

Department of Posts: Please Mr Postman

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Post is a primary means of communication for a large part of India's population as well as a vital component of India's communication infrastructure, but very little attention has been given to it. The situation is such that perhaps India along with its neighbors, Pakistan and Bangladesh, are the only countries wherein the postal department has been so bereft of reforms.

The post in India has largely had a public role and character. During the last decade, the share of the post in the communication market has declined. Thus postal traffic has dismounted with the growing share of business-to-business, business-to-individual, and individual-to-business communication.

The Department of Posts has tried to improve the speed and volume of money order transmission. Many of the transit mail offices in the country are being computerised; so far 80 offices and 28 transit mail offices have been computerised.

In this report, I analyse the importance of privatising the postal services and scrutinise the basic functions of the department. Why do we think the postal sector is so structurally weak? Why does the department face so many complaints? The situation is grave and has to be changed immediately. The solutions may not be easy but then they are not impossible.

The Indian Scenario

Till January 1985, a combined Department of Posts and Telegraph rendered the postal services in India. The Department as a whole was conceived and operated as a public utility like the railways and electricity. The Posts and Telegraph was a part of the general budget of the central government but due to slow induction of technology and old staff norms, manpower costs increased exponentially.

India has the largest number of post offices in the world. At the time of Independence, there were 23,344 post offices in the country, mostly in urban areas and some larger villages. The number of post offices as on March 31, 2000 was 1,54,551 of which 1,38,149 post offices were in rural areas, which amounts to 89.38% of the total. The Department of Posts, because of its wide reach is utilised by other departments of the central government and state governments to perform several functions on their behalf.¹

Functions

Postal services encompass three broad areas of activity²:

- a) Retailing postal products and services
- b) Transmission of postal articles and
- c) Delivery of postal articles.

¹ *Annual Report, 2000-2001, Department of Posts*

² *The fifth report, March 2001: Expenditure Reforms Commission, Government of India.*

The Department of Posts is primarily responsible for collection, transmission and delivery of mail, sale of postage stamps, transmission of money through money orders and postal orders, and philately.

On an average, a post office serves an area of 21.26 square kilometres and a population of 5462. Mail processing, transmission, and delivery are the core activities of the Department of Posts. During 1999-2000, the Department of Posts handled 1578.15 crore articles. These are processed for transmission and eventual delivery by a network of 573 sorting offices.

The Department also discharges certain agency functions for the Government of India as in, running postal savings banks and other small savings' schemes, postal life insurance, collection of customs duty on postal articles from abroad, disbursement of pension to railway pensioners and family pension to the families of employees of coal mines and industries covered by the Employees Provident Fund Scheme.

India is a member of the Universal Postal Union (UPU) and of the Asian Pacific Postal Union (APPU). The Department of Posts runs four Foreign Post Offices (FPOs) at Mumbai, Kolkata, Chennai, and New Delhi to handle international mail and also five sub-FPOs at Ahmedabad, Bangalore, Cochin, Jaipur, and Srinagar for the convenience of users.

The postal deficit met from the general budget increased by 1632.8% from 1992-93 to 1998-99 to reach Rs 15,909.7 million, competing for top place with food and fertiliser subsidies. During 2000-2001, 52 sub-post offices and 363 branch post offices were opened though a target of 50-sub post and 500 branch post offices was fixed.

