services offered by the postal administration in the country of the customer.

## Remailing

Remailing essentially involves a practice of taking mail from its country of origin (where it was printed and enveloped) to another country for posting. The mail is forwarded by a non-postal operator as freight/cargo to the proposed country of posting where local postage is paid.

There are two types of remailing, namely, Direct Entry Mail (DEM) and ABC Mail.

**Direct Entry Mail (DEM)** – mail is taken from country A to country B for posting and delivery in country B. The mail is posted at the local rate of postage including discounts obtaining in country B. This practice circumvents the payment of high airmail transport costs as well as terminal dues (delivery costs payable by Country A to country B if the mail had been sent through the traditional international mail stream). DEM is also known as "Direct Injection or Insertion Mail".

**ABC Mail** – mail is taken from country A to country B for posting to country A, C, etc. in the same manner as DEM. The main purpose of this practice is to benefit from the lower international postage rates obtaining in country B. In such cases country B usually represents a developing country.

## Financial Consequences

Direct Entry Mail (DEM) – if a DEM consignment is posted in country A for delivery in South Africa we will receive terminal dues amounting to ±42c per 20g item (estimated average weight of a letter). However, in terms of DEM we will receive our local postage rate of at least R1 per item minus applicable discount. Even though not cost effective at this stage local postage rates with discounts are currently more beneficial than terminal dues.

ABC Mail – whenever a consignment of letters is posted in South Africa for delivery in another country we incur the following costs:

- i) local handling and transport
- ii) transport to country of destination
- iii) terminal dues (delivery charges) payable to country of destination.

If South Africa's international postage rates are not cost effective this type of remailing will have a detrimental financial impact and therefore should not be encouraged unless an in depth cost investigation has proved that international postage rates are cost effective and profitable. This remailing practice is not encouraged by the Universal Postal Union.

**Should South Africa encourage remailing and, if so, which type (DEM and/or ABC)?**

**Should South Africa legislate on the remailing issue?**

## CHAPTER 8

# PostBank

### Introduction

The PostBank is currently one of the profitable business units within the Post Office. In recent years, market share and profitability have been declining. A recent study by the Savings Banks Foundation for International Cooperation suggests that the loss of market share is not due to unfavourable market conditions. Instead, poor service, a weak and deficient information technology (IT) infrastructure; unfavourable terms and conditions; the limited range of financial services, which could be expanded even without it being registered as a bank; poor marketing of the PostBank and the present organisational structure are some of the factors, which currently inhibit opportunities for the PostBank to expand and improve profitability. While the PostBank is currently still profitable, addressing these constraints could improve profitability considerably. The recent Strauss Commission on Rural Financing also suggests an improved and expanded role for the PostBank. The key policy consideration for government is how to restructure the PostBank in order to ensure the provision of financial services to poor and rural communities while improving market share and profitability.

### Background and Legal Status

The Post Office Savings Bank was established in 1883 and developed rapidly thereafter because it made use of the infrastructure of the Post Office. The simplicity with which transactions could be done also helped in its development. In 1974, the Post Office took full control of the Savings Bank which up to then had been operated as an agency on behalf of the Treasury. Since 1974, the Post Office Savings Bank has undergone some changes. This included the provision of ATM based services through the Telebank service and the change in focus from being only a funds provider for telecommunications projects to a new asset structure.

In 1993, the Post Office Savings Bank was renamed PostBank and took on a new image and a keen focus on becoming an important player in the provision of banking facilities to the previously unbanked communities in South Africa. PostBank continues to operate as a division of the South African Post Office Limited.

### Regulatory Framework

PostBank is governed by Section 52 of the Post Office Act 1958 and operates under the regulations promulgated under this Act. It is exempted from the provisions of the Banks Act, 1990. The plans to reposition PostBank in the market place and give it flexibility to offer a range of products might make it necessary to register PostBank as a bank under the Banks Act or some other enabling legislation since all banks are regulated and monitored by Reserve Bank.

The current banking legislation (the Banks Acts and Mutual Banks Act) imposes high entry barriers in terms of:

- capital requirements;
- liquid asset requirements;
- reserve requirements; and
- lending constraints.



