



COMMERCIAL SUSTAINABILITY OF DESIGNATED POSTAL OPERATORS IN SADC IN RELATION TO THEIR UNIVERSAL SERVICE OBLIGATIONS (USO)

Research Report

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Table of Contents

| | |
|---|----|
| I. Acknowledgements | 2 |
| II. Acronyms and Abbreviations | 3 |
| III. List of Figures | 4 |
| IV. EXECUTIVE SUMMARY | 5 |
| 1. INTRODUCTION..... | 13 |
| 1.1 Research Objectives..... | 14 |
| 1.2 Research Methodology | 15 |
| 1.3 Scope | 16 |
| 2. FINDINGS | 17 |
| 2.1 Postal Sector Definition | 17 |
| 2.2 Historical Performance of Designated Postal Operators (DPOs)..... | 17 |
| 2.2.1 Financial Performance..... | 19 |
| 2.2.2 Operational Performance | 24 |
| 2.2.3 Section Summary..... | 26 |
| 2.3 Universal Service Obligations (USO) Imposed on the Designated Postal Operators in SADC..... | 28 |
| 2.3.1 Background and Context | 28 |
| 2.3.2 USO Situation in Africa and SADC | 30 |
| 2.3.3 Understanding the Financial Burden of the USO | 33 |
| 2.4 Impact of the USO on Commercial Sustainability of DPOs..... | 35 |
| 2.4.1 Impact Viability | 36 |
| 2.4.2 Operational Viability | 37 |
| 2.4.3 Financial and Balance Sheet Sustainability | 39 |
| 2.5 Commercial Sustainability Framework..... | 40 |
| 2.6 Commercial Sustainability Framework applied to SADC DPOs..... | 42 |
| 3. Conclusions and Recommendations | 43 |
| 4. References | 45 |

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II. Acronyms and Abbreviations

| Number | Acronym or Abbreviation | Meaning |
|--------|-------------------------|---|
| 1 | ZIPD | Integrated Index for Postal Development (UPU) |
| 2 | CRASA | Communications Regulators' Association of Southern Africa |
| 3 | DPO | Designated Postal Operator |
| 4 | DRC | Democratic Republic of the Congo |
| 5 | EP | Entry Pricing |
| 6 | EU | European Union |
| 7 | ICT | Information and Communications Technology |
| 8 | NAC | Net Avoided Cost |
| 9 | NRA | National Regulatory Authority |
| 10 | OPEX | Operational Expenditure |
| 11 | PTT | Post, Telephone and Telegraph |
| 12 | QoS | Quality of Service |
| 13 | SADC | Southern African Development Community |
| 14 | SDG | Sustainable Development Goals |
| 15 | SWOT | Strengths, weaknesses, Opportunities and Threats |
| 16 | TCM | Transport, Communications and Meteorology |
| 17 | UPU | Universal Postal Union |
| 18 | USO | Universal Service Obligation |

III. List of Figures

| | |
|---|----|
| Figure 16. Commercial Sustainability Framework (Source Analysys Mason) | 8 |
| Figure 1 Growth Trend in Assets | 20 |
| Figure 2. Decline in Postal Outlets from 2014 to 2019 (Source UPU) | 20 |
| Figure 3. Current Ratios for Past 5 Years (Source Annual Reports) | 21 |
| Figure 4. Percentage of Revenue Derived from Letter-Post (Source UPU) | 23 |
| Figure 5. Estimated Percentage of Operating Costs Associated with the USO | 24 |
| Figure 6. International Letter-Post Volumes (Source UPU) | 25 |
| Figure 7. Combined Domestic Letter-Post Volumes (Source UPU) | 25 |
| Figure 8. Combined International Parcel and Express Volumes (Source UPU) | 26 |
| Figure 9. Global Parcel and Express Trends (Source UPU) | 26 |
| Figure 10. Access to Postal Services (Source Analysys Mason) | 30 |
| Figure 11. Access to Postal Services in SADC (Source Analysys Mason) | 31 |
| Figure 12. USO Accessibility Targets in SADC Countries (Source CRASA Country Report 2019) | 31 |
| Figure 13. Status of USO Policy and Regulatory Frameworks in SADC Countries (Source CRASA Report on Implementation of Postal Guidelines 2019) | 32 |
| Figure 14. Scope of USO in SADC Countries (Source CRASA Report on Implementation of Postal Guidelines) | 32 |
| Figure 15. USO Funding Mechanisms Source CRASA Report on Implementation of Postal Guidelines 2019) | 33 |
| Figure 16. Commercial Sustainability Framework (Source Analysys Mason) | 35 |
| Figure 17. Average of 2IPD Scores 2016-2018 (Source UPU) | 37 |
| Figure 18. Operational Viability Matrix (Source CRASA) | 38 |
| Figure 19. Balance Sheet and Financial Sustainability Matrix (Source CRASA) | 40 |
| Figure 20. Commercial Sustainability Matrix with Weighted Scores | 41 |
| Figure 22 Gross and Net Profit Margin Trends of DPOs (Source UPU) | 47 |
| Figure 23. Regional Letter-Post Volumes (Source UPU) | 49 |
| Figure 24. Regional Parcel and Express Volumes (Source UPU) | 51 |