Organisation

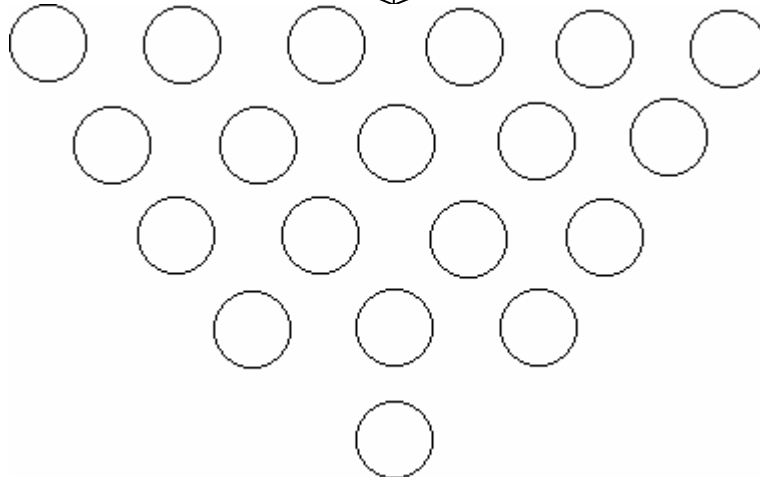
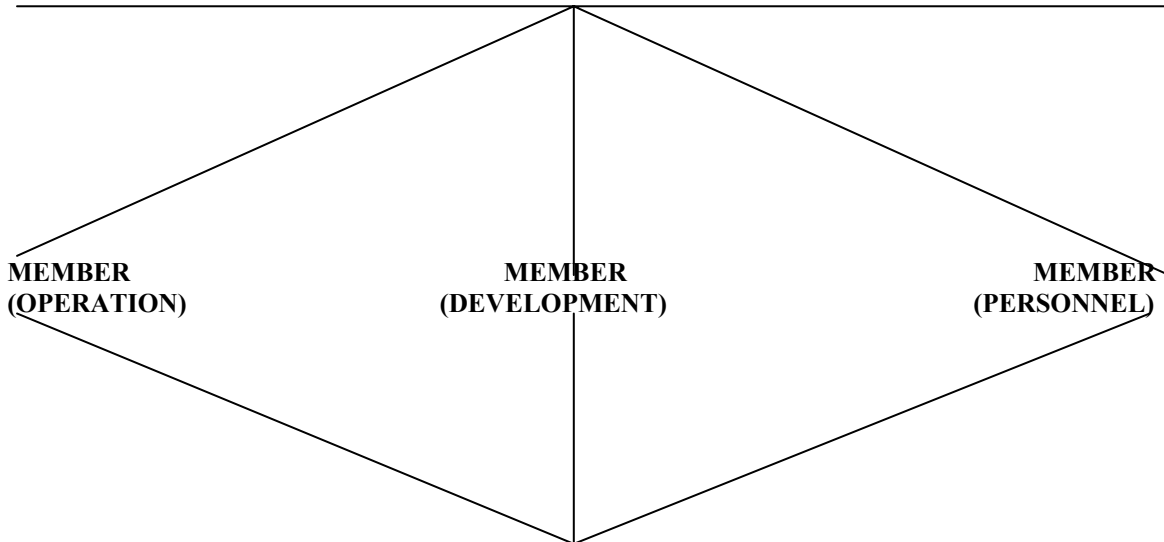
The Department of Posts is directed and controlled by the Postal Services Board, which is responsible for policy formulation and its implementation. The categories of post offices (numbers within brackets) are Head Post Offices (834), Departmental Sub-Post Offices (24,669) and Extra Departmental, Sub or Branch Post Offices (1,24,843).

There are in addition 549 Sorting Offices, 443 Record Offices, 46 Postal Store Depots, 19 Circle Stamp Depots, 5 Postal Training Centres, a Postal Staff College, and 63 dispensaries. The Post Offices and other offices have been grouped under 19 Postal Circles assisted by 40 Regional Directorates controlling 440 Postal Divisions and 68 Railway Mail Service Divisions.

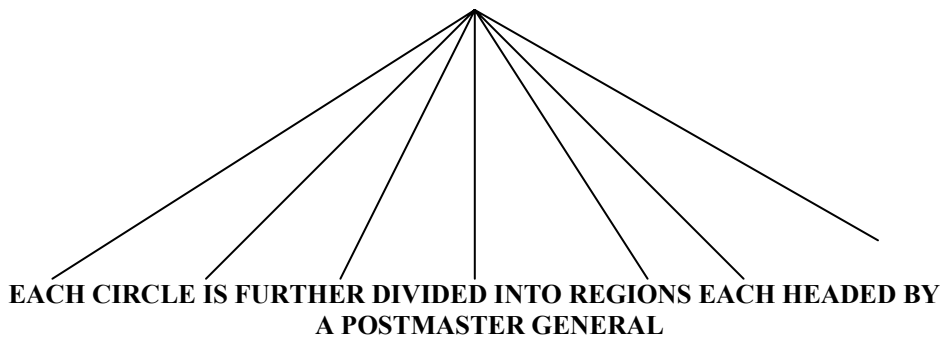
We observe a flowchart representing the organisational structure of the Department of Posts, which clearly examines the complexities prevalent in the hierarchy of the department.

