

**Postal Services in a Rapidly Developing IT and  
Telecommunications World - The Case  
For Postal Sector Reform in Egypt\***

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## Abstract

This paper analyzes the status of Egypt's postal services and explores options to recommend a reform package to enhance the sector's efficiency and competitiveness. The study compares performance indicators of Egypt's postal services to those in other countries, and concludes that a vicious circle of low demand, low investment, and low quality of service characterize the current state of service provision in Egypt.

Based on experience elsewhere, there are two types of reform packages: corporatization and commercialization models; and market-based reform models. The current institutional and regulatory status of Egypt's postal sector suggests that ENPO's legal status satisfies the main requirements of the corporatization model. However, various constraints on its commercialization exist. The most important of these constraints are heavily controlled domestic service prices and lack of compensation for the burden of universal obligation. As for market-based reforms, Egypt has not started the process yet. The next phase of reform requires a strategy to enhance competition, separate regulatory and management roles, and reduce the burden of universal service obligation.

## ملخص

تتناول هذه الورقة بالدراسة والتحليل قطاع الخدمات البريدية في مصر وتستعرض البدائل المختلفة من أجل الوصول إلى حزمة من الإصلاحات الهادفة إلى رفع كفاءة وتنافسية هذا القطاع. وفي هذا الصدد، تقوم الدراسة بمقارنة مؤشرات أداء هذا القطاع في مصر مع نظيراتها في بعض الدول الأخرى، وتخلص إلى أن الخدمات البريدية في مصر تعاني من حلقة مفرغة تتمثل في ضعف كل من الطلب ومعدل الاستثمار ومستوى جودة الخدمة.

واستناداً إلى تجارب الدول الأخرى، هناك نوعان من إستراتيجيات الإصلاح تتبناها الدول المختلفة: يعتمد الأول على توفير الهيكل المستقل للهيئة المقدمة للخدمة وضمان تبني القواعد الاقتصادية السليمة لمزاولة النشاط. وتشير الدراسة إلى أن الهيكل القانوني والمؤسسي للهيئة القومية للبريد يتماشى إلى حد بعيد مع الاستقلال المطلوب. ورغم ذلك، فإن الهيئة تواجه عدة عوائق في تبني القواعد الاقتصادية، أهمها عدم مرونة أسعار الخدمات المحلية وعدم الالتزام بالتعويض الكامل للهيئة عن عبء شمولية الخدمة. أما بالنسبة للنوع الثاني من إستراتيجيات الإصلاح، والذي يسعى إلى إرساء قواعد تنظيمية أشمل لنشاط الخدمات البريدية بما يشجع قوى السوق والمنافسة، فإن هذا المستوى من الإصلاح لم يبدأ بعد في مصر. وتستنزم المرحلة التالية من جهود الإصلاح النظر بعين الاعتبار نحو تبني إستراتيجية إصلاح متكاملة تسعى لزيادة المنافسة وفصل دور الجهة الرقابية عن الجهة المسؤولة عن الإدارة، والتركيز على الوسائل المختلفة لتخفيض عبء شمولية الخدمة.

## **I. Introduction**

Postal services are a key input of virtually every enterprise in a developed economy. Thus, introducing reforms that enhance the sector's economic efficiency has positive welfare and growth consequences for any economy. At the same time, the link between competition and enhanced efficiency has become stronger in both the theoretical literature on regulation of utilities, as well as empirical evidence from countries implementing or considering such reforms.

This paper relies on the literature on economic regulation of utilities and postal sector reform, as well as a wide range of country experiences, to analyze the status of Egypt's postal services and to suggest the main features of a reform package that will enhance the sector's efficiency and competitiveness. Section II presents performance indicators of Egypt's postal industry, with emphasis on how they compare to those of other countries. It also surveys developments in overlapping markets such as Information Technology (IT), telecommunications and courier delivery. Section III discusses reforms implemented in different countries, highlighting the main features of market-based reforms and corporatization models. Section IV presents the current institutional and regulatory status of Egypt's postal sector and recommends regulatory and corporatization reforms to advance Egypt's development agenda in this sector. Finally, Section V concludes the paper.

## **II. Egypt's Postal Services**

This section presents the main features of Egypt's postal industry, with emphasis on how its performance indicators compare to those of other countries, and the growing competition from overlapping markets in IT and courier delivery services. Careful examination of the demand and supply conditions in this market, and in closely-related IT and information markets, highlights the pattern of strengths and weaknesses in Egypt's postal services, thereby supporting any recommendations for the reform of this sector.

### ***Performance Indicators of the Egyptian National Postal Organization***

Egypt's postal services comprise traditional 'core' services provided by postal authorities in the majority of countries. These services include the delivery of addressed letters and parcels, as well as the operation of a number of financial services such as the management of postal service and current accounts, the issuance and delivery of money orders, as well as agency services where the postal authority

performs some activities on behalf of the government, for instance, the sale of duty stamps, the disbursement of pension payments, and the issuance of vehicle licenses.

Delivery services represent the ‘core’ of postal services because of the volume and network characteristics that support regularly scheduled, dense<sup>1</sup> deliveries in a region.<sup>2</sup> Also, because of economies of scope in the form of existing networks of postal offices, financial services represent a typical component of postal services in both developing and developed countries.

Examining the size of these services in Egypt relative to developing countries can be the starting point in assessing the sector’s performance and its potential for growth. The performance of developed countries in this area is not comparable to developing countries due to their level of economic activity which guarantees sufficient traffic flows that eliminate excess capacity possibly associated with universal service commitments. Therefore, the comparison in this section is limited to indicators from the developing world.

The most basic set of performance indicators are delivery indicators per capita. The performance of Egypt’s postal services relative to other developing regions in 1997 appears in Figures 1-2. These indicators show that Egypt’s combined per capita flow of domestic and dispatched international letters is low (3.3 pieces per capita) even when compared to regions such as Africa (7 pieces per capita) and Arab countries (7.6 pieces per capita). When looking at each group separately (domestic vs. international dispatch), we find that an inhabitant’s share of international traffic does not differ significantly across regions (0.4-2.6 per capita annually). The discrepancy, however, arises from demand for domestic traffic.

Similarly, per capita flows of parcels in Egypt is the lowest compared to all other regions (0.03 and 0.003 for every 1000 inhabitants), in contrast to flows that reach close to 150 pieces per 1000 inhabitants in Latin America and Eastern Europe and the Commonwealth of Independent States (CIS). Again, and similar to indicators for letter traffic, domestic parcel flows in Egypt appear to be the source of the limited

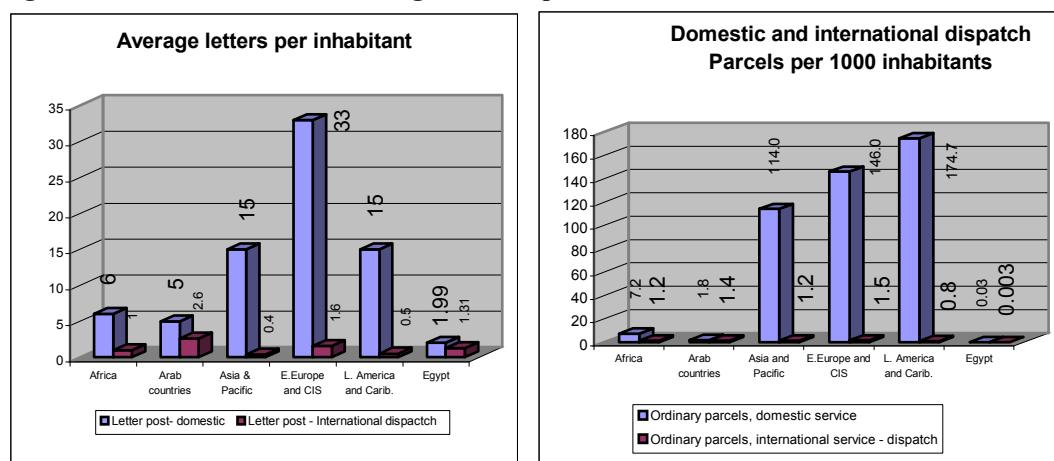
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<sup>1</sup> ‘Dense’ means a delivery network that delivers to or passes near every delivery point in a region.

<sup>2</sup> The goods that fall most directly within this ‘core business’ include personal letters, postcards, bills, invoices, payments, direct advertising and written personal communications of various kinds. Whether the daily volume of these goods is sufficient to support regularly scheduled delivery routes throughout a country is an empirical question, and one that underlies the universal service obligation. OECD (2001); Biggar (2001), Background note, p.20.

flow, with internationally dispatched parcels exhibiting a smaller gap when compared to those of other regions.

