Evaluation of postal sector reform:

Uruguay

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Final Report

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Executive Summary

This report contains a case study of the postal reform process in Uruguay. It is submitted to the World Bank by Frontier Economics in accordance with the Terms of Reference (ToR) for the project to *Evaluate Postal Sector Reform in Tanzania* and *Uruguay, and strategic views of the future*.

A complementary case study of the Tanzanian postal market has also been undertaken as part of this project and is provided in a separate report. In addition, a *Synthesis Report* has been written that compares and contrasts the reforms in the two countries.

The main objective of the case study is to provide a detailed analysis of the postal market in Uruguay and the recent developments in that market, with an emphasis on the total market demand for postal services and how that demand is currently being met. This report provides a description of the state of the postal market and its evolution since the reforms. These features are analyzed within an economic framework in the *Synthesis Report*, which has been issued separately.

Reform programme

Objective and focus of reform programme

The reforms of the postal sector in Uruguay aimed to bring institutional change with the creation of Administracion Nacional de Correos (ANC), and the establishment of a regulator. This removed the dual function of regulator and operator previously undertaken by the Direccion National de Correos under the Ministry of Education and Culture. The other major objective was the change in status of the incumbent with the aim of providing more commercial freedom to achieve financial independence and greater commercialisation.

Independent regulator

The institutional changes took place in 1996 but the ANC continued to act as both operator and regulator until 2001, when the regulator, Unidad Reguladora de Servicios de Comunicaciones (URSEC), was put in place to cover both the postal and telecommunication sectors.

The regulator is reasonably independent from government. Its duties with respect to the regulation of the postal sector are limited and set out in broad terms. This largely reflects the fact that in 1992 the postal market was liberalised and a licence regime was established. Hence one of the major functions of URSEC is to grant licences to prospective operators. It exercises very limited control over the incumbent: it does not regulate prices nor does it set targets for quality of service. Competitive pressures are expected to discipline the incumbent and the government remains involved in the running of the ANC in controlling its investment budget and its prices via the ANC board members it appoints.

Financially self-sustainable

The ANC has made an operating loss each year since the reform. The ANC continues to receive substantial government transfer seven years after the reform, improving its net loss position. This subsidy is substantial (139 million pesos or 4.6 million US dollars in 2002) and has increased in the last two years to compensate for the abolition of a postal tax on licensed operator. The government expects to continue to grant funding until 2004.

The ANC has undertaken an internal commercialisation programme following its change in status in 1996 with positive results: it has improved its productivity record – albeit from a low base, and increased its quality of service in terms of speed and reliability resulting into an improved brand image. The ANC has exploited the increase in demand for postal services from business mailers when the economy grew at a reasonable pace in the 1990s.

Market outcomes

Liberalisation and private sector participation

Over the period 1999 to 2000, the ANC, in its function as regulator, controlled entry and did not grant extra licences to operators. Since the creation of the independent regulator in 2001, an additional 36 licences have been granted bringing the number of licensed operators to 126.

The operators that have entered the postal market are private postal courier operators and bus companies. Private postal operators have targeted business mailers and concentrate their delivery activities in urban areas and on inter-urban routes. Bus companies operate in local regions and target intra-urban mail.

Postal operators are in a position to provide a nationwide postal service thanks to the possibility of accessing the delivery network of local delivery operators. Similarly to the national postal operators, the ANC does not have its own delivery infrastructure in more remote areas, and pays local operators and to deliver the mail on its behalf.

A feature of the postal market in Uruguay is that the public utilities and a few municipalities deliver themselves the invoices to their customers. The reforms did not bring a change to this practice, and this self-provision does not require the utilities to apply for a postal licence. This self-provision is restricted to the distribution of invoices. Other items of correspondence generated by utilities must be carried by licensed postal operators. This practice grew during the 1970s and 1980s due to the poor performance of the incumbent. Several utilities are expected to keep distributing their invoices – despite the improved quality of service provided by the ANC and other postal operators.

Licensed operators and utilities handled around 85-95 million pieces in 2002. The majority of these items are invoices. Some two-thirds of the non-invoice letter traffic is handled by the ANC.

Outcomes for customers

Business mailers have seen an increase in choice of mail services offered by new postal operators, who offer over-night and even same day services, and by the ANC. The increase in the range of speeds of delivery services has also been made available to households by bus operators.

There has been a net improvement in quality of service (i.e. reliability). Before the reforms, the delivery time for mail could take up to 5 days. Now, the ANC delivers most of its mail products within 2 days, 85% of the time. This area of the service provision has received much attention within the ANC, which introduced a new structure for its business and invested in new technologies and developed new products such as track and trace services.

Access to postal facilities has increased substantially with all villages with a population in excess of 400 inhabitants having a post office counter where they can drop the mail. This provision relies on the vast network of franchised counter agencies established by the ANC from 1998. This provision is extensive when compared with neighbouring countries.

Postal tariffs faced by households remain high when compared with other substitutes such as telephone and have increased substantially in real terms over time. Business mailers are offered discounts for their mail but posted tariffs suggest that competitors charge higher tariffs than the incumbent in return for the promised higher quality service. In the last two years, tariffs of the incumbent remained unchanged, perhaps reflecting competitive pressure by recent entrants.

Despite the evolution of prices, demand for letter services appears to have increased rapidly in the second half of the 1990s and at a faster pace than economic growth. However, there is considerable uncertainty over the estimated volumes.

Social obligation: the USO

The ANC is the universal service provider. Its USO provision is not based on a clear legal definition of the USO in the legislation and its operational definition has been left to the ANC. The major USO component of the ANC is the provision of a physical presence made feasible with the development of its large franchise network.

The ANC's interpretation of the USO regarding the provision of a letter service is more flexible than the typical definition of USO requirement in, say, state members of the European Union. The latter requires the provision of a national service at both uniform price and a same delivery standard across the country. The ANC charges a uniform price for its basic letter service but offers different qualities of service depending on whether the final delivery is in a city or a rural area – making the obligation less onerous on the operator. A positive factor for the USP is the fact that Uruguay is a highly urbanised country and therefore the geographical cost variations for delivery may be relatively limited.

The ANC receives some compensation from the government for the provision of the universal service, and the free mail available to government departments. It was not clear whether this subsidy was also to support the financial position of the operator and cover other costs. The absolute level of that subsidy was 139 million pesos for 2002 (US$4.6m). Licensed postal operators paid a postal tax to the USP until 2000 when this tax was abolished.

1. Introduction

This report contains a case study of the postal reform process in Uruguay. It is submitted to the World Bank by Frontier Economics in accordance with the Terms of Reference (ToR) for the project to *Evaluate Postal Sector Reform in Tanzania* and *Uruguay, and strategic views of the future*.

The main objective of the case study is to provide a detailed analysis of the postal market in Uruguay, and the recent developments in that market, with an emphasis on the total market demand for postal services and how that demand is currently being met.

A complementary case study of Tanzanian postal market has also been undertaken as part of this project and is provided in a separate report. A synthesis of the findings in both countries is provided in a third separate document and reviews the features of these markets within an economic framework.

The research is being undertaken to support the World Bank's development of its postal sector reform strategy.

In addition to this introduction, the report contains five further sections:

- Section 2 provides an overview of the country and characteristics relevant to the postal sector;
- Section 3 discusses the legal and regulatory framework;
- Section 4 identifies the postal service providers and the mailers in Uruguay;
- Section 5 provides an assessment of the performance of operators and the extent to which customer needs are met; and
- Section 6 discusses some lessons arising from these reforms.

The report also contains three annexes.

- Annex 1 is a copy of the ToR;
- Annex 2 a detailed breakdown of the documents that have been collected as part of the project;
- Annex 3 provides the details of the participants to this case study; and

- Annex 4 gives the key milestones in the history of the postal service in Uruguay.

1.1 Methodology

The case study is based on research undertaken between March and May 2003. This combined desk research with a visit to Uruguay that was undertaken in April 2003. The desk research reviewed information available in the public domain and, in particular, from the Universal Postal Union (UPU). Gaps in this data were identified which were then followed-up during the country visit[1].

A wide range of data sources have been used, from formal, published sources to informal interviews with relevant officials. Consequently, data included in this report varies in its reliability and precision. Where appropriate we alert the reader to the uncertainty associated with particular pieces of information. In particular, our conclusions are of a qualitative nature and are not intended as formal recommendations for future reforms in Uruguay or elsewhere. Such recommendations would require a more detailed study that is beyond the scope of these ToR.

1 Undertaken by Canada Post International Limited

2. Country overview

This section provides a brief overview of Uruguay, focusing on information that is particularly relevant to the postal service sector.

2.1 Demographics

Uruguay is the second smallest country of South America, after Suriname, with a population of 3.4 million. It is a highly urbanised country with 91% of the population living in urban areas. Montevideo, the country's capital, accounts for 1.3 million of this total. Table 2-1 provides an overview of the country characteristics.

Table 2-1: Key features of Uruguay

Population	3,380,177[a]
Area (sq km)	176,220
% of population in rural area	8.7%[c]
% of population in urban area	91.3%[c]
GDP per capita (2002, US$)	5,737
Unemployment rate Dec. 02 – Feb. 03	17.8[b]
Literacy Rate	97.6%
Life expectancy (years)	75

a April 2003 – INE, Uy;
b April 2003 – INE, Uy;
c The Little Green Book 2002.

There are good transportation links throughout the country. It has a well developed highway and rail system whose operation is facilitated by its small size and relatively flat geography. Figure 2-1 provides an overview of the country.

Figure 2-1: Map of Uruguay

2.2 Economic Performance

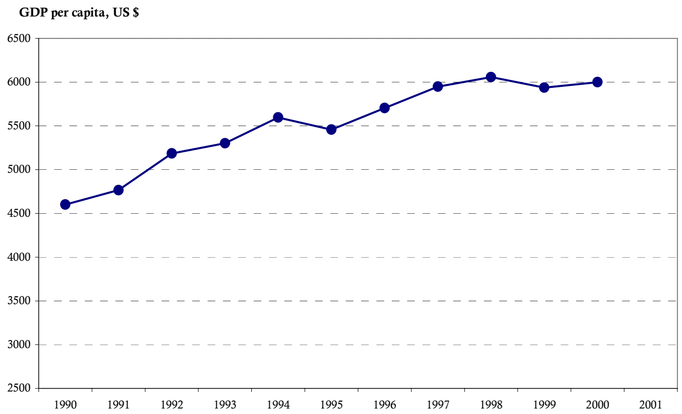
Uruguay enjoys one of the highest economic and social standards in Latin America, with its social indicators comparable to those of a middle-income country, including GDP per capita of US$6,000[2] in 2000, a high literacy rate (97.6%) and a low birth rate.[3] Figure 2-2 shows the increase in GDP per capita over the last decade.

2 World Development Indicators, 2002, Table 1.1. The World Bank

3 At 0.79% their birth rate means there has been near-zero population growth in the last 50 years.

Uruguay's economy is heavily dependent on trade with neighbouring countries. Consequently, after averaging growth of 5% annually from 1996 to 1998, the economy suffered from lower demand in Argentina and Brazil, which together account for nearly half of Uruguay's exports, over more recent years. Following poor export performance, in mid 2002 Uruguay suffered a serious economic recession and the value of the Uruguayan peso fell by over 50% against the US$.

Figure 2-2: GDP per capita in Uruguay, US $, 1990-2000



Source: The World Bank - Global Development Finance & World Development Indicators

3. Legal and regulatory frameworks

This section provides an overview of the changes in the legal and regulatory frameworks of the postal sector as part of the postal reform in Uruguay. Section 4.1 sets out the laws governing the Administración Nacional de Correos and the regulatory bodies. Section 3.2 provides an overview of the regulation of the sector.

3.1 Legal framework

The main milestones for the postal sector in Uruguay were the creation of the new operator and the establishment of a regulator, which removed the dual function of regulator and operator previously undertaken by the Ministry of Education and Culture. This division created a new legal framework which is discussed below.

3.1.1 Creation of National Postal Administration in 1996

The government's desire for a more flexible structure to its communications services, and especially to the regulation of telecommunications and posts, led to the creation of separate communications regulator and postal operator. This process began under law 16,736 of 1996 which created the commercially independent Administración Nacional de Correos (ANC), also called "El Correo", as a decentralised entity with a limited degree of autonomy. Prior to that the Direccion National de Correos (DNC), a department of the Ministry of Education and Culture acted as operator and regulator for the sector[4].

3.1.2 Establishment of Regulator in 2001

Until the beginning of 2001, the ANC acted as both operator and regulator, under the oversight of the Ministry of Education and Culture. However, the government's original objective of creating an independent regulatory authority resulted in the separation of regulatory duties from the ANC in 2001 under Law 17,296. A new postal regulatory body, *Unidad Reguladora de Servicios de Comunicaciones* (URSEC) was created in February 2001.