IV. EXECUTIVE SUMMARY

Introduction

As signatories to the Universal Postal Convention, SADC Member States are obliged to support the concept of the Single Global Postal Territory by ensuring that all consumers enjoy the right to a Universal Postal Service. Such a service involves the permanent provision of quality basic postal services at all points in their territory, at affordable prices. From a theoretical perspective, however, the provision of such services to all consumers, bearing in mind the objectives of access, uniformity and affordability, may not always be achieved profitably. The conceptual basis of this study was therefore that the Universal Service Obligations that are imposed on Designated Postal Operators (DPOs), have had an adverse effect on the commercial sustainability of the such operators.

With this hypothesis in mind therefore, the study sought to investigate the nature and extent of such obligations, and to establish how these obligations affect the ability of DPOs to meet the commercial objectives that are increasingly being set by governments in the Region. After establishing this link through an appropriate Commercial Sustainability Framework, the study also sought to identify operational, regulatory and policy measures that can be implemented to improve the commercial sustainability of DPOs going forward.

Specific Objectives of the Study

- A. Analysing from a historical perspective, the financial and operational performance of Designated Postal Operators (DPOs), in SADC with a view to identifying both positive and adverse trends for further investigation;
- B. Establishing the nature, scope and extent of USO imposed on the Designated Postal Operators in all the SADC;

- C. Proposing an appropriate Framework for defining and measuring Commercial Sustainability in the context of DPOs;
- D. Utilising the said Framework to assess the Commercial Sustainability of the DPOs in SADC;
- E. Recommending suitable business and operational models which may be considered to improve the DPOs' Commercial standing while still maintaining their ability to fulfil their universal service obligations (USO);
- F. Recommending appropriate Policy and Regulatory measures that may be put in place in order to enhance the commercial sustainability of DPOs going forward.