**Figures 1-2: Letters and Parcels: Regional Comparisons, 1997**

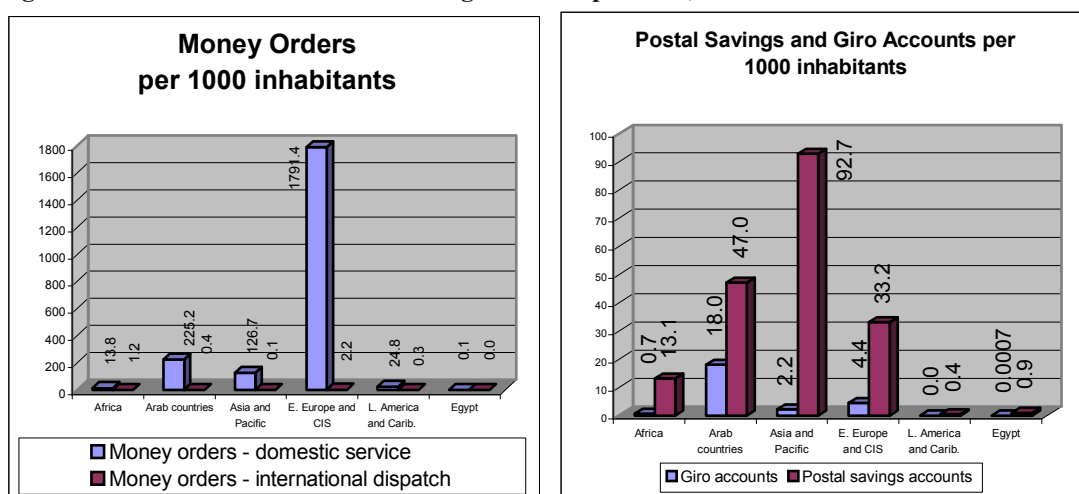


Source: United Postal Union, www.upu.org.

In terms of financial services typically provided by postal services around the world, we find that money orders, postal savings accounts and Giro<sup>3</sup> accounts stand out as the main ‘core financial services.’ Examining these three groups of services in developing countries, we again observe that Egypt’s performance, while more similar to other parts of the world, has the lowest number of money orders issued per capita per year (Figure 3-4). The number of Giro accounts per 1000 inhabitants is low across the board, with only Arab countries showing two-digit values. Egypt has the second lowest number. As for postal savings accounts, Asia and Pacific, Arab countries, and Eastern Europe and the CIS have the largest numbers per 1000 inhabitants. Only the group of Latin American and Caribbean countries has a lower number of postal savings accounts than Egypt.

<sup>3</sup> A Giro account is a business account available to private entities. Giro account funds are accumulated through cash deposits, transfers, cash payment orders and similar instruments of payment operations (Source: [www.hypo-alpe-adria.hr/racuni.asp](http://www.hypo-alpe-adria.hr/racuni.asp) ).

**Figure 3-4: Postal Financial Services: Regional Comparisons, 1997**



Source: United Postal Union, www.upu.org.

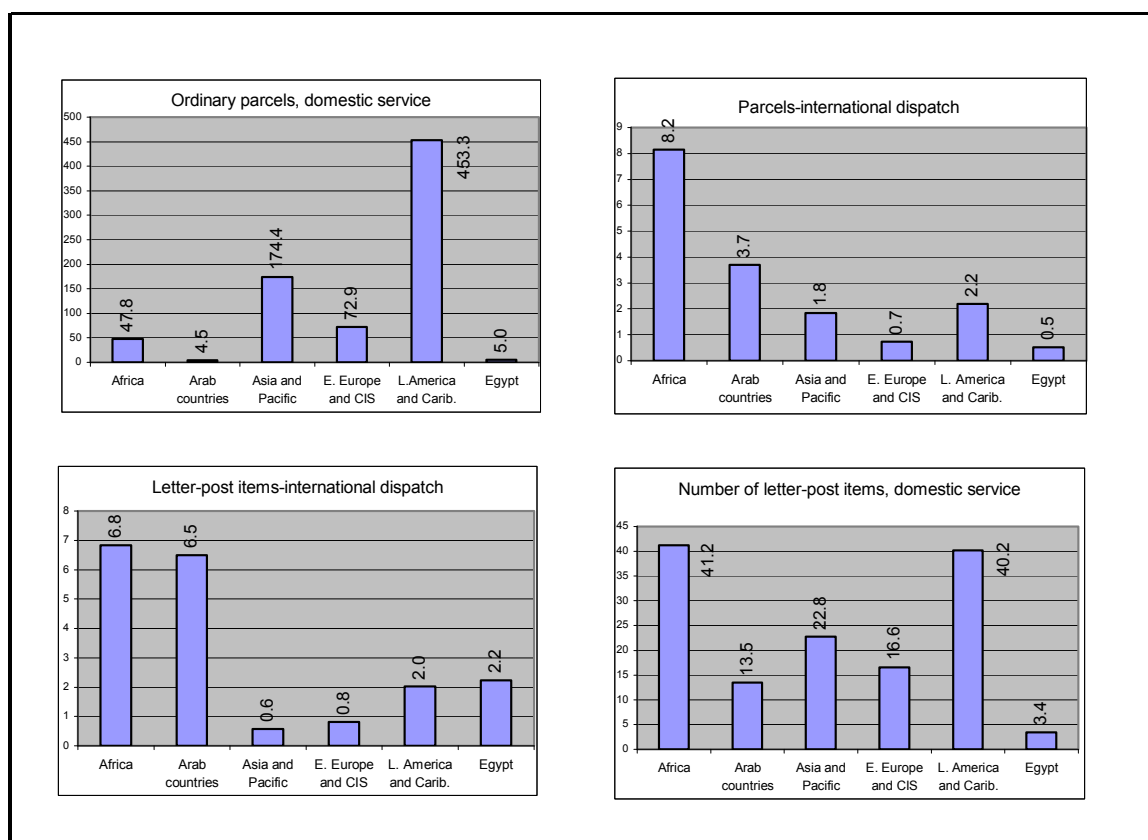
As for indicators reflecting the commitment to universal service obligations, Egypt's obligation is comprehensive with only 1 percent of the population without access to mail service and 98 percent of the population receiving postal material at home. The average number of individuals served by each postal office is 8,948 compared to countries in the region that serve a significantly larger number such as Qatar (23,600); Saudi Arabia (13,400); and Syria (22,000). In Latin America, countries that serve more inhabitants per office include Brazil (13,836); Chile (27,014); and Colombia (25,900).

In terms of operational efficiency, the Egyptian National Postal Organization (ENPO) employs close to 40,000 workers, with an average number of workers per permanent postal establishment of 5.25. This is not different for postal establishments in other parts of the world where it is 5.88, 5.92, 5.66, and 4.65 for Africa, Arab countries, Asia and Pacific, and Latin America, respectively. The only group of countries with a significantly higher ratio are the industrialized countries where the average number of postal workers is 12.63 per establishment. This is probably a function of the high volume of delivery and financial services provided in industrialized countries. Therefore, the worker/establishment ratio in Egypt is not different from other parts of the developing world.

Output per worker, however, is low in Egypt (Figure 5). The most striking differences, as can be expected, appear in the delivery of domestic letters where the average number of pieces delivered in Egypt in 1997 was 3,385 per worker compared

to output that reaches around 40,000 pieces per worker in Africa and Latin America. An Egyptian postal worker, by contrast, delivered 2,236 pieces of internationally bound mail in 1997. This is higher than corresponding numbers for Latin America, Eastern Europe and the CIS, and Asia and the Pacific regions. The highest figures in this category are for the African and Arab countries.