4 Post and Telecoms were separated in 1933 by Decree N.9176 and the new structure for the Direccion Nacional de Correos was established by Decree 9165.

A commission composed of three members makes URSEC decisions. The commissioners are appointed by Uruguay's President and serve six-year terms, which can be renewed once[5]. The regulatory office consists of about 90 staff who are responsible for regulating both the telecommunications and the postal sectors.

URSEC Duties

URSEC's duties were clarified in Decree 212/001 published just after the law creating URSEC in 2001. Its has five main duties:

(1) **Implementation:** establish regulatory norms of postal services in accordance with legislation related to international agreements.

(2) **Licensing:** authorize the provision of postal services by third parties, establish the necessary requirements for such authorizations, monitor their compliance and maintain a registry of licensed operators[6].

(3) **Monitoring:** supervise compliance with specific sectoral regulations in accordance with legal norms and international agreements referring to them.

(4) **Consumer protection:** URSEC can act in defence of consumers where justified complaints exist but the main emphasis is on promoting competition to ensure consumers have a choice of provider[7].

(5) **Advisory:** advising the President's office on issues relating to postal policy.

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5 Present Directors are: Dr. Fernando Pérez Tabó; Dr. Juán José Camelo and Ec. Mario Bergara.

6 For example, URSEC led a legal challenge to UTE, the public electricity provider, who wanted to deliver the tax statements fo the municipalicity of Canelones. In its resolution (Number 163 of 25th April 2002), the URSEC ruled that the distribution of commercial invoices by third parties is considered a postal activity that can only be carried out by a licensed operatior. We discuss the delivery of invoices by utilities in Section 4.

7 Laws 17,296 and 17,250 require the URSEC to: *receive, instruct and resolve denunciations and complaints from users and consumers concerning the services of its competence which have not been dealt with by the providers; and protect users' and consumers' rights, according to the attributions received by the administrative authorities.* The URSEC' s website provides an electronic form that consumers can complete to file a complaint. Hard copies are also available from the URSEC's office. In practice, to-date there appears to have been very few complaints.

It is notable that, while Law 17, 296 sets out clear, specific responsibilities for URSEC in the area of telecommunications, its duties towards the postal sector are left considerably more vague.

3.1.3 Relationship between regulator and government

Function of regulators and government bodies

URSEC reports to the office of the President. Within the office of the President URSEC falls under the responsibility of the *Oficina de Planeamiento y Presupuesto* (OPP, Planning and Budgeting Office). The main functions of each body are summarised in Table 3-1 and are discussed further in the following sections.

Table 3-1: Functions of regulator and government since 2001

	Main responsibilities
President's office	Formulate postal policy
OPP	Propose level of subsidy to the President's office for ANC Reviews strategic plans of ANC
URSEC	Advise government on postal policy Grant licence to postal operators

***Source*: Frontier Economics**

Planning and budgeting office (OPP)

The interaction between the URSEC and the President's office is mediated by the OPP. The OPP's function is to advise the President's office on economic matters and it communicates directly with the various ministries and public entities in the exercise of its duties. One of the OPP's duties is to propose the level of subsidies required by public entities, including the ANC. As part of this process, the OPP consults the URSEC.

A director, who is appointed by the Uruguay's President, manages the OPP.[8] Within the OPP the department of Public Enterprises carries out the following functions for all public enterprises, including the ANC:

[8] This directorship is equivalent to a State Minister function.

- analysis of the budget initiatives, such as 5-year plans and annual forecast;
- participation in evaluation, discussion and negotiation activities for investments financed by multilateral credit institutions; and
- analysis of budget allocations and follow-up of monthly deviation from budget forecasts.

Consequently, the OPP is closely involved in the financial and investment decisions of the ANC.

3.2 Regulation of the postal sector

3.2.1 Licensing regime and market liberalisation

All institutions performing any function within the mail delivery business must be licensed by the URSEC, with the exception of companies who deliver their own invoices. There are no limitations on the type of service that can be provided by competitors and no restrictions with regard to weight of letters, geographical zone of distribution or operators per zone. This regime started in 1992 and marked the start of full liberalisation in the market[9].

However, over the period 1992 to 2000, licenses were issued by the ANC, as part of its dual role as operator and regulator. This gave the ANC the ability to control the extent of entry. As a consequence, between 1996 and 1999, the ANC granted no additional licences, providing a clear illustration of the conflict of interest involved in having operating and regulatory functions present in the same body.[10]

Since the creation of the independent regulator in 2001 an additional 36 licences have been granted. The current regulator does not use the license regime as a means of controlling entry (in accordance with its duties of maintaining a register of entrants). At the same time, the licensing fee was abolished, which may also explain some of the additional entry. As a result of this renewed issuance of licenses, there are currently 126 licensed postal operators in Uruguay.

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9 Decree 197/992.

10 Prior to 1992, the licenses granted by the ANC were to its sub-contractors and as such they were not regarded as rival operators.

There is currently no defined licensed area (or "reserved area"), within which the regulator controls the extent of entry to provide the ANC with some monopoly power[11].

A feature of the postal market in Uruguay is that public utilities and few municipalities deliver themselves the invoices for their services to all households. This self-provision is undertaken by the three main utilities: UTE (electricity), OSE (water) and ANTEL (Telecoms)[12], the Municipality of Montevideo and the BSE (national insurance company). This self-provision is legal and public utilities do not require a license from the regulator for this service. This invoice mail traffic is substantial and represents about 50% of the total mail volume (all other mail items plus invoices).

The result of these changes to the licensing regime means that the market for postal services appears very competitive. This is discussed in more detail in Section 4.1.

3.2.2 Universal service obligation

Definition

There is no clear legal definition of the USO in the domestic legislation of Uruguay. The law states that the ANC will be responsible for the provision of postal services, including admission, transportation, distribution and delivery of mail items, money orders, and postal products in general. [13] The law further stipulates that postal services will be carried out in compliance with the laws in force and with international treaties signed by the Republic. These international treaties include commitments to provide a universal service.

Under the Universal Postal Congress Resolutions each member country has committed to ensure that all citizens within its territory are provided with a postal service consisting of the permanent provision of basic postal quality services throughout the territory ("universal services") at affordable prices. Each member country can then set out in its national legislation a description of the scope of the basic postal services and the

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11 In some countries, the licensing regime is only applicable to postal operators handling letter mail up to a given weight threshold. In Uruguay, all firms providing postal services (excluding the self-delivery of invoices) need to apply for a licence.

12 These are state run enterprises.

13 Article 2, Art 747 of Law N. 16.736 of 5 Jan. 1996.

need for quality and affordability given local constraints and the needs of its population.

Uruguay has ratified[14] all UPU Congress Resolutions up to 1994 (Seoul). However, ratification of the latest UPU Congress (Beijing 1999), where the above provision of the Universal Service is specifically mentioned, is still pending. Despite the lack of formal ratification, both URSEC and OPP are of the view that it is the ANC's responsibility to provide a USO. However, lack of a domestic legal framework makes implementation of the USO difficult. This is discussed in more detail in Section 5.

Operational definition focuses on access to counters

Within this framework, the operational interpretation of the USO by the ANC is to provide services defined by the local customs as "public". This has resulted in an operational definition of the USO under which the ANC provides:

- 6-day delivery service (Monday to Saturday) across the country at a uniform tariff with a different speed of delivery according to whether the ANC undertakes the delivery or contracts it to another local operator (mainly in rural areas); and

- the provision of access through a network of corporate (own) offices and *Agencias a Comisión* (agencies) in pharmacies, tobacconists, drugstores and similar establishments that allow the provision of postal counters services in suburban and rural areas.

The ANC began the development of this franchise network in 1998 and by March 2003 there were a total of 1,021 such agencies[15]. This provides the ANC with complete coverage of localities with more than 400 inhabitants. Areas with a population less than 400 are served by agencies in larger communities, who communicate mail arrivals to these smaller communities using local radio. The ANC relies primarily on these agencies. It has only 155 corporate counters, of which 31 are located inside Montevideo. This provision partly reflects the fact that all outgoing mail must be dropped-off at the post office or agency (i.e. there are no pillar boxes).[16]

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14 Law N. 17.528 of 8 August 2002.

15 Before the reform, there were 250 post offices in the country according to a discussion paper produced by staff at the University of Montevideo.

16 This current network of corporate and franchised counters is scheduled to undergo a major restructuring because of the losses it incurs.

We note that the ANC refers its pre-stamped letter product as the universal service product. This product consists of an open letter, whereby the message is not included in an envelope. It is similar to an aerogramme. This product is not a legal requirement under the vague terms of the USO and accounts for a very small proportion of traffic.

Funding of the USO

The ANC receives some compensation from the government for the provision of the universal service, and the free mail available to government departments.[17] However, when the ANC was created in 1996, the law established a 4-year period during which the ANC was to develop into a postal institution without the need for government subsidies. Over this four year period the ANC received 74 million pesos annually on average from the government (about 40% of mail turnover). Parliament later extended the funding to 2002 and it is likely that the Government will continue to grant funding until 2004, to compensate in part the loss of the postal tax on licensed operators, which has been abolished in 2001. The government transfer for 2002 is estimated at 139 million pesos (US$4.6m).

The OPP intends to review and define the USO in the near future, although no specific timetable has been set. This study is supported by a Technical Assistance Loan from the World Bank and will also review the need and options for the USO's funding requirements.

In addition to government funding, from 1992 to 1999 the ANC received revenue in the form of a postal tax paid by postal operators for each postal item they distributed (Decree 197/992). At the end of 1999, the President's Office approved a decree that changed the form of this payment from a volume related tax to a flat annual fee. This fee was fixed for each operator at a level based on the amount of postal taxes paid in the final year of the tax scheme[18]. This yearly fee was abolished in 2001 so as to remove all barriers to entry.

3.2.3 Price regulation

There is no explicit regulation of prices in Uruguay: neither the government nor the URSEC is required to formally grant approval for tariffs charged by ANC or other operators. With the creation of an

17 The volume figures for free mail delivered by the ANC were not available.

18 In 1999, this amounted to Uy$ 33.8m.

independent postal operator the ANC now determines its own tariffs based on its corporate statutes that required the Board to approve tariff changes. In practice this gives the government, as the owner of ANC, control over its prices.

Given these legal ambiguities and the high level of competition that has developed in the sector URSEC has avoided intervention to-date, although according to the ANC and other operators, it would have the powers to do so. Prices of the incumbent are not high relative to competitors. They are regarded as low and make it difficult for rivals to compete on price. Hence the typical concern around high prices by an incumbent with a dominant position does not appear to apply. We discuss prices in full in Section 4.1.3.

Modifications to all tariffs are proposed by the ANC Commercial and Sales Departments and are submitted to the Board for approval. Due to the economic crisis, the devaluation of the Uruguayan Peso and competitive pressures, prices have not been modified since September 2001 and so have decreased considerably in real US dollar terms. The price for a basic letter is presently set at Uy$12, which at 2003 exchange rates is approximately US$0.41. Section 5.3 provides a more detailed discussion of tariff levels and affordability.

3.2.4 Quality regulation

Quality targets are defined internally by the ANC through a similar process, which, in effect, gives the government control over quality of service. URSEC has no role with respect to the setting of quality of service.

3.3 Summary of key findings

The main conclusions from this section are:

- The current licensing regime does not aim to control entry. Furthermore, it is not used to raise funds towards any USO commitment.

- The regulator’s functions are primarily concerned with compliance and registration of operators. Postal policy remains the responsibility of the government and tariffs are set by each operator.

- The definition of the USO is vague. The ANC is the universal service provider and it has developed an operational definition of universal service and receives some subsidies from government for meeting the self-imposed terms of the obligations.

- The reforms did not aim to alter the market structure but aimed to provide some clarity and a framework. It did not alter the existing mechanisms for funding the USO. In addition, invoices remain outside the definition of letters.

4. State of postal market

This section provides an overview of both aspects of the postal market: the supply and demand. Section 4.1 covers the supply side, and identifies the major postal service providers together with their range of postal services. Section 4.2 outlines the demand side, and identifies the main customers of the ANC and rival operators.

4.1 Supply side

4.1.1 Overview

Uruguay's postal sector is one of the most liberalised in the world, with 125 fully registered national and international operators plus the national public operator, the ANC.

The ANC continues to subcontract some of its activities where it does not have a national network. It has developed a network that interconnects each department capitals, resulting in 111 interconnection points. It relies on local bus operators to make the connection between the department capital and rural villages, an additional 48 routes and to provide the final delivery either at their terminal or to the address of the recipient. The ANC also relies on some of its agencies (218 out of 1021) to provide either the final delivery to the address of the recipient or act as focal point for customers to collect their mail. The local operators, with whom it subcontracts its mail, are also licensed competitors to the ANC that aim to provide their own local end-to-end delivery service.