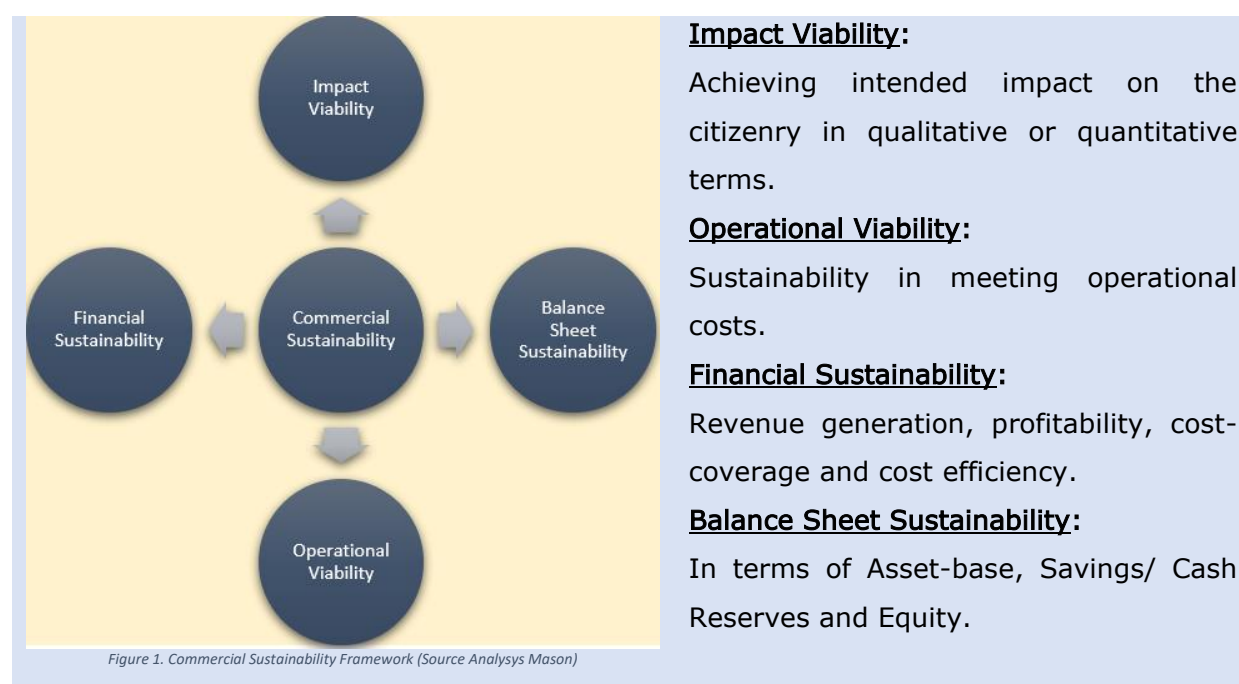
Main Findings – From the Historical Analysis

- A. From a history of full monopoly stemming from the early 1980s, DPOs in SADC now operate in a liberalised market with competition from private courier companies that are active in the acceptance, conveyance and delivery of documents and goods distinguished by value-added features and price;
- B. DPOs have generally adapted to the new market conditions by diversifying and investing in ICT infrastructure to drive and support new customer-centric products and services;
- C. Commercial sustainability is hypothesised to be made up of Impact, Operational and Financial Sustainability – with Financial Sustainability being the primary factor;
- D. In terms of Asset -growth, the sampled DPOs demonstrated a gradual increase in their asset-bases but this growth was not mirrored by growth in their physical networks. There has in fact been a substantial decrease in the number of postal outlets over the same period;

- E. In terms of Liquidity, Namibia and South Africa demonstrated positive liquidity ratios while Botswana and Malawi maintained ratios below 1 for the entire 5-year period reviewed;
- F. In terms of profitability; with the exception of Lesotho, Namibia and Mauritius, the majority of the DPOs in SADC have recorded negative Net and Gross Profit Margins over the past 5 years potentially signalling a systemic problem of sales, pricing and/or cost-containment or even a combination of the above;
- G. In terms of revenue, only Mauritius, South Africa, Tanzania and Zimbabwe derived more than 20% of their gross revenue from Letter-post services. This is contrasted with the significantly higher percentage of costs that are associated with the provision of the same Letter-post services;
- H. Furthermore, the majority of the sampled DPOs maintain more postal outlets in rural, than in urban areas (e.g. Botswana – 75%, Malawi – 65%, Mozambique – 88%);
- I. For letter-post volumes, the international segment accounts for only 11% of total volumes and has been declining since peaking 2016. Domestic Letters, accounting for 89% of the total, have been declining even more steeply since 2014;
- J. In the case of parcels, which have been combined with express and logistics for this analysis, SADC is a predominantly inbound market which has recorded a gradual decline in international volumes that is contrary to the type of ecommerce-associated growth that has been recorded in Europe and the Arab region over the same period;
- K. Available data further suggests that the region's postal network is yet to fully tap into and benefit significantly from the worldwide growth in ecommerce that should be translated into increased parcel and express volumes as is the case in other regions.

The Commercial Sustainability Framework

Commercial sustainability as a concept can be measured in a number of ways. In the context of this study however, the objective was to achieve this through a Commercial Sustainability Framework which takes into account four specific factors as shown in Figure 15.