**Figure 5: Output per Postal Worker: Regional Comparisons, 1997**

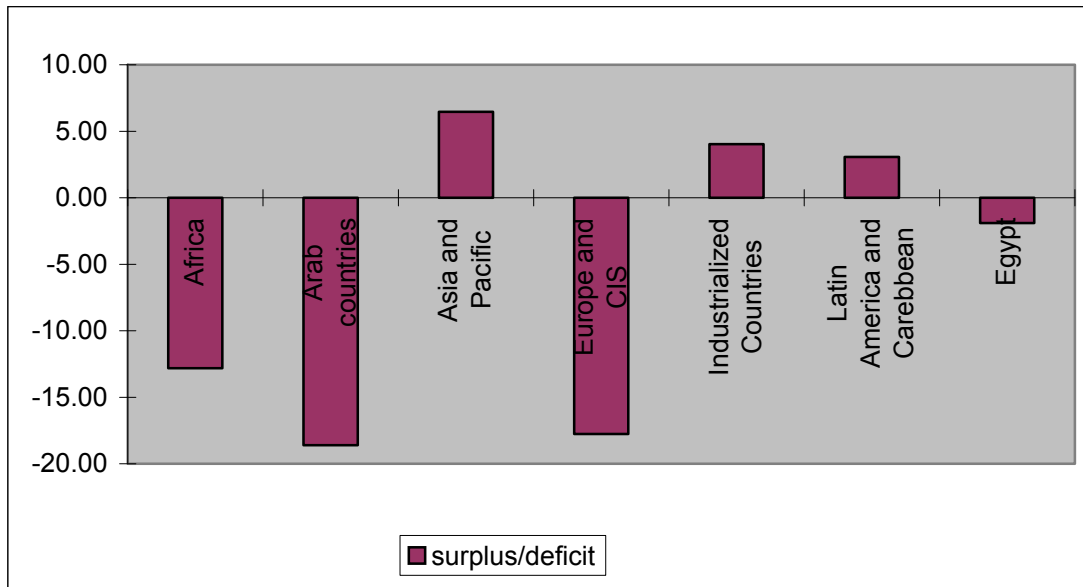


Source: United Postal Union, www.upu.org.

Despite these poor demand and operational performance indicators, ENPO incurred a small deficit of around 1 percent in 1997, which turned into a slight surplus in 1999 when current expenditures accounted for 98 percent of total revenues.<sup>4</sup> This ‘break even’ situation is not typical of postal authorities in different parts of the world, with deficits reaching over 15 percent of revenues for regions such as the Arab countries, Africa, and Eastern Europe and CIS countries (Figure 6).

<sup>4</sup> This is in contrast to statistics from middle-income economies that show they are running huge losses (15 percent of sales), whereas high-income economies almost break even (-1.5 percent returns on sales) Ranganathan and Dey (1998), p. 6. Even postal operators in some developed countries incur sizable losses. For example, in 1998, Italy, Spain and Belgium incurred losses equal to more than 40 percent of revenues. Biggar (2001), p. 28.

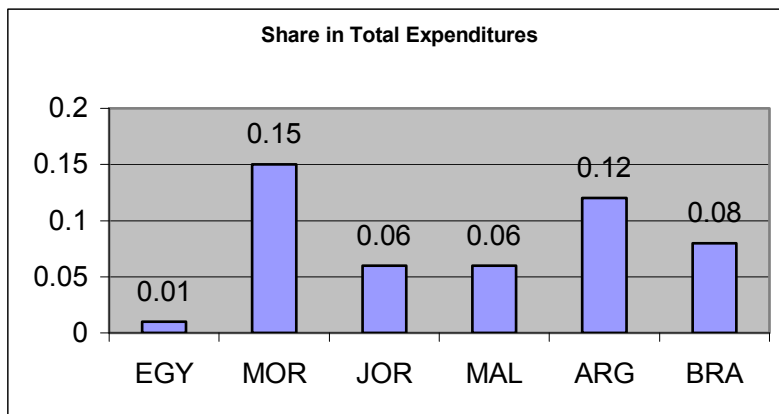
**Figure 6: Current Operation Results in Postal Authorities: Regional Comparisons, 1997**



Source: United Postal Union, www.upu.org.

ENPO's financial balance, however, was at the expense of investment expenditures. Thus, unlike other public authorities in Egypt, ENPO's position has been self-sufficiency in investment expenditures without resorting to loans or government subsidies to meet investment needs. This meant that for several years investment expenditures were limited, accounting for around 1 percent of total current expenditures. This is in contrast to investment expenditures in other developing countries that reach multiples of this level (Figure 7).

**Figure 7: Investment Expenditures in Selected Developing Countries, 1999**



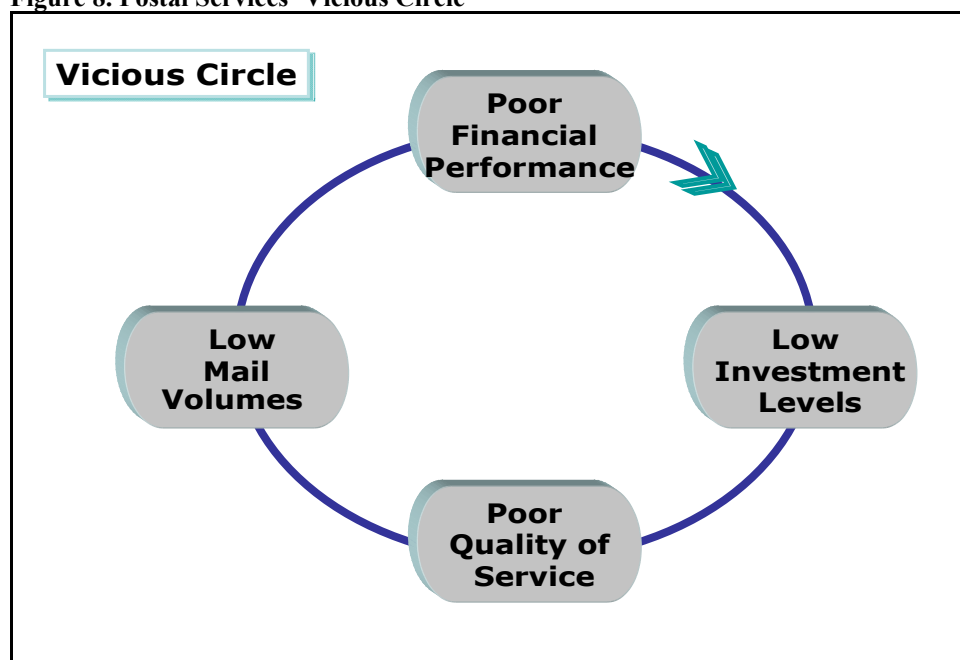
Source: United Postal Union, www.upu.org.

As a result of demand, productivity, financial results and investment patterns, ENPO appears to exhibit patterns of the vicious circle that many developing



countries' postal authorities face: low demand volumes that result in poor financial performance which translate into low investment levels causing reductions in the quality of service that lead to further cycles of depressed demand (Figure 8). In addition, competition from other sectors and services exert additional pressure on postal services.

**Figure 8. Postal Services' Vicious Circle**



Source: Ranganathan and Dey (1998), p. 10.

The next section discusses patterns of closely related markets such as IT and telecommunication services. In addition to private courier services, these services are considered the main sources of competition facing traditional postal services. In many developing and developed countries, pressures from these sectors trigger reforms in the public entity responsible for traditional postal services. The following section focuses on IT and telecommunication developments in Egypt in the past few years. Developments in the courier service industry will be discussed in detail in Section IV in the context of market-based reforms.

### ***Competition from Other Services: Telecommunications and Information Technology***

Telecommunication services are becoming an important substitute for a significant proportion of certain categories of mail.<sup>5</sup> For example, mobile and fixed-line phone calls as well as electronic mail are increasingly relied upon for personal communication. Additionally, faxes and e-mail are becoming main features of

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<sup>5</sup> OECD (2001).

business communication, supplying faster, more reliable and less expensive substitutes to postal services for some forms of mail delivery. As a result, trends to expand these services in developing and developed countries are perceived as competition to traditional postal services. This section surveys trends in these markets in Egypt and analyzes whether technological developments reduce the demand for postal services in Egypt or whether they could complement reform efforts.

Egypt has witnessed significant developments in both basic telecommunication services and access to the Internet (or e-mail service) in the past decade. These trends are expected to reduce demand for traditional postal services, especially with limited developments in e-commerce in the country. Therefore, it appears that the ‘substitution impact’ of developments in IT and telecommunications outweigh the ‘complementary impact’ that requires expansion in e-commerce activities. The latter is delayed because of the need to establish the right financial instruments not yet adopted by Egyptian consumers and businesses.

Examining Egypt’s indicators for telecommunications and IT, we observe the following: current indicators still exhibit limited service in Egypt compared to other regions. So, for example, fixed lines per 100 inhabitants were only 8.64 in the year 2000, a figure that is only higher than that of Africa and just over half the world average of 16.17 lines per 100 inhabitants. Similarly, cellular (mobile) phone subscriptions per 100 individuals are still low compared to other regions in the world with Egypt’s indicator of 2.14 subscribers per 100 inhabitants, compared to a world average of 12 (Table 1).