Table 4-1 reports the estimated market shares of major operators for letters, parcels and express mail services. The overall mail traffic for letters in Uruguay for the year 2003 is estimated to be about 85 to 97 million pieces – where letters include both items of correspondence (single and bulk) and invoices. In this latter category, self-provision dominates and, given the volume of invoices, means that most mail in Uruguay is delivered by the party generating the mail. [19]

The largest single provider of letters is the ANC, with about a third of the total market. Its main private competitors for domestic delivery are:

[19] The figure for invoices is an estimate and it has been derived from information provided during field interviews with players from all sectors and based on a calculation of yearly volumes per household served by those utilities/municipalities.

- Tiempost: about 6 million items;
- Dismond: about 4 million items; and
- Grupo Transport: about 3 million items.

Other providers, consisting mainly of local bus companies, as well as the informal sector, provide the balance of delivery services.

We estimate that the total parcel market amounts to 4 to 5 million pieces.[20] The main providers are the national private postal providers, with Agencia Central delivering about 1 million items and Tiempost delivering over 1.4 million items per year, followed by local bus companies. The ANC has a very small participation in this market, delivering approximately 364,000 items[21].

The international express market is dominated by DHL. DHL has a market share of about 55%. Other operators include:

- Fedex with a market share of about 27%;
- Tiempost (through TNT) with a market share of about 7%; and
- UPS with a market share of about 4.5%.

ANC does not compete in this market segment, although it does offer a domestic express mail service. Table 4-1 provides an overview of the market shares of major operators in these markets.

[20] This estimate should be treated cautiously as no firm data has been provided. However, while the exact numbers cannot be established, the information provides the overall picture of the market structure for parcels.

[21] This is largely explained by the fact that, for many years, the ANC was limited to provision of a small parcel service, during which the competition developed its customer base and infrastructure. By Law N. 14.443 –21 Oct. 1975 the Post was requested to withdraw from its product line the national parcel service for items over 2 kg., which was then to be provided by the State Railways Company (AFE) and other companies in a fully liberalised parcel market. In compensation, Art. 14 of the same Law, obliged all national scheduled companies, dedicated to transportation of passenger or goods, to transport mail bags free of charge for the DNC. Subsequently, in 1996, Law N. 17.296). Art. 268 abolished free transportation of mail bags by bus and transportation companies.

Table 4-1: Market Shares (million items/year, 2002)

	Letters (domestic)	Parcels	Express (international)[22]
Incumbent	29	0.36	0
Other operators[23]	16-18	2.500[24]	0.800[25]
Family run firms		1.1-2.1	
Self-providers	40-50	0	0
Total	85-97M	4-5	0.800

***Source*: ANC, interviews**

4.1.2 Incumbent

The ANC's product and service offering is based on the following three strategic business lines: Mail services, Financial and Logistics services. Below we outline their approach to each.

Mail services

The ANC has developed a wide range of mail products since reform. In general, it offers:

- basic and priority letter services, with the possible inclusion of a track and trace option for priority mail and a registered mail service;
- specific letter product for business mailers, which is available with volume discounts;
- delivery of publications with or without track and trace;
- a two-tier service for parcels up to 10 kg; and
- recently developed hybrid and electronic mail services.

22 This category only includes international express documents. The parcel data are in the order of 60,000 items. DHL has a 63% participation.
23 Tiempost, Dismond, GrupoTransport, Agencia Central and local bus companies
24 Minimum figure. It could be much higher
25 International Operators: DHL, Fedex, UPS, Other

The definition of these products is relatively poor, and the introduction of several degrees of "track and trace" has meant the introduction of a number of nearly equivalent products. The track-and-trace capabilities for first class mail were introduced in 1997, with a web-interface upgrade in 1998. The same year, the ANC launched *Correo.net*, a pioneer hybrid mail service with web interface and *Clave postal*, a digital certification service.

The delivery of mail is typically 2 to 3 days after posting. Customers of the ANC hand over their mail at agencies and counters facilities only[26]. About 88% of mail is delivered to a street address and 12% is collected by the customers from post office counters.

Financial services

Financial services include money orders and third-party payment of bills. A recently introduced financial service, offered in 94 agencies across the country, is *CorreoBanc*, a third-party payment service that is used mainly to pay utility bills. The ANC has very few international agreements for money transfer, and most international transfers are carried out through an agreement with Western Union. At counters facilities, customers can also purchase insurance.

These services are mainly available through the corporate counters of ANC. Agencies offer limited financial products.

Logistic services

The main product in this business line is *Sur postal*, an international courier parcel product developed with Mercosur member countries for the region.[27] This aims to provide a 24-hour delivery to main cities in the region.

Future product developments

According to the *2001-2004 Strategic Plan*, the strengthening and development of the following products and services had been prioritised:

- **Mail services**: ANC aims to increase market share of individual and commercial mail through a better defined offering; continue

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[26] We understand that pillar boxes were also points for posting the mail and these have been removed with the reorganisation of the counters facilities.

[27] Argentina, Bolivia, Chile, Brazil, Paraguay and Uruguay.

developing the courier and direct market services; promote its main hybrid product, Correo.net and the digital certification; and aim to provide solutions for national companies entering the e-commerce, particularly in the business-to-business sector.

❐ **Financial services**: ANC aims to modernise and develop electronic money transfers; improve third parties' payment of bills using electronic solutions; offer additional services in the postal agencies such as ATMs; saving accounts and debit cards.

❐ **Logistic services:** ANC aims to further develop the national parcel service with an objective of a 20% market share by 2004; increase market share of the regional courier (*Sur postal*); add other logistic services in their offering.

Despite these objectives, there has been limited implementation of this strategy to-date. In part this arises from the conflicting desire of the ANC management to rationalise its product range in response to poor financial performance.

4.1.3 Other postal operators

Types of operators

The Register of Postal Operators provided by the URSEC indicates that there are presently 125 national and international private operators in the Uruguayan market. They can be classified as:

- international operators such as DHL, Fedex, UPS, TNT;
- national private operators such as Tiempost, Dismond, Nexo, Grupo Transport and Skynet;
- regional bus companies (43 in total), such as Agencia Central, Nuñez Transporte y Turismo, Cita S.A., Turil S.A., Rutas del Sol; and
- family-run operators, who operate without a license, partly in order to avoid payment of VAT and social contributions. [28]

[28] This issue was raised by private operators during field interviews who believe URSEC is not fulfilling its mandate of regulating the market. URSEC is of the view that this informal market does not exist as there is no barrier to entry such as licence fee in operation.

The ANC uses the services of some of these competitors to deliver its own mail. Most notably, the coverage of some of the regional bus companies who also provide mail services is better than that of the ANC particularly in some rural areas. Consequently, the ANC uses these private operators to distribute some national and international inbound mail. It also relies on agencies for the provision of delivery services in remote areas. Agencies are paid by the ANC on a per item basis. These arrangements are market outcomes and are not regulated.

Product and service range

National private courier companies (such as Tiempost, Grupo Transport, and Nexo) generally offer both an overnight service and two-day delivery and have an open and flexible delivery system six days a week. They cover the whole territory either through a large network of agencies or through subcontracted agents. They also collect account receivables and provide money transfers through Western Union.

Bus companies generally deliver seven days per week and, because of their frequency and ability to distribute directly at their terminals, offer same-day delivery service.[29] They cover specific regions only and do not provide a national service by themselves.

Customer target

National private courier companies generally target both the business community, with a wide range of value-added products, and to a lesser extent, private customers. Household customers generally go to these agencies' offices to drop off their mail whereas commercial customers tend to have their mail picked up.

The regional bus companies target mainly household mailers and these customers tend to hand over their mail at the bus terminals. The mail delivery is then made either to the corresponding bus terminal or to an address on the route.

Comparison of competitors' tariffs with ANC tariffs

Competitors' tariffs are much higher than the ANC's, even if one excludes VAT that is payable by competitors but not the ANC. Table 4-2 shows that it costs at least 40% more for a household to send an ordinary letter

[29] About 80% of total their total deliveries are made to a bus terminal, rather than a specific postal address.

via a competitor[30]. This fact may explain why the ANC still holds a 95% or so market share in the household market[31].

Table 4-2: Comparison of tariffs for ordinary letter, (excluding VAT, Uy$)

Service provider	Tariff (approx)
ANC	12
Tiempost	15
Agencia central (a regional bus operator)	19

Note: the ANC is the only licensed operator not subject to VAT.
Source: ANC and private operators

4.1.4 Self-providers

Delivery of invoice mail

Self-provision, which is defined as the distribution of a company's commercial invoices, is not considered a postal service for licensing purposes. Consequently, companies do not require a license to distribute their own invoices. In addition to the utilities[32], the main companies which act as "self-providers" are the Municipality of Montevideo and the national insurance company, BSE.

Without a license to act as a postal operator, these companies are restricted to the distribution of their own invoices and cannot provide third party services. An attempt by UTE, the largest utility, to distribute tax statements in the municipality of Canelones was abandoned after considerable litigation following URSEC's ruling number 163 of 25th April 2002. In this resolution the URSEC ruled that the distribution of commercial invoices by third parties is considered a postal activity that can only be carried out by a licensed operator.

30 The ANC and rival operators offer discounts to business mailers. The data was not available to make a comparison of discount rates across operators.

31 Source: ANC.

32 These include UTE (electricity), ANTEL (Telecoms) and OSE (Water). World Bank staff indicated that the government collects significant amount of money from these utilities.

As described in Table 4-1, self-distribution generates more volumes than other letter mail. According to data provided during the interviews, UTE alone generates yearly volumes of about 15 million items that have to be delivered to 1,200,000 households, of which 600,000 are located in Montevideo[33].

Self-distribution grew during the 1970s and 1980s due to the poor performance of the incumbent operator. In these years, public enterprises and other state agencies, as well as other private companies generating high volumes of mail (e.g. financial institutions) created their own distribution infrastructure to ensure reliable service. This infrastructure continues to exist and, they argue, provides these institutions with relatively low (marginal) cost means of ensuring the delivery of their invoices (see Section 5.2).

A controversial source of competition

Self-provision provides a controversial and politically sensitive source of competition in Uruguay. Apart from UTE, there is a general view among stakeholders that self-provision should not be maintained in the future:

- ***ANC***: The ANC argues this is an inefficient way of using resources and that the Government's lack of intervention results mainly from the strong influence of utility companies who collect significant amount of money for the government.

- ***Government***: Government's general view appears to be that these volumes should be put out to tender and the lowest cost provider(s) awarded a limited term contract. However, different government ministries have varying views on this issue.

- ***URSEC***: In its view, the transfer of the self-distribution volumes to the ANC will make its access points profitable and help to finance USO obligations. Consequently, it would like to see these volumes transferred to ANC gradually. Should there be any problems during the transition then the URSEC could act as arbiter and decide how to proceed.

- ***AUDESE*** (Chamber representing International Courier operators): would support the transfer of self-provision mail to ANC in order to ensure its self-sufficiency and profitability and to avoid the establishment of a new postal tax.

33 Source: ANC

However, under the current legal framework, the inclusion of the delivery of invoices in the definition of letters may not preclude the utilities in seeking a licence as an operator and then continuing to deliver their invoices. It is not clear if the law would allow these state run companies to be granted such postal licence.

4.1.5 Technological competition

According to recent statistics[34], Internet penetration in Uruguay for 2002 stands at 11.7%, with a 20% growth over 2001. This percentage, although well below the North American one, is the second in South America after Chile (19.9%) and above average for the region (7.8%).

The ANC has not carried out a thorough analysis so far on the relationship between the decrease in mail volumes and Internet penetration.

4.2 Demand side

The main users of mail are businesses: their volumes account for some 75% of total mail handled, of which 50% is generated by 50 business mailers or so. The share for households is around 25%[35].

The largest demand for mail delivery from businesses is generated by the utilities (UTE, OSE, ANTEL), and municipalities[36]. Municipalities account for 15% of total commercial mail handled by ANC. In other words, the largest single source of demand comes from the public sector. The banking sector also generates a substantial amount of mail. However, the recent financial crisis may threaten some of these mail volumes with the closure of many banks.

Households do not account for a large share of total mail and use the large ANC counter network mainly for traditional mail, registered letters with tracking, standardized and non -standardized parcel with tracking. Other popular services are bill payments to utilities and mutual services through the CorreoBanc service offered in 94 agencies.

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[34] CIA Factbook 2002

[35] Traffic flows between businesses and households are not available.

[36] As indicated the utilities deliver only invoices but rely on the ANC for the provision of other mail services.

4.3 Key findings

The main conclusions from this section are:

- The ANC provides a national coverage when combined with bus operators who provide delivery over the last mile for both the ANC and other national operators in rural areas. There does not appear to be any duplication of the network at the final delivery stage in the rural and some suburban areas, with the exception of the delivery of invoices.

- There is a duplication of the network at the final delivery stage in the urban areas where postal entrants have concentrated their delivery activities. This reflects the high delivery density and traffic flows.