THE ORGANISATIONAL STRUCTURE OF THE DEPARTMENT OF POSTS

SECRETARY TO GOVERNMENT OF INDIA + DIRECTOR GENERAL DEPARTMENT OF POSTS + CHAIRMAN POSTAL SERVICE BOARD



THERE ARE 19 CIRCLES EACH HEADED BY A CHIEF POSTMASTER GENERAL



EACH CIRCLE IS FURTHER DIVIDED INTO REGIONS EACH HEADED BY A POSTMASTER GENERAL



EACH REGION IS DIVIDED INTO DIVISIONS HEADED BY A SENIOR SUPERINTENDANT

The Total Budgetary Allocation, Net of Recoveries and Revenue Receipts:

Major Head	Budget 2002-2003 (In crores of Rupees)			Total
	Plan		Non Plan	
Revenue	23.46		1106.95	1130.41
Capital	126.54		-11.49	115.05
Total	150		1095.46	1245.46
Postal Services				
<i>Revenue Section</i>				
General Administration	4.68		312	316.68
Postal Network	7.53		2706.45	2713.98
Mail Sorting	.....		425	425
Conveyance of Mails	.....		398.85	398.85
Agency Services	.....		151.5	151.5
Accounts and Audit	.....		86.8	86.8
Engineering	0.2		66.05	66.25
Staff Amenities	.....		42	42
Pensions	.....		892	892
Stationary & Printing		.....	71	71
Others	9.25		55.3	64.55
Total Revenue Expenditure-	21.66		5206.95	5228.61
Postal Services				
Less Receipts	.....		-4100	-4100
<i>Net</i>	21.66		1106.95	1128.61
Lumpsum provision for Projects/ schemes for the Benefits of North Eastern region & Sikkim	1.8		.....	1.8
Capital Section				
Postal Network	10.32		2	12.32
Administrative Offices	5		.....	5
Staff quarters	6.25		.....	6.25
Mech. & Modernisation	91.53		.....	91.53
Others	0.24		0.01	0.25
North Eastern Areas	13.2		.....	13.2
Less-receipts and recoveries	.....		-13.5	-13.5
Capital Section (Net)	126.54		-11.49	115.05
Grand Total	150		1095.46	1245.46

Surprisingly, the total revenue expenditure for postal services exceeds the receipts and hence the Department incurs a loss of Rs 1458.37 crores: Budget 2001-2002.

Rs 1382.78 crores: Budget 2001-2002 (revised)

Rs 1128.61 crores: Budget 2002-2003

Other important functions

The postal department also performs many agency functions. The following functions are considered the most important:

1. *The Post Office Savings Bank (POSB)*

This is the most important of such agency functions performed by the Department of Posts on behalf of the Ministry of Finance. Post Office Savings Bank operates 11.38 crore accounts under various saving schemes. The cumulative outstanding balance in all forms of National Savings as on March 31, 1999 was Rs 1,55,295 crore. The annual mobilisation of savings in the POSB is about Rs 25,000 crore.

2. *Postal Life Insurance (PLI)*

The scheme is operated by the Department of Posts, and is one of the oldest welfare schemes for the government employees and the general populace in the rural areas.

3. *Other Areas of Work*

The Department of Posts also performs other items of work like payment of military pensions, Coal Miners' Pension, EPF and Family Pension, Railway Pension etc., for which it gets mutually agreed remuneration from the respective principles.

Legal Structure and Competition

The legal monopoly of the department, which still continues, has been eroded on the ground by a large number of private courier services who have taken away a good proportion of the high revenue-yielding traffic from the state owned monopoly operator.

The Post Office Act, 1898 (Section 4) conferred upon the central government the exclusive privilege of conveying by post all letters and of performing all the incidental services of receiving, collecting, sending, dispatching, and delivering all letters except in the following three cases:

1. Letters sent by a private friend in his way, journey or travel, to be delivered by him to the person to whom they are directed, without hire, reward or other profit or advantages for receiving, carrying or delivering them.
2. Letters solely concerning the affairs of the sender or receiver thereof, sent by a messenger on purpose.
3. Letters solely concerning goods or property, sent either by sea or by land to be delivered with the goods or property which the letters concern, without hire, reward or other profit or advantage for receiving, carrying or delivering them.