**Table 1: Cellular Phone Subscribers, Egypt and Other Parts of the World, 2000**

Region	1995 (000)	2000 (000)	Average annual growth rate (%)	% of total telephone subscribers	Cellular subscriber per 100 inhabitants	Main lines per 100 inhabitants
<b>Egypt</b>	7	1,360	183.9	19.9	2.14	8.64
<b>Africa</b>	652	15,647	88.8	44.3	1.98	2.48
<b>Americas</b>	40,257	181,319	35.1	38.5	21.98	35.18
<b>Asia</b>	23,105	240,249	59.7	40.8	6.59	9.55
<b>Europe</b>	24,084	291,789	64.7	48.1	36.56	39.43
<b>Oceania</b>	26,183	10,890	33.0	46.8	35.87	40.62
<b>World Total</b>	90,716	739,893	52.2	42.9	12.15	16.17

Source: ITU, [www.itu.org](http://www.itu.org).

As indicators of competition replacing traditional mail services, IT and Internet use exhibit a similar picture as rates in 1998 compare poorly to other regions of the world (Table 2). Internet users in Egypt were 16.3 per 100,000 inhabitants, which is even lower than the average for African countries (22.0), while the world average is 270 per 100,000 inhabitants. Estimated PC use and Internet hosts per 10,000 inhabitants give more or less the same position for Egypt.

**Table 2: Information Technology and Internet Use: Egypt and other Parts of the World, 1998**

Region	Internet			Estimated PCs		
	Hosts total (1000)	Hosts per 10,000 inhabitants	Users (000)	Users per 100,000	total (000)	per 100 inhabitants
<b>Egypt</b>	2.4	0.4	100.0	16.3	600	0.98
<b>Africa</b>	157.6	2.1	1,633.3	22.0	5,027	0.77
<b>Americas</b>	32,099.3	399.3	74,047.2	921.2	149,350	19.23
<b>Asia</b>	2,626.2	7.5	32,435.6	95.5	71,843	2.15
<b>Europe</b>	7,729.6	97.4	42,816.2	539.3	102,683	13.2
<b>Oceania</b>	932.6	315.1	4,822.7	1652.8	8,014	34.46
<b>World Total</b>	43,545.2	73.9	155,754.9	270.1	336,916	6.05

Source: International Telecommunication Union, ITU, [www.itu.org](http://www.itu.org).

The trend for telecommunications and IT development in Egypt in the past 3-4 years, however, has accelerated drastically (Table 3). For instance, between October 1999 and February 2002, fixed line subscribers increased some 40 percent and projections for June 2002 indicate the increase will reach 50 percent over a period of less than two years. The number of mobile phone subscribers in February 2002 reached 5.4 times the subscriptions in October 1999. The size of the Internet user population has also multiplied and in June 2002 is expected to reach four times the rate in October 1999. These recent trends indicate that in the near future, Egypt's IT and telecommunication statistics are not expected to remain low, adding to the competition faced by traditional postal services.<sup>6</sup> If that is taken into account, the expected impact of these projections on postal services will be negative adding to the factors driving the vicious circle pattern previously discussed.

<sup>6</sup> The growth of mobile phone subscriptions by 183 percent annually over the period 1995-2000 (which is the highest in the world) is also expected to add to the growth momentum in these markets, either in terms of substituting phone calls or freeing up fixed phone lines for Internet access.

**Table 3: Actual and Projected Communication and Information Plan**

Indicator	Oct-99	Feb-02	Jun-02
Fixed Line Capacity (million)	6.4	8.9	9.2
Fixed Line Subscriber (million)	4.9	6.88	7.3
Mobile Phone Subscriber	654,014	3.5 million	3.7 million
Internet Users	300,000	1.07 million	1.2 million
Internet Monthly Fees (LE)	100	Domestic phone call cost	Free in 15 governorates
Companies in Internet and Telecom Field	266	682	682
Internet Clubs and Cafes	30	325	350

Source: Ministry of Information and Telecommunications.

While estimates for Egypt do not exist on how actual or projected developments in IT and telecommunication services impact the demand for traditional postal services, estimates for the US suggest that in the last five years the postal service has lost about 35 percent of its business-to-business first class mail to e-mail, teleconferencing, and faxing. These electronic services especially e-mail and faxes are cutting into the service's first-class mail business, which generates 57 percent of its revenues. Similar concerns are echoed by Canada Post: "Letter mail volumes no longer keep pace with general economic growth, having been eroded by competition from courier services and electronic alternatives such as fax, electronic mail and electronic fund transfer. The dominant users of Canada Post's letter mail services – banks, utilities, credit card companies and other businesses – are especially likely to adapt to electronic alternatives where it is cost effective to do so." A study conducted by Coopers and Lybrand for the European Commission (EC) found that physical mail substitution rates would be highest in the business-to-business market and business-to-residential markets. The study found gross substitution rates of 15-30 percent overall, depending on operator and country characteristics.<sup>7</sup>

On the other hand, while it is probable that Internet and telecommunication services can support demand for postal services, Egypt's e-commerce lags and remaining barriers are blocking any short-term potential for its growth. El-Nawawy

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<sup>7</sup> Biggar (2001), p.25.

and Ismail (1999) highlight the limited market size (by virtue of Internet access, limited credit card use, and language barriers) as well as the absence of the institutional infrastructure to support and protect this activity as reasons responsible for the continued challenges facing any potential for e-commerce in Egypt. For instance, it was reported that in 1998, only 10 websites offered some level of transactional back office and clearance mechanism to provide some form of Internet-enabled acquisition of goods and services.<sup>8</sup>

Therefore, the conclusion is that while Egypt's current IT and telecommunication conditions are not as threatening to postal services as they are in more developed countries, the progress in these areas is sufficient enough to increase competitive pressures on postal services. At the same time, slow development in e-commerce and the lack of any significant increase in mail-order delivery result in a net negative impact on telecommunications development in Egypt, which is basically the substitution of letter and document traffic from regular mail in favor of telecommunications and electronic means. This slow progress in e-commerce is due to both the institutional and regulatory framework of the banking system, as well as business practices of the economy as a whole.

Other countries' experiences suggest that this environment, where the threat of competition is perceived as severing important 'value-added' postal markets, triggers postal sector reform. In addition, postal reform in many countries has been part of more comprehensive strategies for improving government services. These two conditions materialize in Egypt, especially with the Ministry of Finance sponsoring a program where expenditures in various government bodies are linked to performance indicators and tangible outcomes. Thus, with the environment indicating that postal reform is needed and feasible, the need to analyze postal reform options becomes necessary. The next section highlights the distinguishing features of postal reform programs.

### **III. Main Features of Reform Implemented in Other Countries**

There are generally two 'levels' of reform adopted by countries restructuring their postal services. The first level is one of corporatization and commercialization. The characterizing feature of this approach is the introduction of a 'hard budget constraint' on the national operator with incentives to behave as a large (still protected) private

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<sup>8</sup> See El-Nawawy (2000) for more information about Internet and IT user profiles in Egypt.

entity. To achieve this goal, many countries require changing the legal structure of the postal operator to allow it more independence in its commercialization efforts. This step is referred to in the literature as corporatization. The second level is based on a comprehensive sector reform model that attempts to address the market structure and regulatory issues. The philosophy of reform in this second approach is to ensure sufficient competition in postal services. It also emphasizes the role of regulation to address market failure issues in the sector.

### ***Corporatization and Commercialization of Incumbent Postal Operators***

Many countries treat corporatization and commercialization as the first stage of the reform process; others consider them adequate reform measures by themselves. Ideally, countries embarking on postal market reforms should rely on both approaches. This section highlights the main features of each of these models with examples from countries that have chosen to initiate reform in postal services.

As providers of postal services to all citizens of a country, postal services have been, and still are in the majority of countries, under some form of public ownership. However, due to waves of reform efforts in many countries, a number of managerial structures have developed to ensure adequate provision of postal services and commitment to universal service, yet guarantee accountability and autonomy in day-to-day management and operation decisions. The legal structures of postal operators vary significantly across countries, but they can be grouped in four main categories, in increasing order of enterprise autonomy:<sup>9</sup>

1. A government department under the jurisdiction of a ministry or state secretariat, or an independent ministry;
2. A statutory corporation (also referred to elsewhere as a public corporation or public enterprise), which is generally wholly government owned and is controlled by the parliamentary government or a special committee;
3. A limited liability company that is majority owned by the government;
4. A privatized company, in which the controlling interest or full ownership lies with the private sector.