It is accepted that Banks must be controlled and supervised according to international standards for the protection of depositors' funds. However, the PostBank, due to the fact that it is a savings and not a lending institution, is currently exempted from the Banks Act and functions within the framework of the Post Office Act, 1958 as amended.

If the PostBank must play the role of a financial institution which addresses rural needs then the present legislation that govern banks and other financial institutions may not be adequate. A special dispensation will have to be created by government to address this and make it viable for the PostBank to fulfil this role.

### **Products and Services**

PostBank essentially provides in three products:

- book based savings accounts;
- the card based telebank savings account which is operated through auto-teller machines (ATM's); and
- savings certificates.

### **Savings Accounts**

The book-based savings account is the main service offered by PostBank. The accumulated savings account balance has shown a positive trend with the number of accounts steadily increasing. However, the distribution of funds is of concern to PostBank as 80 % of the accounts have balances of R500 or less, which is only 18% of the aggregate balance of R642,8<sup>15</sup> million. This means that the administrative costs are high.

Applicable conditions, fees and interest rate:

- the minimum balance to open and maintain an account is R10 and the maximum that can be held in one account is R100 000;
- differentiated interest rates linked to balance category are offered. These range from 1% for the lowest balance to 10% for the highest balances;
- interest is capitalised once a year on 28 February and is entered manually into the book when it is handed in for audit;
- withdrawals of amounts up to R300 may be made on demand;
- withdrawals exceeding R300 may only be made with telephonic authorisation from PostBank administration in Bloemfontein;
- a ledger fee of 0.50 cents, plus 14% V.A.T. per account per month is levied on all savings accounts;

### **Telebank**

Telebank is a card based savings account, which may be compared to a transmission account because of the frequency of transactions, and the low balances kept in this account. Employees mainly from Telkom, the Post Office and some Government departments as a convenient medium in order to pay in and withdraw salaries, also use the telebank facility.

The use of the Telebank facility is limited to 320 post offices. Two years ago it was decided to remove all Telebank ATM's on the basis that the volume of transactions was too low and the maintenance costs were greater than the income, which was derived from the machines. The machines were outdated and had unacceptable downtimes. Telebank transactions are now conducted over the Post Office counters. Interest is calculated on a daily balance and is capitalised annually on 28 February. Telebank balance were R41,4m at 31 March 1997

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<sup>15</sup> At 31 March 1997



## **Savings Certificates**

The Post Office Savings Certificate is an old product of the Post Office Savings Bank, which has been offered to investors since 1890. Savings Certificates must be deposited with the PostBank for a minimum period of six months after which the funds are available on demand. From 1974 this product became particularly attractive to investors because of the tax concessions which were granted to investors in the savings certificate. A savings certificate is offered in units of R50 and recently the minimum balance was raised from R50 to R1 000 for new purchases. Interest on savings certificates is currently 13,5 %. The same rate of interest is offered for the succeeding period until the redemption of the certificate.

The tax concession on interest earned by the savings certificate, on instruction by the Department of Finance, was phased out over five years from 1991 and has now been completely eliminated. The PostBank strongly recommends the re-introduction of the tax concession on the savings certificate to attract investors and encourage savings. Balances as at 31 March 1997 were R272,6m.

## **Present Customers**

At present savings account holders are predominantly black, the largest component being the lower income group in rural areas. The reasons for this are the low minimum balances and the accessibility of the PostBank through the wide network of the post office even in remote areas. This facility is also used by migrant workers who for security reasons deposit funds in a post office near the workplace and withdraw at a post office nearer home.

The savings certificate holders are mainly elderly white investors who used this facility to save with the benefit of not having interest eroded by taxes. Most of the certificate holders also conduct ordinary savings bank accounts for the purpose of crediting interest earned from savings certificates directly into this account.

## **Repositioning the PostBank**

During 1994 limited market research was undertaken to ascertain specific market needs and to determine the image of the PostBank. It was agreed that PostBank's target market should be LSM 1-5<sup>16</sup>. Moreover, a large portion of rural buying power is generated within metropolis but cannot conveniently be made available to households in the rural areas due to the lack of infrastructure and facilities. Whereas, the commercial banks may have developed advanced technology they lack spread of retail outlets, especially in remote rural areas, where people have to travel long distances to major towns for banking facilities.