While the Act has included post cards within the definition of letters, the term "letters" has not been defined in the law. This lacuna and imprecision in law along with the exceptions provided in law has led to the large number of private couriers conveying letters purportedly as documents which "concerns the affairs of the sender or receiver, sent by a messenger on purpose."

While they have catered to the needs of the people and the high revenue yielding part of the written communication market, the Department of Posts is left with low revenue yielding and expensive traffic as part of its universal service obligation. The efforts of the Department of Posts to meet the challenge of the couriers in the premium product and service segments of the market have been limited by the government culture of slow response instead of quick business decisions.

Expenditure Revenue Gap and Tariff Control

Determination of postal tariffs needs to be distanced from the government. Tariff deciding powers should be transferred from legislative control to executive control. There has been an irrational expansion of the network and manpower without corresponding increase of the user charges.

Starting with the mid-sixties, the Department of Posts has been suffering from revenue deficit year after year. The net postal deficit has grown from Rs 91.81 crore in 1992-93 to Rs 1590.97 crore in 1998-99, an increase of 1632.8 per cent.

The postal deficit in 1999-2000 was Rs 1595.82 crore. Dependence on manpower, rather than technology has resulted in manpower cost growing due to periodic pay hikes effected by central pay commissions and the in-built system of payment of dearness allowance in line with the increase in the Consumer Price Index. While expenditure has steadily increased, postal tariffs have not been correspondingly increased to reflect costs. For instance, the post-card tariff remained static from 1973 to 1997—a record of price freeze on extra-economic considerations.³

Under-utilisation of Fixed Resources

At the end of 1998-99, the Department of Posts owned 5,189 offices, 140 buildings, and 2,240 staff quarters. It also owned about 1,900 vacant plots of land. The thrust of the department since the beginning of the Five-year Plans is to replace rented buildings by owned buildings. There is an apparent under-utilisation of these fixed assets. Since the post office was a symbol of imperial presence, it occupied the centre point in all metro and mini-metro cities. A post office is not only a retail outlet but also an accounting centre.⁴

Employees and Extra-Departmental Agents

Evidently the postal department has extra workforce. This should be rationalised by a freeze on recruitment and through natural attrition. Herein the possibility of giving VRS to employees whose skills cannot be upgraded needs to be examined.

The centre's directive to every department to undertake a two per cent cut in man power every year has not found favour with the Department of Post and Telegraph because it is said that "Services is rendered in terms of mail delivery right to the doorstep of the customer. Hence any reduction in such manpower, will mean curtailment of existing facilities to the public"—excuse or what?⁵

Post Office Savings Bank

Remuneration for operating savings bank and other saving schemes need to be reviewed to reflect correctly and fully the proportion of expenditure incurred on providing these services, after building in improved operational efficiency norms.

³ *Annual report, 2000-2001, Department of Posts, India*

⁴ *Ibid.*

⁵ Akshaya Mukul, "P&T does not want to cut flab", *Times of India*, June 19, 2002.

Postal Land and Buildings

Since the post office was a symbol of imperial presence, it occupied the centre point in all metro and mini-metro cities. While its retailing activity must continue in the urban business hubs, its accounting and administrative functions can be performed as efficiently in the suburbs.

For instance, the property owned by the department in the vicinity of Taj Mahal Hotel in Mumbai is being used by an ancillary logistic service like the Mail Motor Service.

Urban Postal Service

There has been an irrational growth of full-service post offices in the urban areas because of the relaxed standards prescribed for their opening, i.e. a minimum of five hours of work according to the department work measurement standards and income to off set expenditure according to the department formula. One-man and two-man post offices according to these standards have sprung up in close vicinity of each other.