The majority of postal operators lie in categories 2 and 3. Very few countries continue to operate their postal providers as government departments in ministries. As for category 4, a privatized national postal provider, only the Netherlands has opted

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<sup>9</sup> Ranganathan and Dey (1998) p.69, with some modifications by the author.

for this model. Thus, we focus here on categories 2 and 3 as the most relevant options in analyzing corporatization and commercialization models.<sup>10</sup>

To meet the **corporatization** model, the relationship between the government and the postal provider is defined under a postal act (law) or through a contract that defines its rights and obligations as an entity independent from the government. These rights and obligations are a reflection of the collective objective that a country decides what is appropriate for its social and economic goals. Yet, the law or contract guarantees the operator the autonomy to conduct other aspects of its operation in a commercially-motivated manner. Thus, in a corporatized model, the operator is capable of responding flexibly and efficiently to the postal needs of the national market subject to the terms specified in the law or the contract. Typically, these terms cover the following:

1. A well-defined form of universal service obligation that the operator is required to guarantee;
2. Conditions that grant the service extra powers, such as the exclusive right to provide a particular postal service (reserved area); and
3. Deviations from company laws that give the operator extra privileges or impose obligations (e.g. exemption from paying taxes and the obligation to use the national carrier).

Thus, the defining feature of the corporatization model is the explicit separation of ownership and management, clearly demarcating the role of the government as owner of the enterprise and that of the manager responsible for the operation of the enterprise, either in the short-term day-to-day context or even in the strategic and long-term planning of its operation. As a result, corporatization is perceived in many instances, as the first step toward a more complete process of commercialization.

**Commercialization**, in contrast, is the process of introducing market principles into postal administrations. Commercialization need not necessarily follow or precede corporatization. Postal administrations can improve the quality of services and develop financial self-sufficiency and a market-oriented outlook even without the legislative changes that accompany corporatization. Complete commercialization, however, cannot be achieved without the appropriate autonomy, accountability, and

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<sup>10</sup> Under alternative 4, a privatized firm may be regulated by anti-trust and other regulatory measures reducing its market power. It may also be under a 'public-private partnership' contract in which the government relies on the private company in the provision of specific postal services at an agreed-upon price-quality combination.

incentives that corporatization grants the postal service, nor can corporatization by itself lead to successful reform. Therefore, it is vital that both processes be implemented for reform to achieve its goals. Some postal administrations have chosen to first initiate the corporatization process, accompanied and followed by commercialization, in the interests of clarifying the institutional environment (the roles and responsibilities of all parties) and thereby accelerating reform.

Typically, targets of these general responsibilities are determined at the level of a 'contract' between the government as owner and the management of the autonomous public operator. In this setup, governments specify general policy guidelines such as the extent of the universal service obligation (if not clearly defined under the law), rules for repatriation of profits, price determination issues, investment requirements, or means of financing services provided below costs. Means of financing these obligations are estimated based on market conditions and are specified in the contract, other aspects of management needed to achieve financial targets are left to the operator to meet. Examples of financial obligations that some service operators have to abide by include the following:

1. To cover expenditures with revenues;
2. To recover costs, and fund all or part of capital outlays;
3. To cover costs, fund capital outlays, and pay a specified rate of return to owners.

Reformer countries have formulated various combinations of these contracts. For example, the incorporation of Sweden Post was accompanied by a three-year contract that ended in 1996. The contract required Sweden Post to generate "a return on equity comparable with that of major Swedish companies in similar industries." The government has set the long-term return on capital requirement at 11-13 percent, after tax at a standard rate.<sup>11</sup> As owner of Sweden Post, the government also specified that the equity/assets ratio at the group level shall be approximately 15 percent. From 1994 until 1996, prices were to be capped at 80 percent of the road transport price index. Sweden Post was expected to achieve productivity improvements of at least 2 percent per year. Accompanying these financial obligations, Sweden Post's universal

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<sup>11</sup> Sweden Post consistently exceeded this target for the six years preceding corporatization. Profit margins (after financial items) have also been consistently over 5 percent.



service obligation was specified as a “95 percent delivery of overnight mail and to maintain nationwide counter service of at least 2,000 outlets.”<sup>12</sup>

The contract signed between the UK Postal Office and the government has specified goals by type of service in addition to cost reduction obligations (Table 4).

**Table 4: United Kingdom Post Office Financial Goals, 1992/93**

	Royal Mail		Parcel Force		Counters		Group	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Return on Capital Employed %	15	16.3	0.0	-5.7	9.0	9.6	None	
Real Unit Cost Reduction %	0.5	0.8	None		0.5	1.6	None	
External Financing Limit £ m	None		None		None		66	80

Source: Ranganathan and Dey (1998).

Each country’s contract will ultimately have to be tailored to its own individual conditions and requirements. Typically, the postal operator and the government negotiate targets that are mutually acceptable and feasible given the market conditions and non-commercial obligations required of the postal operator. The idea of financial targets mandating financial self-sufficiency or a specified financial return are intended to encourage the postal service to increase service efficiency as well as develop new products and services that meet market needs.

### ***Market-Based Sector Reforms***

Similar to many other utilities, postal services face the twin issues of the need to regulate an industry that has aspects of market failure in some services and the need to meet non-commercial service obligations of the industry. Initially, these special features of postal services were addressed through the provision of services by a government entity that was not economically regulated, was granted statutory monopoly rights, and in return, was responsible for meeting the universal service obligation. Models that subject utilities and infrastructure services to market forces, prone to regulations to control market failure, have replaced this model.

The two basic issues addressed under market-based reforms are choosing efficient means to meet and reduce the cost of financing universal service obligations, and efforts to enhance economic efficiency by reducing monopoly power granted to national postal providers (reserved areas). The following section outlines the main

<sup>12</sup> Ranganathan and Dey (1998), p. 78.

principles involved in addressing these issues and gives reforming countries' experiences.

### *Universal Service Obligations and Alternative Financing Options*

The most common form of universal service obligation is simply the requirement to provide a (more or less) domestically uniform service – charging the same price and offering the same level of service regardless of the geographic location of the consumer.<sup>13</sup> Variations of this simple formula exist, however. In Australia, for example, the postal legislation only requires Australia Post to provide a 'reasonable standard' of letter service and 'reasonable access' to postal services, leaving it to the discretion of Australia Post to determine what is a reasonable standard and reasonable access. In contrast, the EC Postal Directive explicitly specifies that within the EU, universal service means delivery every working day and not less than five days per week (except in exceptional circumstances) to home or premises of every natural or legal person (or, under some circumstances, to appropriate installations) of postal items up to 2kgs and postal packages up to 10kgs. The EC Postal Directive, however, does not require uniform prices but merely that prices in high-cost areas be 'affordable.'

In contrast to the objective of providing a uniformly-priced service, the cost structure of postal services exhibits a non-uniform pattern which characterizes most network industries: the cost of providing postal services differs from region to region. Higher volumes and lower transportation costs in urban areas relative to rural areas create a situation where, unless required by law to abide by the universal obligation, postal operators would respond by charging more in rural areas, offering a lower quality of service (for example, delivering less frequently or not offering a doorstep delivery service), or withdrawing service entirely.

The 'simplest' and most common type of universal service obligation is when a unified price for the service is set irrespective of geographical location and the associated transportation and density ramifications. This price is typically below the price necessary to cover cost for distant (rural) areas and above the unit cost of

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<sup>13</sup> Some countries, such as Spain, have long allowed lower prices for local (intra-city) delivery (Biggar 2001, p. 52).

providing the service in dense urban areas, allowing cross-subsidization in the provision of the service under universal service obligation.<sup>14</sup>

In this context, a mechanism is necessary to prevent entrants from competing in areas where it is profitable to contend with the operator bound by universal service obligation. Competition will divert demand away from the national operator and reduce its ability to finance the universal obligation. Many countries have relied on the concept of reserved areas where by law, competition is not allowed in particular services. The operator, as a result, is guaranteed a monopolistic position where there are no competitive pressures to reduce the price. These above-cost prices allow cross-subsidization in supplying the high-cost rural service.