In addition, the commercial banks have not provided products, which address the peculiar needs of rural communities. This is so because the lack of collateral and the administrative costs of small transactions limit the extension of credit. The Strauss Commission recommends that the PostBank could play significant role in the provision of services that will address the financial needs of rural communities.

## **Strauss Commission Recommendations**

Post Office has a wide network of outlets and is already involved in the provision of financial and social services through its network. The ability of the Post Office to provide services to rural financial services is dependent on its ability to extend services to remote and rural areas. The main recommendations of the Strauss Commission affecting the PostBank can be summarised as follows:

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<sup>16</sup> (According to the All Media and Product survey-AMP Life Style Measurement demographic classification LSM 1-3 is the Super Group C described as the unsophisticated and unbanked masses. LSM 4 5 6 is the Super Group B which characterises the emerging market, and Super Group A, LSM 7 8 9 is the sophisticated, developed market.)

### **Mobilise Savings - A New Product Range**

The Post Office should investigate and where appropriate adopt a new product range designed to mobilise rural savings. Savings for burials, school fees, lobola should take place. It was considered that tailor made products could be designed providing incentives for increased savings.

### **Pension Delivery**

A delivery system is favoured whereby the pensioner account holder is paid through an automatic debit order which is paid into a savings account. The proposed system will attempt to use the opportunity presented to both contribute to savings mobilisation, and promote civil society's institutional development. This will also enhance security for the beneficiary. It is therefore necessary that rural people should have access to the services on a more continuous basis rather than once a month on pension payout day.

### **Transmission Services**

Improved transmission services, which will enhance the transfer opportunities between rural-rural and urban-rural extended family networks. The current transmission system most frequently used by extended family networks is laborious. The better transmission systems of the commercial banks are less accessible in deep rural areas.

### **Credit Facilities**

PostBank savers are not able to use their savings record for credit leverage. Although the establishment and administration of a credit function is complex and costly, it would certainly facilitate the rendition of a more comprehensive and accessible range of services should micro-lending facilities eventually be available to deep rural area PostBank users.

### **Legislation**

Legislation governing agricultural banking and land presently in force in different areas of South Africa should be harmonised as soon as possible. This should include legislation governing the post office.

### **Transaction Costs**

It is recommended that the allocation of subsidies for specific expenditure to compensate for the higher transaction costs of financial delivery to low volume rural areas.

### **An Institution with the Potential to meet Basic Financial and other Service Needs**

The Post Office is recognised as a financial institution well suited to take the lead in satisfying several financial service needs of the rural poor, namely savings facilities and transmission services. The Commission notes with concern the current reduction in fully-fledged Post Office outlets and request that the civil society and potential developmental role of the Post Office/PostBank outlined in this report be pursued.

### **Technology**

The Commission noted the nature of rural urban extended family networks that characterise South African society and recommended that the state provide grant funding to the Post Office to put in place the technology system required to provide linked accounts as well as links to other financial institutions, in order to enable it to provide a more extensive service range.

If the Post Office is to increase business and become more cost effective, this should be both in terms of attracting greater number of service users as well as attracting the slightly better-off and not just the poorest; technological transformation of transmission services will be required.

### **Positive Interest Rates**

The PostBank should review the current rates of interest paid to savers. The savers should not be penalised by negative interest rates. The PostBank view that the lower interest rates can subsidise the cost of providing wider geographical access. In response, the Commission would prefer real costing and a request for identified grant finance rather than the current policy of implicit cross-subsidisation.

### **Other Services**

Although the Strauss Commission has focused on the provision of financial services, the Post Office and the PostBank can be used to provide the following services to its customers:

- letter services
- parcel services
- courier services
- money transfer services
- postal products
- address provision
- pension payments
- municipal payments
- third party payments
- licenses
- gaming and lottery products
- motor registration
- income tax payments
- identity documents
- unemployment benefits
- housing subsidies
- regional service levies

While the PostBank currently provides a number of products and services suggested by the Strauss Commission, these products need to be refined and marketed to the potential customers in a more proactive manner. Rural surveys indicate that there is a widespread desire to save but that a formal financial institution, including the Post Office, is often inaccessible.