- What needs to be done is to retain an adequate but far less than the existing number of full-service post offices, and convert many of the existing full-service post offices into extension counters in order to provide basic postal services i.e. postal stamps and stationery, franking and registration. These basic services could also be provided by the private sector under franchise from the Department of Posts.
- Delivery of mail in urban areas is expensive and inefficient. While a large delivery staff is deployed for the multi-storeyed buildings at the city centres, the growing areas at the periphery of the cities lack adequate delivery staff. For some years to come, households in India will continue to depend on the ubiquitous postman for doorstep delivery.
- Meanwhile all government, business, industrial and commercial establishments qualifying for listing in the Yellow Pages should, through a mixture of incentive and compulsion, be made to collect their mail from designated post offices. This will release a large number of delivery staff for redeployment in urban peripheries and in delivering time sensitive and revenue-earning speed post articles and in e-commerce.
- Though collection and delivery of mail is one of the core activities of the Department of Posts, the activity itself does not require a high level of skill, which is available only in-house, this activity can be entrusted to a non-governmental agency.
- Compared to collection of mail as an activity, delivery of mail, especially accountable mail and financial instruments like money order, is a more complex activity. Safety, reliability and responsibility for cash require an authorised person of the department to deliver registered and insured letters and parcels and money orders. But delivery of ordinary mail can be entrusted to non-government agencies with no adverse effect on security or reliability.

Rural Postal Service

The extra-department system, an institution unique and peculiar to the Department of Posts, was introduced in a cost-conscious utility like the post in order to provide basic postal facilities at a relatively lower cost in the rural areas. The extra-department agents manning the rural post offices did not depend for a living wage on the Department of Posts. They had other primary vocations like farming, teaching or

petty trading and were men of some means engaged in public service. They were paid an allowance more akin to an honorarium than regular wages.

This postal agency system was originally designed to be a privatised form of postal service analogous to a similar system in UK where grocery or medicine stores provided basic postal services in the rural and sparse-traffic areas.

However, there have been increasing demands for wages in line with those of regular employees and for other conditions of service like leave, pension, gratuity etc. Such demands, if conceded, would negate the very principle of providing low cost services in rural areas. Considering that even under this arrangement there is substantial uncovered cost, there is in fact a need for exploring even cheaper methods for delivery of postal services in rural areas. Collection and delivery of mail in rural areas should also be entrusted to the licensed postal agent on the basis of revenue sharing as has been done for collection of speed post articles in urban centres. The addressee collecting it from the existing nearest retail outlets of the department should replace delivery of postal articles at the doorstep.

Speed Post

Low-cost universal postal services not only yielded low revenues but also provided the lowest common denominator in terms of service efficiency, which did not satisfy the niche segments in a highly diversified communication market. Taking advantage of the infirmities of law, vast areas of inefficiency of the universal service and the emerging needs of the market, a large number of privately run couriers came into being and eroded the market-share of the Department of Posts. The Department of Posts reacted to the challenge by introducing a new service called Speed Post for the top end of market at a higher price.

Speed Post which carried 11,19,000 articles and earned a revenue of Rs 3.17 crore in 1987-88 has grown about nineteen times to carry 1,95,95,000 articles in 1998-99 and earn a revenue of Rs 91.36 crore. The size of the courier market is estimated to be Rs 1000 crore per annum. Speed Post currently has less than 10 per cent market share.

It has to diversify its product profile by identifying sub-niches in this customer group, carry out massive technology upgradation and calibrate the tariff through price-sensitivity analyses if it has to command a larger market share. Deploying dedicated and motorised delivery personnel should enhance its delivery reliability within a guaranteed time schedule.

The Postal Strike

The Postal Department is usually forced to take private help during its postal strikes. A postal strike is a total stop of work by the department and the help of private individuals is sought. These private individuals take over the entire working and perform all the duties of the Postal Department. Usually during the strike all the mails are sent to *Meghdooth Bhavan* from where the parcels are distributed by the private companies. Yet, it must be noted that these private individuals do not take over the entire operation but only items such as Speed Post. So the others can wait till the strike is over for there is nothing they can do anyway.