Two categories of concerns, however, have been raised in the universal service/reserved area setup. First, the source of funds necessary for accommodating the universal service obligation and whether additional subsidization may be needed to cover non-commercial obligations. This is necessarily a function of the market structure, the unified price, and the cost structure of the industry. In actual country experiences, such as in Australia and New Zealand, there is no need to compensate the incumbent postal operator because they manage to make sufficient profits to cover their non-commercial obligations. In addition, real prices have consistently been reduced over a number of years as result of increasing competition from private service providers. In the meantime, neither New Zealand nor Sweden reported problems maintaining service quality (OECD 2001, p.12).

The second concern relates to whether incumbent operators (whether in a partially or fully-liberalized postal market) may engage in practices such as selective discounting, tying or bundling which seek to prevent or restrict competition in potentially competitive markets (such as the markets for express mail, parcels, financial services, or post-related services). In principle, these practices could be prevented through careful disclosure requirements. Such disclosures would require accounting separation of the competitive and non-competitive components of the incumbent's postal business. In countries where there is emphasis on ensuring competition in various services and infrastructure provision, the impact of cross-subsidization and artificially regulated prices are seriously monitored since these practices allow the incumbent operator a competitive advantage in the non-reserved

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<sup>14</sup> The other possibility is that prices are controlled below cost for both urban and rural consumers, in which case a subsidy to cover the difference is necessary to sustain the service.

services, with repercussions affecting the ability of other firms to compete effectively.<sup>15</sup> This has meant that in many postal reform packages one of the main areas of focus is the reduction of reserved areas to allow market forces and competition in non-basic postal services. The next section surveys some of these country experiences.

#### *Reduction of Reserved Areas to Enhance Competition*

Two aspects of regulations have to be distinguished in building the framework for reform: regulation to guarantee competition or to simulate competitive forces in areas that are currently protected, and regulation that serves as a means of financing non-commercial obligations while allowing (and ensuring) competition in other areas. Both types are linked by the need to restrict competition in some areas to compensate the operator for meeting universal service obligations. The scope of these privileges is usually based on considerations of the cost of the primary obligations and community service obligations of the postal service, and the availability of alternative services. As a result, an accurate definition of the universal service obligation, as well as an evaluation of the financial burden it imposes on the national provider, is of absolute importance for enhancing the efficiency of postal services.

Despite this link, there is no one-to-one relationship between services that the government includes in its universal service commitment and the requirement that the provision of these services be limited to the national operator. A typical example is the case of parcels, where parcels are covered by the government's universal service obligations; they are, at the same time, a competitive activity in which new entrants are allowed to compete with the national operator in many countries.

When a monopoly is granted to a postal service operator through enabling legislation and a licensing/concession process, the normal approach is first, to specify the minimum essential extent of exclusive privileges. The geographic extent of the monopoly protection also needs to be specified. Then, the legislation specifies the extent of monopoly protection required to meet the universal obligation. Empirical research (conducted mostly on developed countries) suggests that although there

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<sup>15</sup> This has produced literature that argues that other mechanisms for financing below cost services have less harmful effects on competition. For example, the obligation could be funded through general sales tax revenues, a specific postal sector tax (such as a tax on the price of a letter's stamp), a tax on firms competing in the postal sector (such as a tax on revenues or on access charges) or a tax on the high-cost customers themselves. In the new German Postal Act, for example, the cost of universal service is shared with new entrants through a levy charged on all transactions Biggar (2001), p. 54.

appears to be economies of scale in letter mail, there seems to be no significant economies of scale in the delivery of express services, registered or larger parcels and packages.<sup>16</sup> At the same time, there are some economies of scale in the delivery network of basic letter mail. In addition, other postal services such as parcels and postal financial instruments benefit from existing letter delivery networks. All these results imply that, ideally, reform policies in the postal sector must focus on permitting competition in most postal services and to reduce the size of the reserved area, necessary only as a ‘second-best’ option for financing the socially (and economically) determined universal service obligation.

Reflecting this reform ideology, many developed (and reforming developing countries) report that competition is allowed in an increasing number of postal services, especially express mail and parcel services. Most countries prohibit competition in some segments of the postal sector, particularly in standard letter delivery (Table 5). Only New Zealand, Sweden and Finland retain no reserved areas and competitors can operate in all postal services (subject to a obtaining a license). In other countries, the boundary between the monopoly segment and the competitive segment is defined in various ways, usually based on a price limit, a weight limit, or both. In some cases, the boundaries of the monopoly also depends on the content of the mail itself, whether or not the envelope containing the mail is sealed, or the size of the envelope or postcard. The ‘reserved area’ is sometimes enforced by the regulatory authority and sometimes (as in Canada and the US) the incumbent itself. In the case of Italy and the US, competing postal operators are allowed to operate provided they pay the incumbent the full retail price for the same service.

Parcels and international mail are usually excluded from reserved areas. Weight is also a possible exemption criterion. Similarly, price criteria are sometimes applied. Other countries protect their postal services by applying a price threshold above which competitors must price their products.

Because the universal obligation is the justification for granting a postal operator the protection of a reserved area, incumbent operators’ freedom to change their tariffs is constrained in the majority of countries. Again, the ability of incumbent postal operators to change their tariffs unilaterally varies widely.

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<sup>16</sup> Refer to Table 8 OECD (2001), for a survey of empirical studies on economies of scale in different aspects of postal services.

**Table 5: Examples of Reserved Area Boundaries in the Provision of Postal Services**

Country	Reserved Area
Australia	Australia Post has a monopoly on mail items up to 250gs and at a price less than 4 times the standard letter rate. Outgoing and incoming international mail is not reserved.
Austria	The monopoly is confined to items containing written, not printed, personal communications.
Belgium	La Post has a monopoly over the collection, conveyance and delivery of closed or open 'letters' postcards, advertisements, circulars, etc. when they bear the address of the addressee, up to 1kg.
Canada	Canada Post has an exclusive privilege for the collection, transmission and delivery of letters up to 500gs to an addressee in Canada. The exclusive privilege does not extend to mail of an urgent nature delivered at a price more than 3 times the rate for addressed letters weighing 50gs.
Czech Rep.	Monopoly on sealed letters up to 1kg within certain size limits.
Denmark	The reserved area for inland and incoming international is 250gs and for inland items, it is 6 times the price of a 20g letter.
Finland	Finland has no monopoly or reserved services. A license is, however, needed to deliver mail.
Germany	The monopoly includes items up to a tariff of €5 and direct mail items weighing up to 100gs. (This monopoly is scheduled to expire on 31 December 2002).
Greece	The Hellenic Post has a monopoly on the conveyance of unsealed and sealed 'letters' and postcards.
Hungary	The letter post services are reserved. Hungary Post also has the exclusive right to issue postage stamps, money orders and postal stationary.
Ireland	The incumbent operator has a monopoly on 'postal packets' within, to, and from Ireland. Postal packets do not include express mail, newspapers or parcels.
Italy	Collection and delivery of ordinary insured and registered letters weighing up to 2kgs.
Japan	Transportation of letters is reserved for Japan Post.
Korea	Korea Post has a monopoly on letter-post items (small packets, parcels, printed matter, periodicals are not reserved).
Luxembourg	Monopoly over the conveyance and delivery of letters and postcards.
Mexico	Monopoly on letters weighing up to 1kg and within certain size limits.
Netherlands	The incumbent operator operates partly under an exclusive concession for the transport of letters weighing up to 50gs.
New Zealand	No reserved services.
Norway	Norway Post has a monopoly on letters up to 350gs at a price 5 times the basic domestic tariff.
Poland	Monopoly over acceptance, conveyance and delivery of letter-post items up to 2kgs.
Portugal	Monopoly over the acceptance, conveyance and delivery of all sealed correspondence, postcards and other written communications, even those that are unsealed provided that their contents are of a personal nature; the issue and sale of stamps and other postal values; the public fax service.
Spain	Monopoly over all letters and postcards carried inter-city. Letter for collection and delivery in the same town (intra-urban traffic) and postcards are not reserved.
Sweden	No reserved services.
Switzerland	Monopoly over letters up to 500gs and parcels up to 2kgs.
Turkey	Sealed or unsealed letters and postcards are subject to the postal monopoly.
UK	The Post Office has a monopoly on letters below £1 subject to certain exceptions.
USA	The US Postal Service has the exclusive right to carry letters under the 'Private Express Statutes.' The exclusive right is subject to a number of exceptions and has been suspended, subject to some conditions, for extremely urgent letters and outbound international letters.