Impact Viability

Impact viability in the context of this study refers to demonstratable sustainability of the DPOs in terms of achieving the intended impact on the citizenry in qualitative or quantitative terms. After reviewing the available data, the researchers have concluded that the UPU's Integrated Index for Postal Development 2IPD is a reasonable proxy for measuring the impact of Posts within their respective jurisdiction. It measures the performance of countries across four key dimensions of postal development: Reliability, Reach, Relevance and Resilience and uses an algorithm to award a score between 0 and 100.

Operational Viability

Operational Sustainability in the context of this study was considered to mean the ability of the DPOs to operate with the necessary operational efficiency for the medium-long term. This naturally encompasses sustainability in terms of meeting operational costs through efficient use of selected network elements. For the Commercial Sustainability Framework, Operational Viability has initially been measured as follows:

| Network Element | Measurement Metric | Interpretation |
|----------------------|--|--|
| Human Capital | Number of Staff per unit mail traffic volume | The main OPEX item for a DPO will be staff remuneration. The evolution of staff numbers is therefore crucial for assessing operational viability especially in comparison to mail volumes as this represents a measure of operational productivity or efficiency. |
| Delivery | Delivery Channels | DPOs that have more than one delivery channel are expected to be more able to adapt to new market conditions. In the same vein, DPOs that rely solely of P.O. Box delivery are expected to be less able to adapt to the evolving market needs and will therefore be give a lower score in this metric. |
| Network Augmentation | Own Versus Agency/Franchise | DPOs that include postal agents and franchising to augment their networks are considered to be more likely to lower operational costs and therefore receive a higher Operational Viability Score. |

Financial and Balance Sheet Sustainability

Financial and Balance Sheet sustainability have been combined for the purpose of this measurement. For financial sustainability, the key considerations are revenue generation, profitability, cost-coverage and cost efficiency. In the case of Balance Sheet sustainability, the main issues are the asset base in relation to immediate and long-term liabilities, as well as ability to meet USO network expansion/maintenance capital requirements.

In the context of this study and with the limitations of data, Financial and Balance Sustainability will be measured as follows:

| Element | Measurement Metric | Interpretation |
|---------------|---------------------|--|
| Revenue Mix | Growth potential | The reliance on letter-post revenue which is in decline is a threat to financial sustainability. DPOs that invest in deriving more revenue from growth areas as ecommerce and financial services receive a better sustainability rating than those that rely heavily on dwindling Letter-post volumes. |
| Liquidity | Current Ratio | A high Current Ratio is generally considered to be better than a low (below 1) ratio because it means the company is more likely to meet its liabilities which are due over the next 12 months. |
| Profitability | Gross Profit margin | It is generally better to have a higher gross profit margin number as it represents the total gross profit per dollar of revenue. |
| | Net Profit Margin | A positive net profit margin demonstrates that the company is running in profit whereas a negative ratio indicates that the company is making less money than it is spending. |

Applying the Framework to Selected SADC DPOs

As may be inferred from the above, the Commercial Sustainability Framework has been conceptualised to be an index made up of an Impact Viability Score, an Operational Viability Score and a combined Financial/Balance Sustainability Score.

The maximum score for each category is 10. The weight attached to each score has been determined based on their relative importance, with Financial/Balance Sheet Sustainability being given a Weight of 50%, Operational Viability – 30% and Impact viability contributing 20% towards an overall rating out of 100.

Due to the non-availability input data for all the metrics from all the DPOs, the researchers were able to compute the Rankings for the 3 DPOs that had the full set of required data (Malawi, Namibia and South Africa) as follows:

| Code | Category | Metric | Scores | | | Weighted Rating | | |
|--------|--|---------------------------|----------|----------|--------------|-----------------|---------|--------------|
| | | | Malawi | Namibia | South Africa | Malawi | Namibia | South Africa |
| I | Impact Viability | 2IPD Score /10 | 20.3/100 | 33.4/100 | 36.6/100 | 4 | 7 | 7 |
| O | Operational Viability | Letter-Post | 0/10 | 5/10 | 2/10 | 8 | 13 | 11 |
| | | Parcels & Express Volumes | 0/10 | 3/10 | 0/10 | | | |
| | | Delivery Channels | 2/5 | 2/5 | 3/5 | | | |
| | | Network Augmentation | 6/6 | 3/6 | 6/6 | | | |
| F | Financial and Balance Sheet Sustainability | Liquidity | 0/6 | 6/6 | 4/6 | 0 | 38 | 17 |
| | | Profitability | 0/20 | 10/20 | 0/20 | | | |
| TOTALS | | | 28.3 | 62.4 | 51.6 | 12 | 58 | 35 |