- Invoices sent by the utility companies and other public bodies account for 50% of total letters and are delivered by the issuing companies throughout the country. The ANC handles two third of the market based on correspondence only (i.e. excluding invoices delivered by issuing companies).

5. Economic Performance

This section reviews the performance of the operators discussed in the previous sections and discusses the extent to which customer needs in terms of postal services are met.

5.1 Overall sector performance

The ANC operates at a loss. In order to meet its ongoing operating expenses (i.e. excluding the need for new investment and the replacement of existing capital) it received government subsidies of about 70 million pesos per year (about US$2.3m at current exchange rates) until 2000 and about 111 million pesos in 2001 (about US$3.8m at current exchange rates).

The financial performance of its rivals is unknown, although some have exited the market because they could not maintain sufficiently profitable operations. Self-providers wish to continue the provision of their own delivery.

5.2 Performance of operators

The ANC introduced a new business structure for its operation once granted its new status in 1996. It undertook a modernization programme with a special focus on improving quality of supply through an increased use of technology and a new focus on human resource development. As part of this process, the ANC received some special funding from the regional financial institution for development (FONPLATA) as well from the Canadian International Development Agency under a technology transfer project. In addition, the Planning and Budgeting office granted a budget for investments in improvements for quality of service.

5.2.1 Incumbent

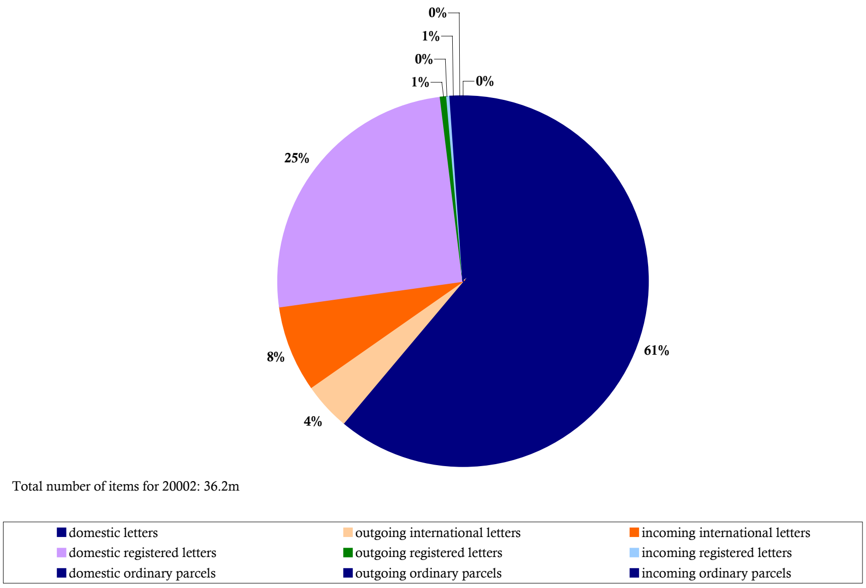
Volume breakdown as at 2002

Figure 5-1 shows that the ANC is mainly a letter service provider. In 2002:

- domestic normal letters accounted for about 60% of total mail;
- registered letters for about 25% of total mail;

- international letters for about 12% of total mail; and
- parcels and other items 1% of total mail.

Figure 5-1: Breakdown of volumes handled by ANC, 2002



Source: ANC
Note: Volumes are for the incumbent only.

Volume growth

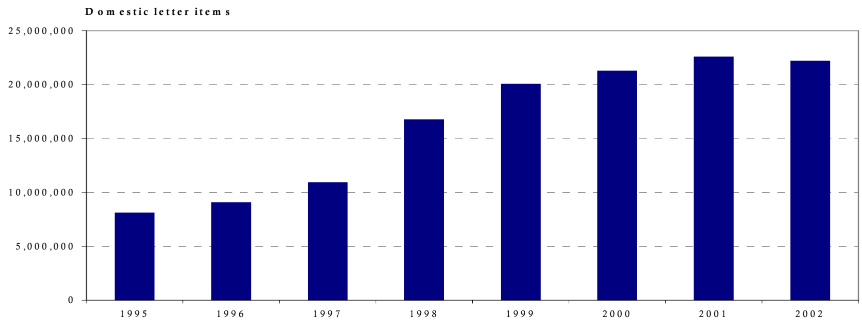
Demand for postal services in Uruguay has grown substantially. The pace of traffic growth has outpaced GDP growth (see Figure 5-2 and Table 5-1). Interviewees indicated that this benefited both the ANC and competitors. The reported figures for growth are higher than would be expected in the postal sector, especially given the decrease in GDP over recent years. Nevertheless, following detailed communication with the ANC, these remain the officially reported figures.

The evolution of the mail handled by ANC reflects an additional factor. It has improved its quality of service substantially. As indicated the mail could take up to 5 days for it to be delivered before reform. As of today, most products are to be delivered within 2 days.

The engine for growth has been commercial mail. While individual mail accounted for 60% of total mail in 1999, it accounted for only 21% in

2002[37]. The importance of registered mail has increased substantially, especially following the introduction of track and trace.

Figure 5-2: Domestic letters traffic handled by El Correo



Note: the data should be treated with cautious. The ANC has been invited to confirm whether the UPU data represented the evolution of its traffic since the reform. The volumes are for the incumbent only.
Source: UPU data

Table 5-1: Traffic and GDP growth

Year	Domestic letter traffic, Year on Year change	Real GDP, Year on Year change
1996	12	5.6
1997	21	5.0
1998	53	4.5
1999	20	-2.8
2000	6	-1.4
2001	6	-3.5

Note: The reported figures for growth are not within the range that would be expected in the postal sector, especially given the decrease in GDP over recent years. Nevertheless, following detailed communication with the ANC, these remain the officially reported figures.
Source: UPU domestic letter traffic for Uruguay, and IMF for real GDP

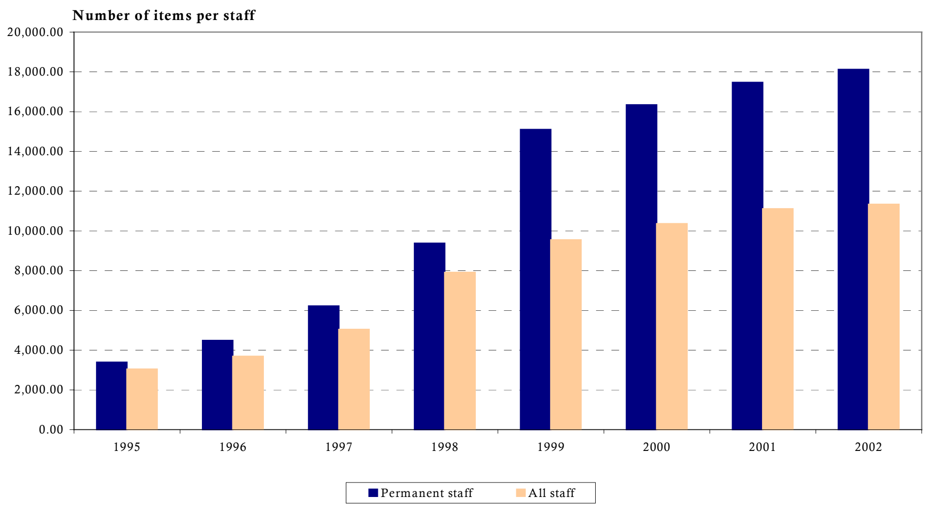
Productivity: items per employee

Productivity, as measured by the number of items per employee, has increased substantially since 1996[38]. In 2002, each ANC permanent

[37] Source: ANC Commercial department

employee handled 25,500 letter items compared to 3,100 items in 1992. In addition to permanent staff, the ANC relies on contract and scholarship staff. Adjusting for these staff the productivity level for 2002 would be 16,000 items per staff member, a significant improvement from 1992[39]. This is illustrated in Figure 5-3.

Figure 5-3: Number of total domestic letters per ANC employees



Note: letters cover basic domestic letters (i.e. exclude registered domestic letters). All employees are full-time members of staff at ANC. The total number of employees cover permanent staff, contract staff and scholarship holders.
Source: UPU for traffic data and ANC for staff levels

As illustrated in Figure 5-4, since 1995 the ANC has slowly decreased its workforce. It has also focused on integrating into its permanent staff contract employees and university scholarship students in order to improve the qualifications of its personnel. Over the period 1995-2002, total staff levels have been reduced by 26%.

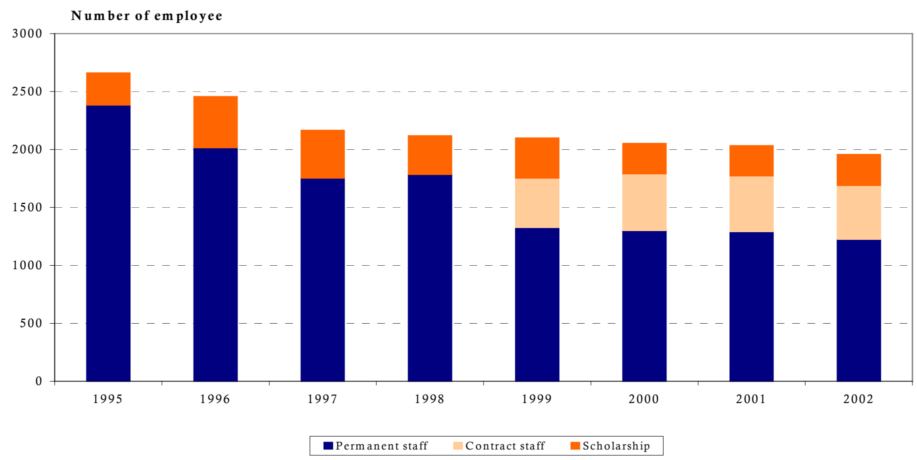
Seventy percent of these employees are dedicated to the operational and commercial sides of the business (customer service in postal offices and home delivery personnel). Within this 36% were postmen and other

38 At the time of writing, an international comparison was in the process of being put together.

39 The main reason for low productivity in the early 1990s was the requirement on the former ANC to integrate surplus personnel from other state companies. (Source: ANC)

delivery staff, a figure comparable with developed countries.[40] The ANC has recently announced further staff reductions.

Figure 5-4: Staff numbers at ANC, 1995-2002



Source: ANC

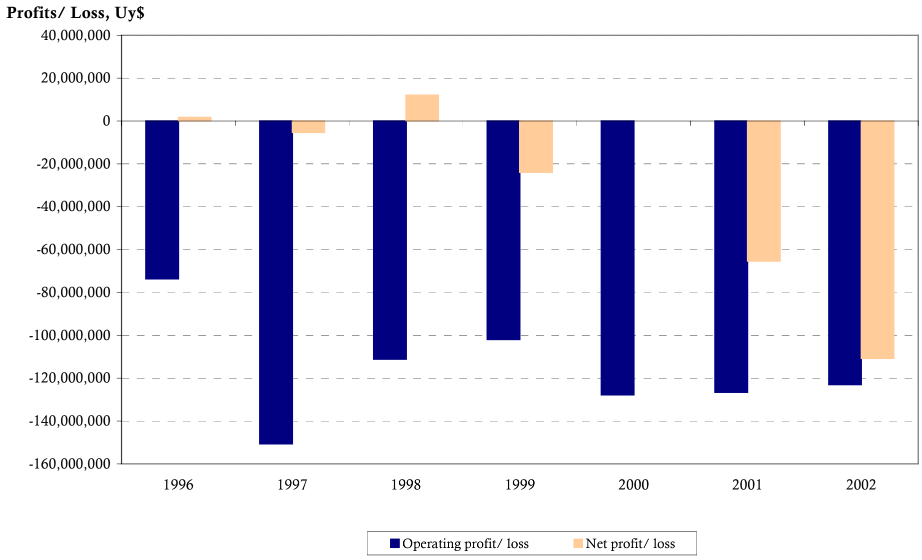
Profitability[41]

Overall, the ANC has been making an operating loss over the period 1996-2001 as shown in Figure 5-5. The net losses are lower thanks to the non-revenue income received by the ANC from the government and the postal tax (which was in operation until 2000) as discussed further below.

[40] The equivalent figure for Canada Post is 41.1%.

[41] The ANC has requested a confidential treatment of this information.