Source: OECD (2001).

Price changes of basic letter tariffs require the approval of the government, even in countries such as New Zealand and Sweden where their postal operators are free to set all other prices. However, regulations in these two countries are in the form of a predetermined price cap formula according to which the price of a standard letter cannot rise faster than the domestic rate of inflation.

#### **IV. Postal Sector Reform in Egypt**

This section compares the main features of Egypt's postal services market and the reform criteria discussed in Section III. The purpose is to analyze the institutional and regulatory status quo in Egypt and propose recommendations that build on existing features. The two main areas the analysis covers are the degree of corporatization and commercialization of ENPO and how that guarantees it the autonomy and accountability necessary for independent management; and the market framework in which ENPO operates and how that enhances competition from private operators in areas that are not reserved for the public operator.

##### **Corporatization and Commercialization**

Two laws govern the operation of the ENPO: Law 16/1970 the "Postal Services Law" and Law 19/1982 granting the ENPO the status of an Economic Authority. These two laws grant ENPO many features given to postal authorities under the corporatization model. ENPO is also given additional features of independence not granted to many public entities in Egypt or even to postal authorities in other countries. For example, the Law grants ENPO a reserved area that covers all delivery of postal materials including parcels. Law 19/1982 also gives ENPO the exclusive right to provide postal financial services such as money orders, postal savings and checking accounts. ENPO is free to 'enter into agreements with other ministries or public agencies, subject only to the approval of ENPO's Board of Directors.'

Furthermore, Law 19/1982 allows ENPO to subcontract the provision of services such as the sale of postal stamps and the delivery of mail items to private entities. Ministerial Decree 31/1985 added express international and local mail service to the list of services that ENPO provides. Additionally, the regulations allow the Board of the Authority to add any other services that it sees feasible for delegation to the private sector. The Authority, in this respect relies on a standard contract with either the urban or rural 'postal agency' that stipulates standard physical requirements

for private providers of these services.<sup>17</sup> Article 1 of Law 16/1970 states that the Postal Authority is the sole entity entitled to transport and deliver letters and parcels as well as the delivery of postal financial services and the management of postal savings accounts. The Executive Regulations, issued in 1972 to expand and clarify the Law, have established the definitions of these services as well as the weight and dimension limitations on each of these services. For example, the weight limit for a letter is 2kgs, while printed material has a limit of 2kgs for periodicals and 5kgs for books (Article 6 of the Executive Regulations). Similarly, Article 59 of the Executive Regulations sets the weight limit on parcels at up to 20kgs and dimensions at up to 1.5 meters. In addition, the circumference of the package from any other dimension must not exceed 3 meters.

In 1985, the Postal Law was amended to allow courier services to provide express mail services. The Law does not specify any conditions on the private courier services except requiring that they acquire a license to practice. The license requires that a courier company pay an annual fee to ENPO to practice. The amendment breaks the ‘reserved area’ granted to ENPO in the express mail service, making this the only service in which ENPO faces competition. In the following sections, this paper discusses the relationship between ENPO and private courier service providers in the more comprehensive market structure context.

Two weaknesses of Egypt’s Postal Law handicap ENPO’s position. The first weakness relates to the pricing of services. No clear pricing formula is defined, and neither the Law nor its Executive Regulations link prices in any way to inflation indicators. Instead, the Law stipulates that a committee determines the prices and if they are determined lower than their cost of provision, the government reimburses ENPO with the difference. Charges for services supplied by the Postal Authority are determined in the Executive Regulation accompanying Law 16/1970. These are changed periodically by Ministerial Decrees, the last update (which is currently in effect) occurred in 1998. The Law and its amendment do not address the pricing of services contracted by ENPO to the private sector. Similarly, prices that ENPO charges for agency services such as payment of pensions and salaries are also ‘negotiated’ between ENPO and the corresponding agency.

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<sup>17</sup> Requirements include features of the space to be utilized as well as ‘integrity’ requirements for the person operating, including a minimum education level and a clean criminal record, among other preconditions.



The second weakness relates to public utilities which, in other countries, are required to rely on the postal system for the distribution and collection of bills. Similar entities in Egypt are not obligated to do so, depriving ENPO of ‘captured’ major clients. While it is not recommended that regulations impose constraints on how utilities and banks conduct their business, this requirement is consistent with the empirically identified economies of scale in standard letter delivery.

### ***Commercialization***

According to the institutional environment set in the Postal Law and its amendments, ENPO commercialization is not constrained by any legal or institutional barriers. In practice, however, many of the conditions necessary for successful commercialization are not present. The first constraint arises from the absence of a pricing formula that links postal services to the inflation rate. This lack of pricing rule and various social and fiscal considerations have resulted in pricing of postal services that lags considerably behind inflation. The main beneficiary of this policy is domestic mail/parcel traffic. For example, while domestic prices multiplied 25 times between 1970-1998, the price of sending a standard domestic letter in 1998 was only 10 times its price in 1970 (Table 6). Other domestic postal services exhibit more or less the same pattern, even for services that typically serve the business community such as the delivery of parcels and periodicals. According to the law, in the case that this policy serves an agreed upon social goal, ENPO must be reimbursed by the difference because these prices must be lower than the actual cost of providing the service. Based on discussions with officials at ENPO and from public discussions, it appears that ENPO does not get regularly reimbursed for the difference between prices and actual cost of providing the service.<sup>18</sup> International services, however, have generally outpaced domestic inflation, in some cases with prices reaching 400 times those charged in 1970 for the same service. It is not clear whether the universal service obligation is partially financed by increases in international service charges (while domestic prices continue to be subsidized) or whether these increased rates for international services result from the need to cover part of the cost of international service with foreign currencies that have significantly appreciated against the pound.

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<sup>18</sup> Ahmed El-Soly’s presentation at an ECES Roundtable Discussion in April 2002.

**Table 6: Postal Authority Prices, Multiples of Prices in 1970 Law**

1993						
Type/Destination	Arab	Africa	Europe	North America	Latin America & Australia	Domestic
Letter (2 pages, 25gm)	20	20	26	29	35	8
Postal card	30	30	47	47	47	10
Periodicals	142	134	134	180	288	6
Small parcels (170gm)	55	203	203	138	404	6
Large parcels ( M bags)	59	104	104	142	212	10
1998						
Type/Destination	Arab	Africa	Europe	North America	Latin America & Australia	Domestic
Letter (2 pages, 25gm)	38	38	40	45	55	10
Postal card	57	57	77	77	77	13
Periodicals	70	134	134	180	288	6
Small parcels (170gm)	109	203	203	235	404	6
Large parcels ( M bags)	59	104	125	142	212	10

Source: Author's calculations using Ministerial Decrees determining postal charges and published inflation figures.

Two issues have to be considered regarding commercialization. First, the bulk of the mail service in developed and developing countries is generated by the business sector (Table 7). Similarly, the business sector generates the bulk of parcel delivery service, which is not typically subsidized under the universal service obligation (Table 8). Second, given that Egypt's postal service indicators are poorest in the domestic service segment, commercialization policies must focus on improving the quality of domestic services provided. These policies can break the vicious circle discussed in Section II. Therefore, price liberalization of services not representing 'core' universal service obligations (as defined by the majority of countries) could serve two objectives: improve the price/quality combination of value-added services such as express mail and parcel delivery, which could be of more value to businesses than the subsidized-price/lower quality combination; and positively impact ENPO's revenue flows.

**Table 7: Typical Composition of Mail, by Origin and Destination in Developing Countries (%)**

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

Source: Ranganathan and Dey (1998), p. 21.

**Table 8: OECD Distribution of Letter and Parcel Mail Volumes (%)**

Service	Organization-to-org.	Organization-to-individual	Individual-to-org.	Individual-to-indiv.	Total
Letter	35	45	10	10	100
Parcels	25	60	5	10	100

Source: OECD (2001), p. 21.

In addition, not requiring large utilities to use ENPO for their bill delivery and payment collection seriously reduces domestic demand for standard postal services in Egypt. This is a critical drawback given the fact that even in developed economies the largest 10 percent of all mail customers typically produce well over 80 percent of all the mail produced. These large mail users typically include banks, insurance companies, utilities, publishers, mail-order companies and direct-mail houses.<sup>19</sup>

Even with major clients switching to ENPO (voluntarily or by force of law), there are limits to potential gains from economies of scale in delivery services, especially with the expected expansion of e-commerce and other IT-telecom means of payment. This same development, however, presents postal services with a valuable opportunity in terms of economies of scope in financial postal services.