- Malawi has the lowest Commercial Sustainability Rating. This is mainly the result of low Liquidity and Profitability Scores
- Namibia, on the other hand has a considerably higher rating due to scoring highly in terms of Liquidity and Profitability and also in the area of operational viability.
- South Africa scored highly under impact, delivery channels and network augmentation but lowly under profitability.

Conclusions and Recommendations

Ultimately, the impact of the USO is to decrease rather than enhance the Commercial Sustainability of DPOs. In this regard, the USO represents a Net Burden for the DPO. The inaccessibility of low-density, rural areas means that high levels of investment are still required for relatively small amounts of additional revenue. The conclusion, indeed, supports that view that universal service is not commercially justifiable and the USO must therefore be imposed.

The following recommendations are hereby put forward for the consideration of CRASA Members and their respective national stakeholders:

- A. Members to accelerate the process of formally defining the USO in terms of Accessibility, Delivery, Quality and Pricing. The product-based definition derived from the UPU Convention is not sufficient on its own and these additional parameters will help to clarify the actual requirements that DPOs need to adhere to in terms of the USO along with the related cost implications.
- B. DPOs should also be requested to provide the necessary financial and operational details that can be used to carry out the types of analyses that were restricted to only a few of the DPOs in this study. It should be the norm for all DPOs to regularly provide Audited Financial Statements and other such information which can be used to maintain and even expand the Commercial Sustainability Framework that has been initiated in this study.
- C. It is further recommended that additional work be undertaken to quantify the impact of the USO on commercial sustainability but in monetary terms for each of the participating DPOs.
- D. DPOs should consider network expansion strategies that rely more on agencies and franchising in order to lower the operational costs associated with the USO
- E. All Members are encouraged to take deliberate measures at Policy, Regulatory and Operational level to address the shortcomings in the 2IPD Scores particularly relating to Reliability, Reach, Relevance and Resilience of Postal Services in each jurisdiction.
- F. Further research is also recommended to identify the causes for the failure of most SADC Countries to take advantage of the growth in ecommerce to increase Parcel and Express Volumes. This additional work may also include an assessment of the feasibility of structural separation or unbundling of the DPO so as to distinguish the services associated with the USO and those that are commercial and profitable.

1. INTRODUCTION

The Communications Regulators' Association of Southern Africa (CRASA) is an association of the National Communications Regulatory Authorities of the Southern African Development Community (SADC). CRASA was established under the SADC Protocol on Transport, Communications and Meteorology (TCM) to facilitate the harmonisation of Information and Communications Technology (ICT) and Postal Sector Policy and Regulatory frameworks in the SADC region. The Association is, in this regard, one of the Implementing Agencies of the SADC Secretariat, actively contributing towards the regional integration and socioeconomic development objectives.

The active membership of CRASA currently includes the National Regulatory Authorities (NRAs) of the following Thirteen (13) SADC Member States: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

As signatories to the Universal Postal Convention, SADC Member States are obliged to support the concept of the Single Global Postal Territory by ensuring that all consumers enjoy the right to a Universal Postal Service. Such a service involves the permanent provision of quality basic postal services at all points in their territory, at affordable prices. This is to be achieved by setting forth, within the framework of their National Postal Legislation or by other customary means, the scope of the Postal Services to be offered; considering both the needs of the population and the national conditions.

From a theoretical perspective, the existence of such obligations means that, in their absence, the market may not provide a sufficient level of service, or the whole scope of products, or at least not at an affordable price level for all consumers. It is also highly probable that provision of such services to all consumers, bearing in mind the objectives of access, uniformity and affordability, may not always be achieved profitably.