Figure 5-5: Profitability of ANC, 1996-2001

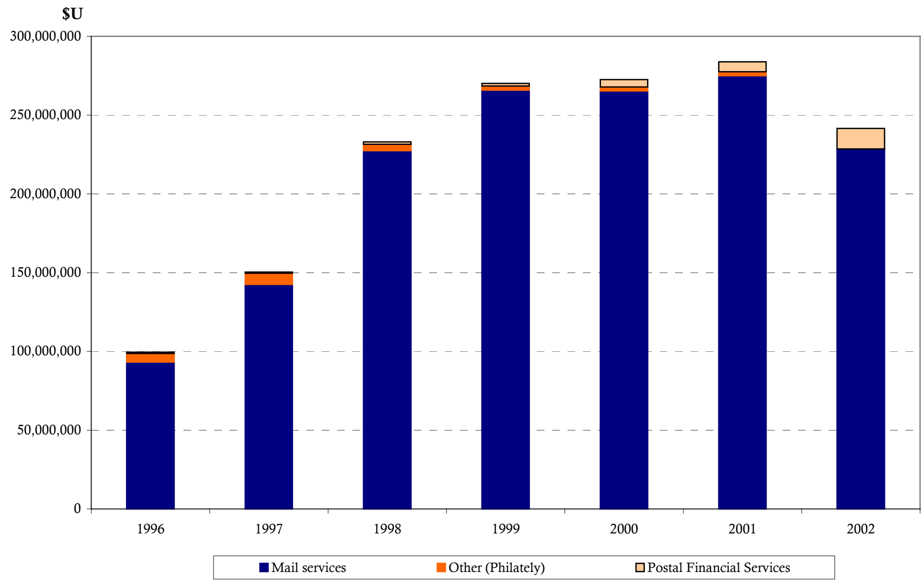


Source: ANC

Revenues

Figure 5-6 shows the breakdown of operating revenue between mail services, financial services and other since the start of the reforms. Some 93% of the revenue is generated by the mail business and financial services were generating 5% of revenues in 2002.

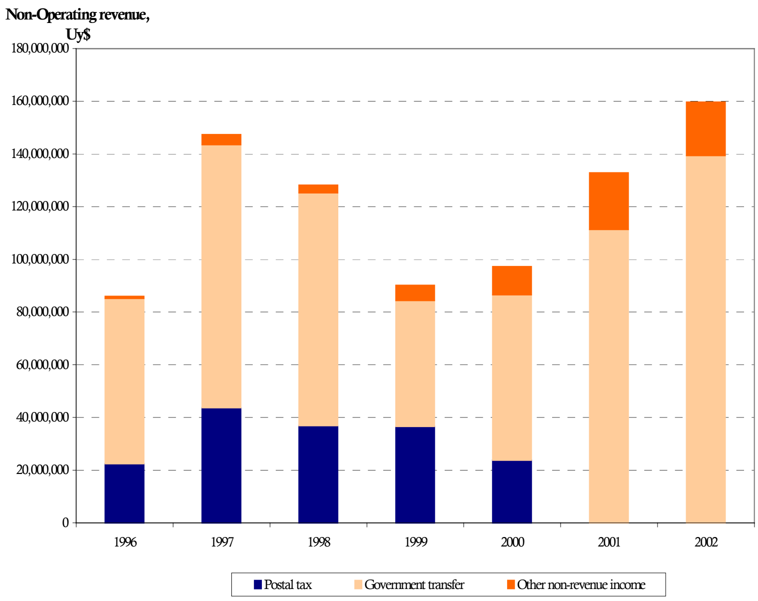
Figure 5-6: Breakdown of operating revenue for ANC, 1996-2001



Source: ANC

Figure 5-7 shows the breakdown of non-operating revenue over the period 1996-2001. The postal tax revenue from licensed operators reached Uy$43 million in 1997 and has been declining since then to Uy$20 million in 2000. The lost income from the postal tax in 2001 has been compensated by an increase in government subsidy. This state transfer amounted to Uy$139 million in 2002.

Figure 5-7: Breakdown on non-operating revenue for ANC, 1996-2001



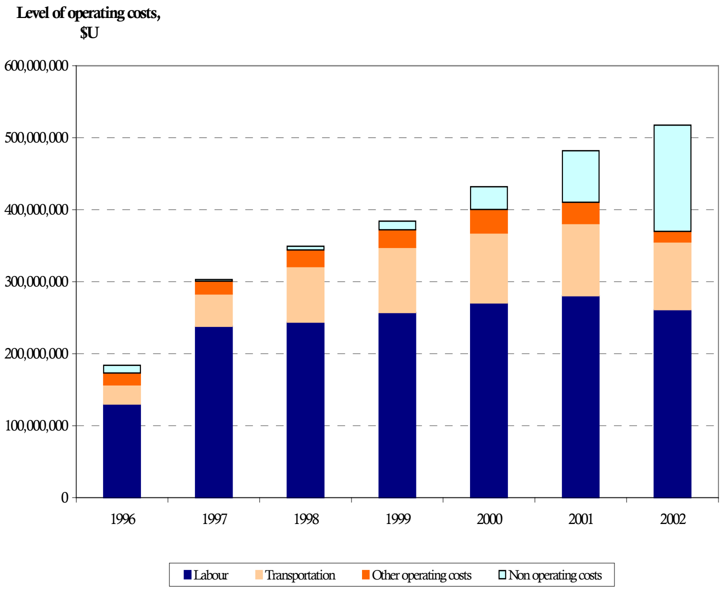
Note: the ANC indicated that other non-revenue income include revenue from exchange rate fluctuations.
Source: ANC

Costs

Figure 5-8 provides the breakdown of operating costs for the period 1996-2001. As of 2001, labour costs accounted for more than half of total expenses (58%) and the share of transportation, which includes payments to subcontractors was 20%. The share of transportation has increased over the period and, in particular, non-operating costs have increased[42].

[42] Non-operating costs cover losses due to exchange rate fluctuations. Source: ANC.

Figure 5-8: Breakdown of operating and non-operating costs for ANC, 1996-2001



Note: transportation includes Transportation, Vehicle Costs, Fuel, Amortization, Supplies, Service Contracts, Electric Expenses
Source: ANC

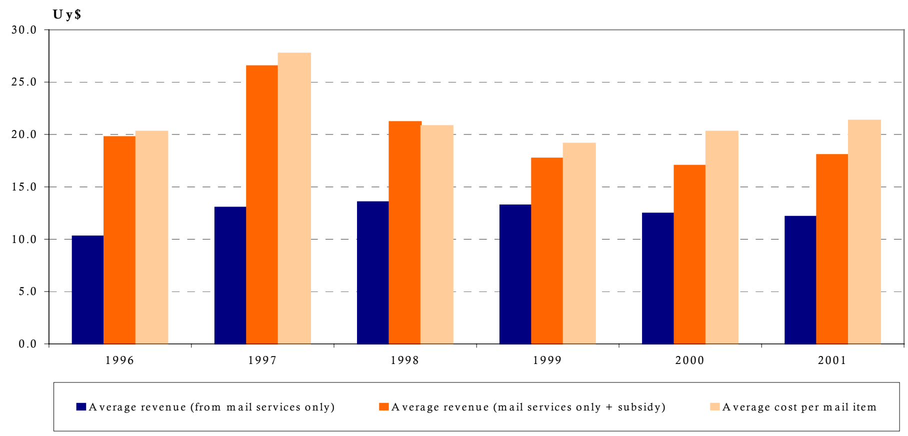
ANC's labour costs relative to competitors vary depending on the grade. The upper management is believed to be paid 50% lower than the national average and middle management and operational personnel earn salaries 30% to 40% higher than the private sector, based on a 30-hour work week[43].

We understand that one of the elements of ANC's reform was to align the staff to the new objectives. In previous years, the income generated by the postal taxes on private operators was distributed by ANC amongst its employees, increasing their take-home salaries. With the elimination of this tax in 2001, ANC gave an incentive to its employees based on mail volumes delivered. As these volumes increased considerably so did the salaries, even as ANC's related average revenues decreased reflecting the different mix between private mail and business mail, which is sold at a discount.

[43] We understand that operators in the private sector pay their staff on a per item delivered basis.

Figure 5-9 shows both average revenues and average costs have remained broadly constant (in nominal terms) since 1998. The unit subsidy reduces the difference between unit cost and revenues. We note that the average revenue measure, which excludes the subsidy, is at a level below the posted tariff for a basic letter item[44].

Figure 5-9: Average revenue and average cost, 1996-2001



Note: The average revenue is derived using total mail turnover and domestic letter traffic. Unit costs based on total expenses.
Source: revenues and costs from the ANC; domestic letters from the UPU

Meeting quality of service

The service provided by the ANC has improved considerably since 1995, when compliance with delivery standards was inferior to 30% and delivery time could take up to 5 days[45].

Individual customers perceive quality in terms of security of delivery, service reliability, delivery time, price and customer service, while commercial mailers are more concerned by total number of items successfully delivered (small number of returns), delivery time and cost[46].

In 1998 the ANC produced a Quality Manual, which sets out its vision "*to be a highly-competitive company, leader in the postal sector, promoting the technological revolution of information systems with the highest commitment level,*

44 Several factors can explain this: traffic includes the delivery of mail from the government for free and business mailers, which account for the majority of mail, receive large discounts.

45 Source: El Correo, Discussion Paper by the University of Montevideo, 2000

46 Source: Objectives of the study on Business customers' satisfaction by ANC, Oct-Nov. 2002

professionalism and motivation of its human resources in a customer-focussed organization." Its quality targets are set internally and encompass:

- delivery time;
- security of mail;
- confidentiality;
- market share as an indicator of customer satisfaction; and
- accessibility to services.

To improve its quality, the ANC has initiated the regular monitoring of its products delivery standards. This monitoring is carried out internally, on a weekly basis, by the National Control Centre and is done only with premium letters and parcels with tracking capabilities. Monitoring of traceable items allows the ANC to extrapolate results on all of its products. However, a previous audit carried out by an external firm showed that there were no significant differences between ordinary and premium mail and that 85% of basic letters were delivered within a 2 day delivery standard. Table 5-2 shows the internal target and the actual delivery time achieved by the ANC. While the target for registered letters was met, there was under-performance in both parcel services.

Table 5-2: Quality of service: target and actual
Week commencing 3 March 2003

	Target	**Actual**
Registered Letter (D+2)	90%	89.7%
Priority Parcels Postal)(D+1)	90%	65.5%
Parcels PP *D+2)	90%	82.3%

Source: ANC

In 1998, the ANC promoted and led a quality initiative along with Mercosur member countries plus Bolivia and Chile, with the goal of creating a standard courier product of high quality and with an identical commercial image for the whole region. This product line, named *Surpostal* has been monitored since 2000, with UPU's support, in order to control performance in terms of originating forwarding time, air transportation and delivery time at destination for a quality control purpose.

The ANC does not publish its delivery standards in its offices, web sites or tariff brochures. Information on delivery standards is only given on request and to commercial clients during sales activities.

In 1999, ANC obtained its ISO9002 International Standard Certification for its Quality Management System, becoming the first Uruguayan public company to receive it and the first postal operator in the Region, as well as the first national operator completely certified.

In 2000, the company obtained a National Quality Award. This quality improvement in the ANC also produced qualitative changes in the postal market as a whole, with the introduction of technology by most operators and a significant decrease in prices due to the increase in competition. This resulted in an increase of the total postal market that had remained stagnant for several years.

Freedom to act

According to its statutes, the ANC is enabled to carry out any legal activity, acquire every right and incur obligations required to accomplish of its duties. In particular, this provides it with the freedom to manage it own finances, tariffs, payment of expenses, stamps emission, personnel matters and rental of properties for its facilities.

The President appoints members of the ANC's Board. In the past, frequent changes in board staff have made it difficult to stabilize or accomplish strategic plans. Since 1995, the ANC has had four different Presidents and five different directors.

However, there are a number of limitations on its freedom to act due to its status [47] [48]:

- *Scope of activities*: according to the constitution, public companies can only carry out those activities for which they have been created and nothing else. Private postal operators belong to the "transportation, distribution and annexes services definition", which translates into their ability to collect and pay invoices. Correo, for instance, can only provide this service to its customers through a postal transfer.

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[47] Based on interviews of various stakeholders

[48] A study "The impacts of the Economic and Financial costs of strategies" by an independent consultant, refers to Correo's public structure as "heavy, complex and rigid" and burdened by additional costs such as the USO and the franked mail, which don't allow Correo to be competitive.

- *Degree of freedom*: the ANC status as a "decentralized entity" gives its less autonomy than UTE (electricity incumbent), whose status is that of an autonomous entity. This reflects the view in the constitution that postal services are considered an essential and strategic service.

- *Partnerships and acquisitions*: The ANC has limited flexibility to enter into partnerships, alliances with the private sector can be undertaken only to a small extent.

- *Financing*: The ANC cannot borrow money freely or indebt themselves. Equally, the ANC must use the Banco República, a state bank use (as for all public companies) and for insurance, must contract with Banco de Seguros del Estado – a state insurance company.

- *Staff arrangements*: The ANC cannot set its own salary ranges, as public administration salaries have been capped recently. They cannot hire and lay-off of personnel due to the public law governing public entities.

- *Size of the network*: The ANC cannot freely close their own post offices with practically no volume or replace their replacement with franchises, due to political pressure from local politicians.

- *Higher costs*: Higher social charges (double of the ones paid by the private sector) and wages of operational staff when compared with the private sector.