This potential is pursued in many countries, but the conditions of both the postal and the banking branch networks in Egypt suggest that ENPO has a golden opportunity to benefit from its network advantage over the banking sector. This potential stems from the extensive postal network with postal establishments in Egypt reaching 5,152 public offices in addition to 4,015 private offices in 99/00 (CAPMAS 1999/2000). Post offices in rural areas account for over 40 percent of the total number of offices. This extensive network compares favorably to the spread of bank branches in rural and lower income urban districts (Table 9). While banks outnumber post offices in Greater Cairo, the number of banks in rural and remote areas is only slightly over 20 percent of the number of postal offices.

Postal savings accounts represent only 3 percent of total national savings. Therefore, due to that economies of scope for ENPO, and because it may not be economically rewarding for banks and other financial institutions to set up branches and networks for financial services away from the main cities, ENPO's commercialization efforts could focus on becoming a strong financial network

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<sup>19</sup> Biggar (2001). p. 21.

backbone with or without collaborating with the banking system. These developments can balance competition facing postal services in business delivery.

**Table 9: ENPO Outlet Network: Strength in Rural and Low Income Areas**

	Post offices	Banks	Insurers	Stock Brokers
Greater Cairo	393	525	< 50	< 150
Alexandria	117	138	< 30	< 50
Port Said	29	31	< 20	< 10
Sinai	37	38	< 20	< 10
Rural & Remote	2,440	541	< 20	< 20
Total	3,016	1,273	< 140	< 240

Source: Egyptian Banks Co. (2000).

ENPO has started investigating this potential with a proposal to perform more extensive work in the field of electronically connecting postal offices supplying financial services. It is not clear, however, if ENPO is considering major strides in this electronic financial network in its short-term development plan.<sup>20</sup>

Additionally, ENPO has plans to use other sources for economies of scope that focus on creating a network of ‘postal business centers’ that would supply more commercially-oriented services such as photocopying, faxing and Internet services. Again, the idea is to better utilize ENPO’s presence in rural and low-income areas with low additional operating costs.

### ***Regulatory and Market-Based Reforms***

At this stage of postal services development in Egypt it appears that most of the reform efforts were only conducted in the context of corporatization and commercialization of ENPO. The concept of reforming postal services in Egypt as a comprehensive market has not been the driving force of reform efforts. This section discusses the main principles that must underlie the next phase of reforming postal services in Egypt, taking into account the whole postal services market, not just the incumbent national provider.

#### *Separation of Regulator and ENPO Roles*

As the incumbent public operator responsible for meeting the country’s universal obligation, ENPO cannot assume the role of granting licenses to private courier operators. Also, an independent regulator must be responsible for establishing a pricing mechanism that applies in case the services exhibit economies of scale features. This regulator must also determine and enforce a clear (but diminishing) reserved area in which private companies are not allowed to compete, while ensuring

<sup>20</sup> See Egyptian Banks Co. (2000).

that private operators face a transparent and predictable environment that governs their operation in the postal market. The regulator can also be responsible for determining the performance contract specifying the financial and quality targets to be achieved by ENPO. In addition, the role of the regulator may be expanded to introduce financial and performance targets to govern the relationship between ENPO and its network of private offices, again with the objective of enhancing service quality and competition in non-reserved-area services. The regulator could be also responsible for determining ENPO fees for agency services provided to other government bodies rather than leaving ENPO and these government bodies to negotiate these fees themselves.

#### *Enhancing Competition in Services not Bound by a Universal Service Obligation*

The experience of introducing private courier services in Egypt started in 1985 to amend Law 16/1970 that stipulated that postal services (vaguely defined) are to be supplied only by the public operator. Starting in 1987, private courier companies were allowed to compete in express mail services (courier) subject to paying ENPO an annual license fee of 10 percent of profits with a minimum of LE 250,000. Because no additional requirements were agreed upon, courier companies wishing to operate in postal services are free to determine all other aspects of their operation including setting their prices, as long as they meet the license fee imposed by ENPO. Delivery (or shipping) of parcels heavier than 20kgs, and volume not fitting in a ‘postal bag,’ are technically outside the ‘licensing’ requirements of the Postal Authority.<sup>21</sup>

Currently, seven private companies are licensed to operate in the courier market; six of these are branches of foreign companies and the only Egyptian company licensed is Middle East Courier. In addition, there are an estimated 40-50 companies that are operating without a license. Their market share is estimated at not more than 10 percent of the courier services market. Unlicensed private couriers face the possibility of having their operations shut down, the confiscation of deliverables, and paying fines. It is not clear, however, whether the rules and the discretionary power of ENPO are part of a comprehensive market-reform strategy that seeks to enhance competition and efficiency in the postal services market.

To regulate postal services, the strategy must focus only on areas where there is reason to believe there is a case of market failure (increasing returns to scale in

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<sup>21</sup> This discussion is based on results of interviews conducted by the author with private courier company managers.

delivery) and where a non-commercial obligation needs to be met (universal service). Other competitive services such as express mail and parcel delivery must be clearly liberalized both for the incumbent operator and its competitors.

#### *Steps to Reduce and Clarify Reserved Area Services*

Reserved areas are a compensation for the non-commercial service obligation. This means that the size of the reserved area has to be based on the actual or expected cost of meeting the universal service obligation. In the case of Egypt, and because of the heavily controlled domestic prices, the standard letter ‘reserved area’ is not attractive to private companies at below-cost prices. As for domestic express mail and delivery services, a limited survey shows results of private courier prices compared to ENPO prices for express mail (Table 10). First, the government’s universal service commitment for non-standard services discriminates against ENPO by maintaining a uniform price that does not depend on the actual cost of providing the service to different geographical areas. Second, under a market-determined price schedule, private courier prices vary drastically with prices set lower than those of ENPO in the Greater Cairo area, but prices for delivery to remote areas rise exponentially reaching LE 85 as opposed to ENPO’s standard rate of LE 4.

Reconsideration of ENPO’s constraint on domestic express mail service and other non-standard letter and parcel delivery is necessary. Either ENPO’s prices have to be freed to compete with private providers, or a price floor has to be imposed on private couriers that is not lower than ENPO’s service within cities. The first option is superior in terms of enhancing competition. However, if the government’s intention is to subsidize express mail delivery to remote areas, ENPO will have to be compensated for the cost-fee differential through some other mechanism.

**Table 10: Domestic Express Mail Delivery Prices (LE), 2001**

<b>From Cairo to:</b>	<b>ENPO</b>	<b>x1</b>	<b>x2</b>	<b>x3</b>	<b>x4</b>	<b>x5</b>	<b>x6</b>	<b>x7</b>	<b>x8</b>
Cairo	4.00	7	12	2.5	2	1.5	2	8	2
Alexandria	4.00	11	18	5	5	2	4	10	5
Canal Cities	4.00	11	18	6 ; 8		6	4 ; 7	10;12	15
Delta	4.00	17	43	8	10	6	16	14	15
Upper Egypt	4.00	29;39; 69	43	16 ; 20	30 ; 35	7	28	25;30;35 ;40	50;75
Sinai	4.00	99	43	n.a.	30;35; 50;60	15	30	35;70	65;70;75 ;85
Others	4.00		43						
Additional kgs	2.00	3			15 -20	0.5 - 5	0.75 - 5	4	

*Source:* Private Courier Company Survey, calculated by the author for this study.

## **V. Conclusion and Policy Recommendations**

Egypt's postal service indicators suggest that a vicious circle of low demand, low investment and low quality of service characterizes the performance of the industry. Furthermore, competition from expanding IT and telecommunication services will impose more pressure on the industry's performance.

Relying on other countries' experiences and the literature on postal services reform, this study analyzes the institutional and regulatory environment governing the Egyptian postal services market. It concludes that corporatization of ENPO meets (in theory) most of the independence requirements necessary for its solid financial robustness. In practice, however, many social and public finance constraints limit this independence, the most important of which are heavily controlled domestic prices.

These constraints have seriously handicapped ENPO's commercialization efforts. Yet, there are potential gains to be had from addressing economies of scope in the operator's expansion of its financial and IT services that can benefit from the existing extensive network of offices, especially in remote and rural areas.

Comprehensive postal market reform in Egypt has not been initiated. From this perspective, a strategy that targets enhancing competition, the separation of regulatory and management roles, and addressing the need to reduce the burden of universal service obligation is crucial in the industry's next phase of reforms.

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