Earnings from postal services and costs

The average per unit cost and per unit revenue realisation from the different postal services rendered during the year 1992-93 is given below:

Table: Per unit gain/loss in operation of postal services

Services	Per unit cost	Per unit revenue	Unit loss(-) gain(+)	Total loss/gain	
				Loss	Gain
	(in paise)	(in paise)	(in paise)	(Rs in crores)	
Post card	154.25	15.00	- 139.25	74.01	-
Registered Letter and parcel	1036.37	600.00	- 436.37	119.00	-
Letter card (Inland)	156.50	75.00	- 81.50	66.27	-
Money order	1409.33	1096.78	- 312.55	34.13	-
Newspaper (Single)	211.72	25.67	- 186.05	32.28	-
Parcel	2210.98	1701.69	- 509.29	31.68	-
Indian Postal Order	704.88	104.98	- 599.90	13.56	-
Printed card	144.19	60.00	- 84.19	12.62	-
Newspapers (bundle)	277.53	45.11	- 232.42	11.02	-
Value payable letter and parcel	761.85	315.27	- 446.58	3.39	-
Other periodicals	327.09	128.55	- 198.54	7.35	-
Acknowledgement	137.28	100.00	- 37.28	2.45	-
Letter	177.75	185.09	+ 7.34	-	9.45
Book pattern and sample packet	228.25	178.93	- 49.32	6.69	-
Speed post	938.33	3976.00	+3037.67	-	16.40
Insured letter & parcel	1375.86	1101.00	- 274.86	1.87	-
Telegraphic money order	1310.43	1296.78	- 13.65	0.03	-
Printed books	294.20	151.71	- 142.49	7.92	-
Total				424.27	25.85

Conclusion

There are three reasons for privatisation, namely; the priority of the private sector, fiscal relief and efficiency.

The priority of the private sector maintains that government should not be a competitor. The Post (or Department) competes with private companies for all types of mails—this is unfair as private competitors cannot use tax revenues to subsidise their mistakes or poor judgement calls.

Privatisation for the fiscal relief motive raises revenue to reduce the federal deficit. The efficiency rationale states that, private ownership will make the state postal service more efficient and competitive. Today, who is the Department of Posts really accountable to? The postal department lacks accountability and redistributes income from one group to another much less efficiently than private services. Private businesses are efficient because when they maximise profits under competitive conditions, they promote public welfare. Privatising the DoP (Department of Posts) would put them under the test of the market and force them to improve their efficiency and that is hard work—the government does not like that.

Efficiency in today's communication industry requires quicker adaptation to changing technologies and market conditions. Since the communication industry has been greatly affected by telecommunication, there is a need for astute managers to calculate risk and make good business decisions.

The Common Notion—Fear of Losing Rural Services

For many years, residents of the rural communities fear that privatisation might leave them with a more expensive and poorer quality postal service. To calm those fears, measures to protect rural dwellers need to accompany deregulation and privatisation. If mail delivery is an essential service, the government can invite private companies to bid against each other for the right to provide rural delivery for the least subsidy. The government then provides a direct subsidy to rural mail deliverers and the competition for the least subsidy satisfies rural residents.

Why and How Privatisation Will Help

1. Best service at the lowest price without draining the public treasury—“not so for government.”

Someone might argue that the DoP was initially essential to provide universal service at a uniform price to unify the country but this was before the wide spread of telephone, fax machines, computer networks and easy transportation. Mail was an essential mode of communication aiding the development of modes of transportation and the economy. These tasks have however been accomplished. The advent of electronic communication has reduced the urgency of the postal task. The remaining task is simply to provide the best service at the lowest price without draining the public treasury, and this is largely a private-sector role e.g., Computerisation of DoP.

Objectives of computerisation

- a) To lay stress on an efficient network; improvement in productivity, customer satisfaction through responsive, qualitative and quantitative services, improvement in working conditions and human resources development.
- b) To provide prompt, efficient, reliable and wide ranging services to customers.
- c) To strive for improvement of financial services through induction of appropriate technology.
- d) To realise untapped potential in the philatelic arena.

Current status

Computerisation commenced with the induction of multipurpose counter machines thus providing a single window to a customer for all transactions. Having succeeded at this initial stage it has grown by integrating several functions into the network.

2. Subsidise delivery to remote areas

Almost all areas would benefit from the most reliable and responsive service that private postal companies operating in a competitive market can provide. Residents of rural areas might fear that they would lose local services but their fear has been eased with the solution of the parliament mandating services or subsidising delivery to remote areas.

3. Creating an incentive structure

There is no initiative for the Department of Posts to behave efficiently or earn profits because no one can capture gains from this efficiency. Private services provides piece rate salary, benefits and other perks to efficient workers whereas, the government does not. New work norms incorporating higher productivity in every sphere of postal activity must be devised and introduced. A pay system based on merit rather

than on seniority would also provide more incentive for efficiency. When the initiative structure changes, its potential to compete in the market will improve.