5.2.2 Competitors

Licensed competitors

All national courier companies interviewed offer a range of postal and logistic services that was wider than the range offered by ANC. They have diversified to exploit many niche markets and to offer delivery services, re-mailing, printing, labelling, meter taking, certificate of work, collection of accounts receivables, data warehousing, organisation of congresses and seminars, stock management, export and import document preparation, call centres, telemarketing, etc. Most of these services apparently rely on state-of-the art technology.

The fairly flat topography of Uruguay has facilitated the development of a good highway and transportation network. This allows regional bus and transportation companies to complement their services by offering mail and parcel delivery to their customer base. With their wide network, multi-frequency service, and fast delivery, these companies represent a serious competition for ANC, for whom they also provide final distribution to small populations.

We understand that some of these operators have exited during the period over which the postal tax and fee applied and more recently, as Uruguay's economy is in a recession.

Overall, the competitive advantages of these operators over the ANC are their reliability and their delivery standards.

Self-providers

Self providers wish to continue to deliver their own invoices to their customers.

UTE's President, Esc. Scaglia, was interviewed as part of this case study. His position on giving up their self-distribution is quite strong and utilities would consider using ANC only if the mail was charged as at a lower cost and with total reliability. The main reasons given for preferring self-provision by UTE and not wanting to give the volumes to the ANC are listed in the box below.

Although OSE and ANTEL's executive were not interviewed, according to the ANC, they are more inclined to accept the transfer to Correos, and are informally negotiating.

Main reasons for maintaining self-supply according to UTE
Costs: the direct and indirect cost of self-provision in the whole country (average), audited by internal audit, General Accounting Office, Deloitte & Touche is 2.79 Uy \$. According to prices given by Correos to the other two utilities, OSE and ANTEL, this would represent an increase in distribution cost for UTE of approximately 1.5 M US \$. UTE argues that self-supply is more economical than paying ANC for the service[49]. **Quality of service:** invoices distributed by Correos in the Municipality of Canelones had an approximate devolution of 17%. With regard to timely distribution of its invoices, UTE will be obliged to comply with quality of service standards to be established by the Regulator of the Electricity Sector (Unidad Reguladora de Energía Eléctrica) and could be subject to significant economic sanctions for non compliance. Also, their business cycle is 11 days (meter reading, data processing, invoice issue, distribution and payment). Any delay in this cycle will have serious economic repercussions, without the possibility of imposing fines for late distribution and at higher costs. **Loss of customer contact:** In UTE's opinion, there would be no management control if the distribution of their invoices would go to the ANC or any other private operator, as they would lose the direct contact with their own customers in a market with heavy competition from the gas utility. UTE workforce of 440 is highly trained and not only provide distribution but also advise customers (there are 12-13 alternative rates) and measure the power meter, activities that they believe the ANC could not provide. **Monopoly:** the allocation of the distribution of all UTE, OSE and ANTEL invoices to the ANC will in fact represent a return to a monopoly situation. **ANC's union:** UTE is wary of being subject to delays in distribution due to strikes.

5.3 Meeting customer needs

ANC's performance varies considerably between customers and across customer groups. It provides an extensive national coverage for domestic mail and provides competitive prices for both households and businesses who use its service. However, some large customers continue to be dissatisfied with the service they receive.

49 The ANC believes that the costing is incorrect and that UTE does not include several factors in the costing methodology. Given the fact that UTE personnel enjoy better salaries than Correos's, it is not probable that their costs are lower.

Rival operators are viewed as providing a reliable services and maintain good standard of delivery. They do not compete on price with the ANC which charges relatively low prices.

5.3.1 Customer requirements

Demand, choice and access

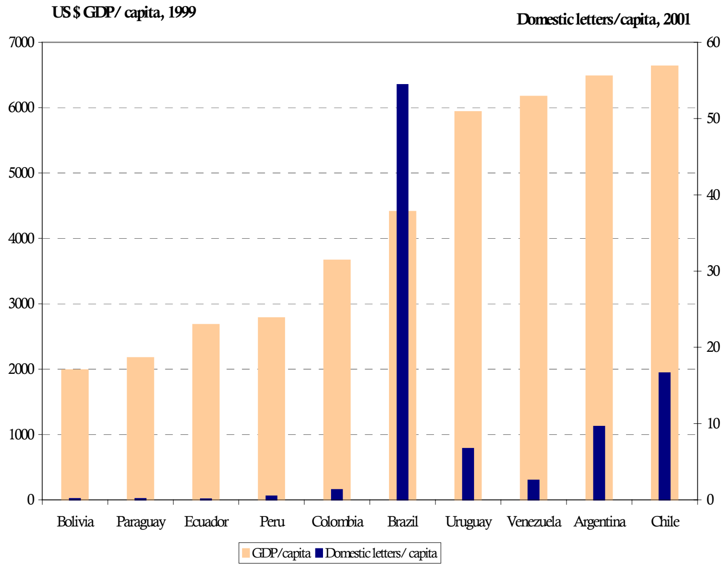
Demand

The number of items per capita handled by the ANC appears to have increased from 2 items per annum to 9 items per annum (see caveats about data in Section 0). Adding the 50 million items from self-provider and that of competitors suggests that each person received 25 items per year.

Figure 5-10 shows the number of domestic items handled by the incumbent in Uruguay and neighbouring countries[50]. On this measure, the performance of the incumbent in Uruguay is similar to that of Argentina and is largely inferior to that of the Brazilian incumbent.

[50] The number of items delivered by the incumbent in neighbouring countries can reflect three factors: the degree of competition, the existence of self-provision and the level of demand for postal services in the country. Of these factors, we do not know which contributes to the results reported in the chart. Hence the limitations of these international comparisons ought to be stressed.

Figure 5-10: Items per capita in Uruguay and neighbouring countries



Note: mail items cover domestic letters only handled by incumbents. It therefore excludes self provision in the case of Uruguay.
Source: UPU for all countries.

The increased demand for services from ANC is being driven by the macroeconomic growth and the improvement in its quality of service over the past decade. In 1992, a national customer satisfaction survey conducted by Factum, gave ANC a score of 35/100, behind the notoriously poor national railway company. By contrast, the most recent survey, undertaken in 2000, awarded ANC a score of 85/100, placing it tied for first place in customer satisfaction with the telephone company.

<u>Choice</u>

As indicated in Section 5.1, there is considerable competition in the postal market. Many large companies that send invoices by mail choose to self provide and a number of other licensed postal operators offer alternative services. Consequently, customers have considerable choice over their provider and the increased volumes handled by ANC over the last few years has followed the general improvement in quality picked up in the Factum survey.

The costs already sunk by many large companies to develop their own delivery networks means that ANC has been forced to compete on quality of service. Consequently, its remaining large customers are satisfied in the main with the services it provides. Interviews with the ANC's largest customer indicates that it is satisfied with the cost and quality of service provision and the ANC's responsiveness when problems arise. Other large customers are less satisfied but there is disagreement over who is to blame for particular problems (e.g. undelivered mail that may be caused by incorrect addresses or poor performance by ANC).

The competition in the market for mail service provision means that dissatisfied customers can switch to alternative providers relatively easily. One large customer who was dissatisfied with the ANC's performance was conducting a competitive procurement process to award the contract for mail delivery. Evidence from this process indicates that ANC continues to have a large advantage in price over its competitors—largely because of more favourable tax treatment—which allows it to compete while providing a slightly lower quality service.

<u>Access</u>

With 91% of its population in urban areas Uruguay is one of the most urbanised countries in the world. This greatly facilitates customer access to mail services and ANC, through its network of 1,021 franchise and ANC-operated offices is able to provide access to all villages with a population in excess of 400 inhabitants. The development of this network has decreased the number of people per post office slightly over the past few years to the point where it stands at about 3,000 inhabitants per permanent post office.[51]

Furthermore, ANC offers delivery to the door for the vast majority of its customers, for all customers other than those in small villages.

This counters network is extensive when compared with the provision in neighbouring countries as shown in Figure 5-11.

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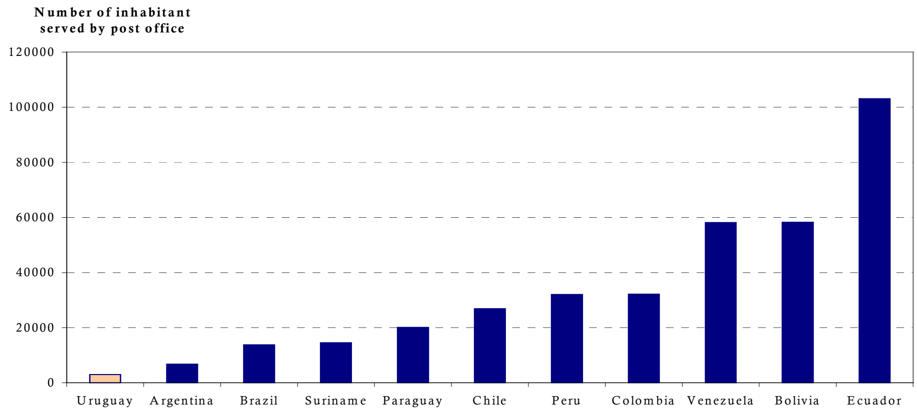
[51] Interviews indicated that a number of these post offices may be unprofitable. The ANC is currently developing a strategy that may see the closure of some offices. This would decrease coverage by the ANC.

Figure 5-11: Comparison of inhabitants per permanent post office



Note: permanent office includes both owned and franchised post offices
Source: UPU for all countries

5.3.2 Tariffs and affordability

In addition to access, customers also care about the affordability of the services. Evidence from Uruguay indicates that ANC continues to offer the least cost service among the range of operators, although partly because of subsidy provided by the government rather than necessarily superior efficiency. The lower cost ANC service does provide large and residential customers with a range of choice from the lower cost and lower quality ANC service to higher cost and improved quality of alternative providers.

Table 5-3 provides an overview of ANC's current tariffs for regular and priority mail. Evidence from interviews indicate that these are at least 15% lower than tariffs for mail of similar weights offered by competitors (as shown in Table 4-2). Competition in the sector means that ANC has not increased its tariffs since September 2001. Consequently, large customers who are satisfied with the quality of service provided by ANC have tended to remain customers while those who have experienced difficulties with the reliability of the ANC have chosen to self-provide or contract another licensed operator.

Table 5-3: Letter tariffs (Uy$, 2003)

Weight	Tariff (Uy$)

Table 5-3: Letter tariffs (Uy$, 2003)

Weight	Tariff (Uy$)
Regular service	
≤ 200 grams	12
201 to 500 grams	24
501 to 2,000 grams	42
Every 1000 grams above 2,000	19
Track and Trace domestic service (Green and Red services)[a]	
≤ 100 grams	15-18
101 to 200 grams	19 – 25
201 to 500 grams	25 - 31
501 to 2000 grams	44 – 54

a These services differ according to options of the track and trace.
Source: ANC

Despite the fact that ANC's tariffs are lower than its competitors the tariff does appear high relative to the cost of other commodities. For example, a local telephone call costs about Uy$0.23 per minute, which would allow a 50 minute conversation for less than the cost of a letter posted in the regular mail. Similarly, a single bus fare costs about Uy$13 which means that, within urban areas, an individual could likely take a bus ride and visit their counterpart for about the same price as a regular letter. Other basic commodities also appear to point to a relatively high postal cost. For example[52]:

- one litre milk costs about Uy$8.7;
- half a dozen eggs costs about Uy$ 13;
- one kg sugar costs about Uy$17.9; and
- one kg bread costs about Uy$40.

52 As at March 2003, according to the Uruguayan Institute of Statistics (ISE)

Finally, the internet, which also competes with the mail for customers appears to be priced at a comparable level. Unlimited monthly access, excluding the telephone charge to connect, is about Uy$254—an average of about Uy$8.4 per day. Given the cost of a local call this would allow daily access for about 15 minutes for the same price as a single, regular letter. Fifteen minutes would allow a computer literate individual to read and write a few e-mails a day.

Discounts to large customers from the published rates vary considerably, generally anywhere between 10% and 33%. This allows the ANC to maintain prices below those of its competitors, who also offer volume discounts[53]. However, self-provision continues to be favoured by several large companies with established networks. This reflects, they argue, the fact that the quality-adjusted marginal cost of these established networks continues to be below that of ANC, despite the discounts ANC is able to offer.

This analysis of the cost of postage relative to other forms of communication and basic commodities indicates that telephone and internet services may constitute significant competitors for mail operators. In particular, current tariffs would allow reasonable use of these alternative means of communication at a cost comparable to that of sending a letter a letter by regular post.

5.4 Key findings

The main conclusions from this section are:

- The ANC appears to have witnessed a large increase in volume since the reforms thanks to general economic growth and improvements to its quality of services.
- The above development has not been translated into a reduction in the losses of ANC.
- Rival operators key competitive advantage appears to be reliability and standard of delivery and have been successful in providing services to

53 Two public institutions can directly negotiate prices without the need to tender the services. In this case, the agreement is signed by the two Boards of these entities. This is an advantage enjoyed by the ANC and not its competitors in that market segment.

business mailers. Business mailers have been the main customers that have taken up these alternative services.