**Should the PostBank be involved in the provision of financial services?**

**Should government subsidise this activity?**

### **Options for Restructuring**

PostBank has a unique strategic opportunity by virtue of a branch network which serves areas which are not well covered by the major banks (e.g. rural areas and townships), the security it offers and its traditional acceptability amongst small savers and those on low incomes. It ought therefore, to have an important role to play in offering a high quality, cost effective banking service to a large proportion of South Africa's population which has hitherto been largely excluded from the formal banking sector.

Bearing in mind some of the options suggested in Chapter three on Ownership, Financing and Investment, options for restructuring the PostBank include following:

**1. As a Division or Business Unit of The Post Office**

Service levels for the clients are seldom of comparable quality to the commercial banking community, and this arrangement leads to loss-making operations, which require cross-subsidisation, either from the more profitable business activities within the Post Office and/or external subsidies from government.

**2. As a Stand-Alone, profit-center Division of the Post Office**

This alternative is usually preferred when the PostBank is still perceived and managed as a social service rather than as a business. Establishing it as a stand-alone activity enables the correction of the managerial deficiencies. It renders the organisation more effective and responsive to clients' needs. However, service levels are seldom comparable to commercial banking options.

**3. As a separate, 100% owned, 'for profit' Company of the Post Office**

In this case the PostBank has reached a large degree of self-management status as an institution. It establishes an independent Board of directors, and is managed by professional managers. This option is probably the most balanced mix for providing social services while eliminating the large deficits usually incurred by PostBank organisations under the Post structure. Service levels tend to improve significantly, and the institution can compete more effectively with the commercial banks. PostBanks under this option usually operate close to break-even conditions.

**4. As a 'for-profit' Company in which the Post keeps a Controlling Majority or a Significant Minority**

To enhance both the quality of products and the managerial skills of the PostBank, the Government is now prepared to exchange part-ownership of the institution with another financial entity capable of bringing more attractive products and more effective management. The PostBank becomes a 'for profit' organisation, while preserving strong elements of the social service features that distinguish a PostBank from a purely commercial institution. PostBanks of this type usually operate at a profit. Losses are immediately addressed and strong measures are rapidly implemented if required.

**5. As a 'for-profit' Company in which the Post Office does not have any Shares**

The PostBank is a complete separate institution of the Post Office but remains a State owned entity. Exclusive access to the Post counters-network is regulated either through a special law and /or through a contractual arrangement. The PostBank preserves the name to benefit from the high recognition usually attached to this name.

In an advanced form, the PostBank becomes an institution that competes head-to head with all other private banking institutions. It organises and manages itself accordingly. The government becomes an important shareholder that obtains primarily financial benefits-e.g. dividends from its part-ownership of the institution.

These are very different forms to organise and operate a PostBank. Selecting the most suitable option for South Africa is a highly complex and delicate process. Several considerations of social, political and economical nature need to be addressed before any final solution is chosen.

**What restructuring options will best enable the PostBank to reposition and respond more effectively too new and existing market opportunities?**

# CHAPTER 9

## Legislative Reform

### Introduction

This policy review as well as the promulgation of the new Telecommunications Act, 1996 will result in the introduction of a new Postal Services Act.

The introduction of a new Postal Services Act will pose certain legal implications, which include:

- the repeal or modification of the existing Post Office Act;
- the repeal or modification of legislation related to the postal industry;
- the effects of regulations issued in terms of the existing legislation;
- the effects of new legislation on existing licenses;
- Modification of Acts governing the financial institutions.

Given the scope of this policy review the following statutes may be affected and could be repealed or amended as deemed necessary. These include:

- The Post Office Act No. 44 of 1958 as amended;
- Section 13 of the Customs and Excise Act, No. 91 of 1964 as amended;
- Maintenance and Promotion of Competition Act, No. 96 of 1979 as amended;
- The Post Office Amendment Act, No. 85 of 1991;
- Telegraph Messaging Protecting Act, No. 80 of 1965 as amended;
- Interception and Monitoring Prohibition Act, No. 127 of 1992 as amended;
- Banks Act, No. 94 of 1990 as amended;
- Mutual Banks Act, No. 124 of 1993.

**Which statutes should be reviewed for the purpose of repeal or amendment?**

**Should government be entitled to intercept mail?**

**If so, under what circumstances?**





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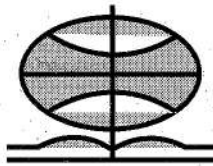
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