4. Cutting down cost by improving technology

There is plenty of room for cutting costs by thorough mechanisation, recognition of functions, liberalisation of work rules and introduction of incentive system into the wage and salary scales, instead of the severe compression now existing

The Department of Post continues to own and operate a large number of ancillary logistic services even though outsourcing these would be a cheaper alternative. Physical transmission of written message is getting outdated because of new means of electronic mail.

The future of the department depends upon its ability to adopt new technology. Technology is the survival kit and competitive edge of any modern organisation. It has totally changed the way business is conducted especially in the communication sector. Physical exchange of data and message is fast being replaced by electronic exchange through the worldwide web. The constraints of physical transportation by surface or air are fast disappearing which has the tremendous potential of relieving an end-service provider like the Department of Posts of its reliance on physical carriers like railways and airlines.

The Post has to choose to become an e-mail operator instead of a snail-mail operator if it has to survive competition.

The jobs of postal employees are already at risk from technology. Even though they resist change, postal workers have a better chance of maintaining jobs in a competitive industry if they begin working for a privatised company before it is too late.

5. Efficiency Gains

Efficiency can be improved and competition overcome by

1. Expanding the range of services offered at the postal outlets
2. Exploiting delivery service in combination with existing electronic communications
3. Making post offices multi-service centres playing the roles of:
 - a. Mail centres
 - b. Information hubs
 - c. Local warehouses
 - d. Community communication centres

The postman shall be a multi-tasked man for

- a. Pick-up
- b. Delivery
- c. Taking orders
- d. Conducting transactions and providing advice and information

The postal department also needs to do the following in future:

- a. Gearing the infrastructure for the age of convergence
- b. Consolidation of the post and mail processing offices, by merging the smaller units into the larger ones, optimises the capacity to handle volumes, without compromising on reach and frequency

- c. Expansion through the set-up of new offices with multi-dimensional activity using multitasked “supermen”

6. A change in the overall structure of the DoP

The government needs to divest the Department of Posts into the following three parts before selling it to the private company.

- a. Regional delivery companies
- b. A clearing house support service company
- c. A bulk mail company

The bulk mail company should be sold separately and first. The centralised administration would become a clearing house support service company. The country could then be divided into postal regions each serviced by a regional company.

Working

The regional distribution companies each comprising of adjacent districts would collect and sort outgoing mail and sort and deliver incoming mail. These regional companies could provide complete delivery between any two points within their region.

Private haulers could compete to carry mail between the local delivery areas within a region and charge by weights. Alternatively, the regional operating company could provide their service itself. Where volume warranted, the regional companies would transport letters collected in their own region to another company in another region with which it had a bilateral arrangement and pay for this delivery.

Postal companies would have to transport mail to the destination region for deliveries outside their region and have an arrangement with the regional company to deliver the mail to the destination address. Alternatively, regional operating companies could transport mail to be delivered in other regions to the hub of a clearing house support services company.

At the hub, the clearinghouse would sort bulk containers for sending and receiving between regional centers, facilitating the transaction of bulk mail between regional companies. Regional companies could then provide one or two-day mail service between the sectional centres.

What about the Postal Strikes?

As disconcerting as strikes are, they are not the source but a symptom of the Department of Posts' problem. It is the exclusive privilege that prevents other companies from stepping into the gap and offering postal services. Under the privatised, divested, and deregulated regional postal system, strikes and work stoppage in one region need not influence operations in other regions.

Regional strikes and shutdowns would take only one local carrier out of the picture temporarily and give competitive local companies an opportunity to increase their market share.

Do not Miss this Chance

We have tried to incorporate the learning from global postal reforms and have provided comprehensive recommendations covering all aspects based on our understanding of the Indian postal scenario. But this is a very old institution, perhaps one of the oldest and thus it has developed many abominable facets along the course of its evolution.

Understanding such an institution with the meager experience and time available to us is necessarily going to be limited. Thus the reforms that we have suggested are indicative and more so for the purpose. Nevertheless, there is opportunity to set the postal industry straight.

We can all hope it is not missed.

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