- Postal prices overall remain high when compared with basic commodities, and in particular telecommunication services. However, large mailers benefits from significant discounts.

- Customers have access to a wide range of services offered by competing operators.

6. Emerging lessons

This section summarises the main lessons that emerge from this case study. It is important to keep in mind the unique characteristics of Uruguay that may limit the applicability of these lessons elsewhere. Of particular importance is the highly urbanised nature of Uruguayan society. The fact that 91% of the population live in urban areas distinguishes Uruguay from the vast majority of other middle and low-income countries and means that some of the lessons that emerge may not apply to countries with otherwise similar income levels.

6.1 Network efficiencies

Entry on a national scale in the sector has been possible thanks to the possibility of access/ interconnection arrangements for rural delivery. The provision of a national service by the licensed operators, including the ANC, relies on the interconnection between operators in rural and, to a lesser extent, suburban areas.

On the other hand, the distribution of invoices by issuing companies across the country does not make use of other operators. They have duplicated the delivery function in rural areas as well as in urban areas but benefit from some economies of scope by combining invoice delivery with other services (e.g. meter reading).

Some 126 licensed operators cover about 50% of the total market of which 60% or so is handled by the ANC; and the other 50% of the total market is covered by companies delivering their own invoices (and which do not require a postal licence).

The synthesis report analyses the economic rationale for the nature and scope of entry in the postal market observed in Uruguay.

6.2 Financial viability of universal service provider

6.2.1 Definition of the USO

There is no legal definition of the USO. This has led the ANC to develop an operational definition that has resulted in a large number of permanent post offices. These place a considerable financial burden on ANC. A more rigorous approach would consider the costs and benefits of alternative definitions of the USO before imposing a clear, legal obligation. This legal obligation would then provide a clearly framework within which to fund the USO.

6.2.2 The USO burden

The USO cost is defined as the sum of the losses made in providing a letter delivery service in areas where the unit price does not cover the cost of provision. Typically, the imposition of a uniform tariff creates such areas. In Uruguay, ANC's uniform tariff for a given standard of service applies only to its basic domestic letter service. The pricing of its letter priority mail varies according to distance. As a result the extent of the requirement for cross subsidy may not be large.

There is also a USO burden for the maintenance of a counters network. This appears to be the main burden for ANC, which has chosen to provide an extensive post office network, largely through franchise offices. The ANC has chosen to maintain an operational USO that ensures a permanent office serves all villages with populations in excess of 400 inhabitants. The post office counters are the only points of access for customers to hand over their mail. The result is that customers per post office average around 3,000 which is much lower than that of neighbouring countries.

6.2.3 Funding of the USO

The funding options available to the ANC are cross-subsidies, direct subsidy from the state and cost efficiency gains.

The ANC has received funding from both licensed operators (via the postal tax) and from the government. The government subsidy (which is also to cover the handling of government mail by the ANC at no charge) has been declining until the postal tax on licensed operator was abolished. Nevertheless, the subsidy remains a substantial proportion of mail turnover, and equals to 43% in 2002[54].

Over the seven-year period to 2002, ANC increased its items processed per employee from 3,770 to 18,123. This appears to have been mainly driven by the increase in competition and the reforms that have helped to increase autonomy of the ANC allowing it more operational independence. However, unit cost has broadly remained unchanged over

54 We do not hold information on determination of the level of subsidy given by the government to the ANC.

the period according to the latest data provided by the ANC – largely because of costs due to large exchange rate fluctuations[55].

6.3 Customer requirements

Importance of quality of service

The need for utilities and other companies to ensure invoices are properly delivered means they are often unwilling to accept poor quality of service from the postal operator. If their invoices do not arrive, they are not paid. As a result:

- such companies may be willing to incur a slightly higher marginal cost in order to ensure delivery of invoices; and

- it may take an incumbent operator a long time of good service to reverse the effect of a history of poor service.

The main consequence of this for the ANC, is that it has not been possible to date to recapture a large proportion of the market.

Tariffs

The ANC's tariffs are lower than those posted by rivals. This is partly explained by the fact that VAT applies to the tariffs of the licensed operators but not to the ANC. Excluding VAT, the ANC remains the cheapest. Nevertheless, a large number of competitors continue to operate. This suggests they must be offering higher quality services than the ANC, or can offer a wider range of products that attract customers.

[55] Source: ANC

Annex 1

Terms of Reference

Terms of reference

Evaluation of the postal sector reform in Tanzania and Uruguay, and strategic views for the future

1. Objectives of the assistance

The World Bank is preparing its postal sector strategy which will set a framework for the reform of the postal sector in developing countries. In order to provide this advise in an effective manner, the Bank is seeking to develop a better social and economic knowledge of the sector, and a better understanding of the postal sector patterns and characteristics in developing countries.

Many postal sector reforms were undertaken during the past decade with different degrees of success. The World Bank is trying to assess some of those reforms to identify some key success factors in terms of sector development and poverty alleviation, and a best practice. Tanzania and Uruguay stand as complementary candidates whose diverse experience can teach interesting lessons. Tanzania offers enough distance, 5 years from the completion of the reform, to assess the middle term impact of the reform. Uruguay on the other hand has not been through a formal postal reform process, however, its postal market does exhibit a high degree of competition.

The World Bank wants to:

- obtain a precise understanding of the market dynamics in the postal sector,
- how these dynamics are articulated in the broader economy (on the basis of market-wide data collection and economic analysis),
- provide new data on the postal sector
- draw conclusions, lessons learned and recommendations for postal sector development not only for Tanzania and Uruguay, but also with regards to postal sector reform in developing countries in general.

In order to meet these objectives, the World Bank strongly insists on the collection of a data and indicators to support the report analysis; a minimum set of data is suggested in **Annex 1**; these data and indicators must be collected for both countries; the Consultant is warmly invited to expand this set to strengthen his analytical work. Those data will be completed by another complementary questionnaire (**Annex 3**). Lastly,

Annex 2 displays a number of reference that can be of guidance for the Consultant.

2. Scope of work

It should be noted that this study of the postal sector is to be broadly based, i.e. the focus should be on the demand side market definitions, rather than a market defined by the services provided by the historical postal operator.

Because the postal sector in Tanzania and Uruguay differ significantly, it was decided to distinguish the scope of work for the two countries, although in many regards, the analytical framework remains similar. The Consultant will present its analysis distinguishing Uruguay, Tanzania, and the lessons learned and general recommendations relative to postal sector reform in developing countries.

In addition to the strong focus on the market analysis (demand/supply), the Consultant is invited to link postal sector and development. A draft concept paper prepared by an economic team of the World Bank and relative to the issue of postal sector and development will be shared with the Consultant (the document will be provided to the selected firm). The Consultant will comment on this draft and as much as possible follow the same approach in her/his assignment.

There will be three deliverables: one report on the Tanzania postal sector, on report on the Uruguay postal sector, and one report of synthesis that will bring out common problematics met in the two countries and can reflect on the general patterns common to most developing countries facing the challenge of modernizing their postal sector. In particular, the Consultant will identify the most important market failures and limitations to universal access, their consequences on the overall sector performance, and avenues to resolve those failures.

3. Methodology

The consultant will aim at evaluating the performance of the postal sector in both countries at different levels, amongst which:

(i) Demand analysis and product substitution:

- survey of main customer categories: individuals, SMEs, businesses, large mailers, Government; what are their postal service usage, what is their unmet demand, what they would want/need from the historical postal operator

- what substitute products and services to postal services do customers turn to

- relationship between the country's e-readiness (internet penetration, total number of electronic mailbox) and the historical postal operator performance

(ii) Supply side:

- utilizing existing data and new research, define the postal sector in Tanzania and Uruguay in terms of demand, service providers, and product offerings; evaluate it in economic terms (in order to assess its relative importance within the national economies)

- describe the segment growth distinguishing between the historical postal operator, the private operators, and the informal economy

- give volume and value growth indications for the different market segments

- compare Tanzania and Uruguay postal sector performance to the performance of the postal sector in analogous countries

(iii) Tariffs:

- tariffs of the universal services and services under exclusivity

- tariffs of the services under competition (comparison between the historical postal operator and the private operators): cost-oriented, market-oriented, and operating margins

(iv) Quality of service and customer satisfaction:

- transit time for letters (domestic, international)

- customer (private/business) satisfaction, both in terms of reliability and diversity of services, qualification of postal staff

(v) Regulation:

- regulatory framework including scope and effectiveness of the regulator

- determine the overall impact which this framework has on sector definition and performance

(vi) Social and universal access:

- universal access and coverage: has the access to postal, financial and other communication services improved over years through the enhancement of the postal system?
- what measure would be the most relevant to illustrate the actual accessibility by population to basic postal services?
- over the past ten years, has the postal sector seen creation or elimination of jobs

(vii) Historical postal operator performance:

- corporate strategy and organization
- level of commercialization achieved
- management systems and human resources enhancement
- productivity
- financial results
- investments and adequate financial resources management

In addition, the Consultant is requested to archive in an annex to the Studies all types of documentation relevant to them (laws, decrees, tariff schedules,…) and provide electronic copies (when possible) or hard copies.

4. Data collection

In order to meet the objectives of this study, the World Bank strongly insists on the collection of a number of data and indicators to support the report analysis; a minimum set of data is suggested in **Annex 1**; these data and indicators must be collected for both countries; the Consultant is warmly invited to expand this set to strengthen his analytical work (as long as they are robust, reliable and consistent enough to allow for relevant analysis).

The Consultant is expected to collect information **beyond** that provided by the Universal Postal Union. As the scope of the studies covers the market as a whole (and not only the historical postal operator), resources will need to be dedicated to collect those sector-wide data. In addition, the Consultant will try to relate the sector data with nationwide economy reference (i.e.: if referring to the postal savings performance, display the part represented by postal savings in the GDP, but equally the importance of national and private savings in the economy, so as to provide us with a more relevant view of the relative importance of the postal system at this level).

The Consultant is invited to gather data from 1990 until the most recent years available; however in the occurrence of data available before 1990, the Consultant should complete the data series so as to provide us with more extended time-series (1980's for instance); those older data will need to be robust, reliable and consistent enough with the newest statistic as to allow for relevant analysis.

In addition, the Consultant will fill up the four-part questionnaire attached in **Annex 3**[56]. This questionnaire covers the legal and regulatory framework description, the market description, the network description, and the operational and financial description of the historical postal operator.

5. Country analysis

5.1. Background information

5.1.1. Tanzania

Postal sector reform in Tanzania was accomplished despite very difficult circumstances: low income per capita, a very poor performing postal sector, and a very weak historical postal operator. This process was accomplished in two phases. The first, a reform of the postal regulatory regime took place within the general restructuring of state owned enterprises in Tanzania from 1992-1995 and led to the creation of Tanzania Post Corporation (TPC), as a state enterprise, fully owned by the Government of the United Republic of Tanzania. The second phase built upon these positive changes to accomplish the commercialization of TPC between 1995 and 1998. Further information can be found in the "Postal Industry in an Internet Age" booklet co-published by the World Bank and the Universal Postal Union downloadable from their websites[57].

5.1.2. Uruguay

The postal market in Uruguay is broadly comparable to other countries but is more segmented and there is an incentive for self provision. In the market the historical operator does not fare very well and the per capita mail volumes are lower than expected. Total volume figures are difficult

[56] This questionnaire was used last year to build a postal database by the World Bank; at the time, Tanzania answered the Questionnaire; the Consultant will just need to update it. Uruguay had not answered the questionnaire; the Consultant will have to fill it up.

[57] http://www.upu.int/publications/en/internet_age_en.pdf; http://info.worldbank.org/ict/policyPostalService.html

to obtain but a close approximation would be 30 million pieces carried by the public operator, Administración Nacional de Correos (ANC). This is an annual average of 8.8 letters per person per year which is significantly below the average for the five countries above and the five countries below Uruguay in GDP per capita, PPP[58]:

Indicator	**Income Comparators**		**Uruguay**
	Average Below	Average Above	
GDP per capita, PPP (current international $)	$8621USD	$9391USD	$9035USD
Letters/Staff	27580	52914	15,625
Average letter per inhabitant, 2000	21.6	40.1	8.8

Even if the approximately 20 million pieces carried by private postal operators are added to this total, the average letters per inhabitant only increases to 14.7 Approximately 80% of all mail is business to business or business to individual commercial mail consisting of bills, statements of accounts, credit cards, advertisements, etc. The national distribution of mail appears to be 80% in Montevideo and 20% in the rest of the country.

Segmentation by type of business mailer includes:

- Public sector
- Financial sector
- Industrial and manufacturing sector
- Commercial and service sector
- Business and professional associations

In addition to these markets, there is a unique system in Uruguay through which government utilities and services such as UTE, OSE, ANTEL, BSE, and others use their own staff to deliver their bills and statements of account. Estimates of the volumes for this "mail" range from 40 million to 50 million pieces per year. This portion of the market nearly equals the portion that is legally defined as mail. Adding the low estimate of these volumes (40 million pieces) to the existing mail market would increase

58 Croatia, Russian Federation, Costa Rica, Trinidad and Tobago, Mexico, Poland, Malaysia, South Africa, Chile, and Mauritius.

average letters per inhabitant figure to 26.4, falling between the two averages shown in the chart above.

There are six basic types of mail service providers in Uruguay:

- The ANC
- Private postal operators
- International Couriers (e.g., DHL, Fedex)
- Transportation companies (e.g. bus and truck lines)
- Government service and utility companies delivering their own bills and accounts
- Informal services provided by individuals "commissioned" by others to deliver their mail.

In terms of price, private services have a price average of $10 pesos for a simple letter versus that of $12 pesos for the ANC. Both prices are relatively high for a first weight step ($0.36 USD and $0.43 USD respectively).

In summary, while the Uruguayan postal market is extremely competitive and diverse.

5.2 Main outputs

5.2.1. Tanzania

The consultant will:

(i) Define a baseline against which the evaluation will be completed:

- describe the situation of the postal sector before the reform was initiated; this description will be both qualitative and quantitative (see Annex 1 for the list of indicators)
- summarizing the reform project objectives (regulatory and institutional wise, as well as the main market drivers)
- commenting on the relevance of the objectives as regard to the initial situation described before; suggest alternative objectives that could have been pursued

(ii) Describe the different actions completed during the project implementation

(iii) Assess the success of the reform against the baseline and the project objectives, using both qualitative and quantitative views; identify the key success factors to the reform; compare with analogous postal reforms in other countries

(iv) Describe the economic benefits and impacts achieved by the reform with specific emphasis on non postal sectors such as transportation, financial services, advertising.

(v) Suggest avenues that could have secured better success for the reform and its long-term impact, similar characteristics to Tanzania.

(vi) Analysis the market organization and identify source of competition distortion (such as dominant position, favorable tax treatment for the historical postal operator…)

(vi) Suggest avenues for further sector strategic development through an in-depth economic market study, that will look at both supply and demand (see Annex 1).

5.2.2. Uruguay

The consultant will define the overall performance the postal sector and the level of support it provides in terms of:

- *Service provision*:
    - Universal access and coverage, access to postal, financial, and other communication services;
    - Tariffs for universal services and services under exclusivity; comparison of these tariffs to other basic commodities;
    - Tariffs of the services under competition: cost-oriented, market-oriented, and operating margins.
    - Coverage, quality of service, and relative levels of customer satisfaction
- *Responsiveness existing and latent demand*
- Level of usage of direct mail as a means of advertising;
- Viability of the postal network as a financial network channel for distributing bills, statements of accounts, etc.
- Viability of the postal network for making payments; and

- Relative cost of maintaining sector as demonstrated by price levels, subsidies, etc

- <u>*Network efficiency*</u>

  - Economies of scale relative to other networks

  - Interaction and support provided for other sectors (e.g., transportation, financial services, etc.)

The Consultant will also:

(1) describe strategies that could maximize this performance over the long-term; and

(2) suggest avenues for further sector strategic development through an in-depth economic market study, that will look at both supply and demand (see Annex 2). This analysis will encompass the draft concept paper prepared by an economic team of the World Bank and relative to postal sector and development (document will be provided to the selected firm); the Consultant will comment on this paper and relate it to the analytical work prepared under this assignment.

6. Schedule and deliverable

The total time of the assignment is 12 weeks. This assignment will require a first phase of desk research and analytical work (2 weeks), then individual missions to each country (3 weeks each), then a report preparation period of 4 weeks. The consultant will share the draft reports with World Bank staff who will comment and suggest changes. Final report should be completed 1 week after transmission of the World Bank final round of comments. No more than 6 weeks should separate the transmission of the draft report and the transmission of the final report.

Contract signature + 2 weeks	Desk research, including comments on World Bank Draft concept note on postal development
Contract signature + 5 weeks	Field visits
Contract signature + 9 weeks	Intermediary Reports 1 and 2: Tanzania and Uruguay
Contract signature + 10 weeks	Intermediary Report 3: Synthesis report
Contract signature + 12 weeks	Final reports (1, 2, 3) taking into account World Bank suggestions

The final complete report will be the collection of the three previously described reports (Tanzania, Uruguay, Synthesis). It should contain no less than 60 pages. Each of the individual country treatments should contain sub-chapters covering the sub-sections as described in paragraphs 5.2.1. and 5.2.2., following the methodology framework (paragraph 3) and the data collection requirements (paragraph 4).

10% of the payment will be made at the start of the assignment, then 40% after the mission on the field, then 20% at the transmission of the draft Synthesis report, then 30% at the transmission of the final report.

7. Profile of the consultant

The consultant will have a strong economic background with large exposure to the postal industry, both in industrialized and developing countries, for at least 10 years. The ideal consultant will have conducted or participated to postal reforms in developing countries. The ability to work in English and Spanish is required.

Annex 2

Listed of data collected

Table A2-1: Documents received

Document	Publication Information
Reports	
Strategic 5-year Plan 2000-2004	July 2000, ANC
Economic and Financial Impacts of ANC Strategies	January 2001, Cr. E. Vispos (independent consultant)
Study for the Evaluation of the Sophistication of Business Clients	Dec. 2002, ANC
Evaluation Report – National Quality Prize	2000, ANC
Strategic Objectives 2001-2004	June 2002, ANC
Situation Analysis – Feb. 2002	June 2002, ANC
Commercial Customers' Satisfaction Survey	Nov. 2002, Sales Dept., ANC
Quality of Service Measurement	March 2002, ANC
UPU, UPAEP Ratification Acts	April 2003, ANC
Product Information	March 2003, ANC
El Correo and the New Market Trends	2003, International Relations, ANC
Organizational Chart, ANC	2003, ANC
List and volumes of top commercial customers (46)	April 2003, ANC
Monthly Volumes, revenues and average rates 2001 – 2003 for commercial customers	April 2003, ANC
Volumes 1999-2003 Individual and Commercial segments	April 2003, ANC
Internal Manual, Services, Tariffs and Discount Tables (comm. mail)	2003, Commercial Dept. ANC
Tariffs effectives from 1997 - 2001	ANC

Table A2-1: Documents received	
Document	**Publication Information**
Tariffs effectives from 10 Sep. 2001	ANC
Organizational Chart, URSEC	2003, U.R.S.E.C.
Resolution N. 85 – Act 15 – On permits for the provision of postal services	16.08.2001, URSEC
Resolution N. 184/Act 17	16 May 2002, URSEC
Register of postal operators	2003, URSEC
Register of national Postal Operations	2003
Register of national and International Postal Operations	2003
Transport Companies	2003
GIS Codification and address validation	April 2003, ANC
Planning and Budgeting Office Function	Web site, OPP
Discussion Paper on El Correo	2000, University of Montevideo
Objective Strategies of OPP	No Dates
Laws and Decrees	
Article 70 of Law N. 17296	21.02.2001 - Creation of Regulatory Body – U.R.S.E.C.
ANCs letter to URSEC & distribution of Correos	25/04/03
Decree 212/001	4 May 2001
Decree 206/002	11 June 2002
Decree 348/992	
Law N. 17556	
Law N. 13640, Art. 197	
Art 6 of Law N. 17250 – Basic Consumers' Rights	Ministry of Economy and Finance

Table A2-1: Documents received	
Document	**Publication Information**
Decree N. 244/000 -	23.08.00
Draft Decree – Parcels and samples import	Dec. 2002, prepared by AUDECE
Section XIV Chapter 1 of Constitution – the Public Estate	Dec. 91/1997 (2 Copies)
Postal Laws and Decrees	
Art. 28 of the Urug. Constitution – Inviolability of Correspondence	1967
Section XI – Chapter 1 of the Constitution – Decentralized services and their Board of Directors	1967
Law N. 5356 – Reorganization of Postal, Telegraph and Telephone Services	16 Dec. 1915
Law N. 9155 – Penal Code – Inviolability of Correspondence	No date
Law N. 13640 - Franquicias	No date
Law N. 14443 – Internal postal parcels	21 Oct. 1975
Law N. 15913 – Book Tariffs	18 Sep. 1956
Law. N. 16736 – Creation of ANC	1st Jan. 1996
Decree 197/992 – Private mail operators	12 May 1992
Decree 620/974 – Printed matters	1st Aug. 1974
Decree w/n – Postal franchises	18.09.1956
Decree w/ n - Tariffs	09.03.1948
Other Laws	
Law N. 17.250 – Consumers' Protection	17.08.2000

Annex 3

People interviewed

Table A3-1: People interviewed	
Name	**Position**
Administracion Nacional de Correos	
Cr. Alejandro Séré	General Manager
Gustavo Osta	Vice- President (Board)
Eustachio Vera	Advisor to the Board
Dra. Giannella Viñoly	Jefe Depto. Jurídico (consulted via telephone and e-mail)
Lic. Fernanda Pérez Pastorini	Head of International Relations
Ing. Bruno Güella	Manager, Parcel Division
Ing. Fernando Vignoli	Manager, Information Systems
Cr. Mario Pintos Ruggeri	Gerente Comercial (consulted via e-mail)
Oscar Rodriguez	Manager, Sales
Cr. Gabriel Del Río	Manager, Franchises (consulted via e-mail
José Luis Juárez	Manager, Operations (_onsulted via e-mail)
Planning and Budgeting Office (OPP)	
Cra. Graciela Pérez Montero G.	Director, Public Entreprises Dept.
Cr. Jose Mallot	Advisor, Public Entreprises Dept.
Regulator (U.R.S.E.C.)	
Ec. Mario Vergara	Director
Dra. Elena F. Grauert Hamann	General Secretary
Dra. Carol Dolinkas	International Consulting
Esc. Lilian Longo	Postal courier operators

Table A3-1: People interviewed

Name	Position
Ministry of Economy and Finance – Consumers' Protection	
Cr. Adrian Cabrera	Head of Department
Competitors: International Courier Operators	
Adolfo Sommer	General Manager DHL Uruguay
Mauro Rivas	Commercial Manager, DHL Uy
International Courier Operators (cont'd)	
Ing. Paula Naquil	Country Manager, Fedex Uy
Maggie Hughes	General Manager, UPS Uruguay and President AUDESE
Competitors: National Operators	
Carlos Bottaro Forapagliero	President of Grupo Transport and President of CEDCA
Ing. Ronald Ware	Director General of Tiempost
Juan José Crncich	Director, SkyNet
Emilio Rostan	Director, Nexo
Cr. Roberto H. Pedemonte	Gen. Manager, Agencia Central
Incumbent's Commercial Clients	
Cra. Ivonne Vicente	Manager, Logistics, BPS
Andrés Benítez Luce	Manager, Procurement, BPS
Cr. Rafael Rocha	Administr. Mgr., La Manchega
Ruben A. Picco Bo	Mgr., External Sales, Banco República
Other	
Esc. Ricardo C. Scaglia	President UTE (Utility)

Annex 4

Milestones of Uruguayan post office

Key milestones for Uruguay Post Office

A brief historical background of the Uruguayan Post and the postal sector in general is provided below:

- **1829 –** The Post opens its doors in Montevideo. The same year, a provisional regulatory framework is proposed for the Administración General de Correos.

- **1877 –** A Decree creates the existing Post (established in 1829) as Dirección y Administración General de Correos (DGC) as well as the position of Director General of Correos.

- **1880 –** The DGC joins the Universal Postal Union.

- **1915** – Law N. 5.356 of 16 Dec. grants full monopoly for postal, telegraph and telephone services to the Administración de Correos, Telégrafos y Teléfonos (ANCTT), Art. 3 of the same law, allows courier companies to provide postal services if in possession of a "revocable" permit granted by the ANCTT and subject to the payment of a postal tax for the items delivered.

- **1975** – By Law N. 14.443 –21 Oct. 1975 the Post eliminates from its product line the national parcel service for items over 2 kg., which was then to be provided by the State Railways Company (AFE) and by other companies under a free competition regime. In compensation, Art. 14 of the same Law, obliged all national scheduled companies, dedicated to transportation of passenger or goods, to transport mail bags free of charge for the DNC.

- **1992 –** Decree 197/992, establishes that local companies would be allowed to receive, transport and deliver mail in the national territory, accept international outbound and international inbound mail under the obtention of a permit granted by the Dirección Nacional de Correos, after payment of a guarantee and a postal tax on items handled. At this point the DNC was also acting as a Regulator.

- **1996 –** Creation of the ANC as a decentralized service.

- **2001** – The regulatory function of the ANC is derogated and given to the new regulatory body, the URSEC (Law N. 17.296). Art. 268 of the same Law abolishes free transportation of mail bags by bus and transportation companies.