Notwithstanding the above, Governments are increasingly demanding their National Postal Operators to be financially self-sufficient and also commercially sustainable and profitable, even with the Universal Service Obligations (USO) at play.

Against this background therefore, CRASA undertook a research study to assess the feasibility of the commercial sustainability objectives that Posts in SADC are now required to pursue. The study also sought to identify specific measures that may be implemented at policy, regulatory and operational levels to ensure that such objectives are achieved without jeopardising the fulfillment of the Universal Postal Convention obligations.

The said study commenced in the 2018/2019 period but was put on hold due to budgetary constraints. The study resumed in the following year using expertise from among the Postal Committee Membership, thereby avoiding the significant costs that would have been incurred had the study been undertaken by an external consultant.

1.1 Research Objectives

As indicated above, the ultimate aim of the study was to assess the feasibility of the Commercial Sustainability Objective and provide guidance on measures that may be implemented at Policy, Regulatory and Operator level to ensure that Posts in SADC continue to fulfil the Universal Postal Union (UPU) Treaty Obligations while meeting the Commercial objectives that are increasingly being set by Governments in the Region.

In this regard, the specific objectives were as follows:

- G. To analyse from a historical perspective, the financial and operational performance of all the Designated Postal Operators (DPOs), in the SADC member states with a view to identifying both positive and adverse trends for further investigation within the context of this study;

- H. To establish the nature, scope and extent of USO imposed on the Designated Postal Operators in all the SADC member states including the terms of Definition, Scope, Standards and Targets, and to analyse the operational and financial impact of these obligations on the DPOs. This analysis should also include the extent of implementation and compliance to the existing USO Strategies, Policies and Legislation within the Member States;
- I. To propose an appropriate Framework with the necessary Operational and Financial parameters for defining and measuring Commercial Sustainability in the context of Designated Postal Operators (DPOs) with Universal Service Obligations;
- J. To utilise the Framework proposed under C above, to assess the Commercial Sustainability of the DPOs in SADC and identify the specific sustainability drivers that each DPO must give attention to in order to improve their sustainability rating;
- K. To recommend suitable business and operational models which may be considered by DPOs in the short, medium and long-term to improve their Commercial standing while still maintaining their ability to fulfil the USO sustainably;
- L. To recommend appropriate Policy and Regulatory measures that may be put in place in order to enhance the commercial sustainability of DPOs while maintaining appropriate levels of competition and its associated benefits within the Postal Sector.

1.2 Research Methodology

Given the nature of the study and the inherent data-collection limitations, the research methodologies used were predominantly descriptive and associational. The descriptive (both qualitative and quantitative) component involved the investigation of the historical financial and operational track-records of the Designated Postal Operators (DPOs) in SADC using available numerical data gathered through a detailed questionnaire administered to the National Regulatory Authorities (NRAs).

The study also included a review of available official documents (annual reports and audited financial statements) from selected DPOs. These were considered to be the most authentic and important sources of information about the financial performance. This laid the foundation for the next phase of the research, (causal comparative) in which an attempt was made to infer the causes of the historical trends in order to develop the Commercial Sustainability Framework referred to under objective B.

1.3 Scope

Pursuant to the specific research objectives above, the scope of the study was guided by the overarching goal of assessing the feasibility of the "*Commercial Sustainability Objective*" and provide guidance on measures that may be implemented at Policy, Regulatory and Operator levels to ensure that Posts in SADC continue to fulfil the UPU Treaty Obligations while meeting the Commercial objectives that are increasingly being set forth by Governments in the Region.

In this regard, the study focused on the following:

- A. The Designated Postal Operators (DPOs) from 13 of the SADC Member States,
- B. The Policy-makers and National Regulatory Authorities (NRAs) from the same 13 Member States,
- C. Historical Perspective:
 - Providing an analysis of the financial and operational performance of the DPOs of interest in the region while identifying relevant country-specific or regional trends.
- D. Nature, Scope and Extent of Universal Service
 - An analysis of the Universal Service Obligations (USO) imposed in each Member State and the extent to which they are being provided.
- E. Framework for defining and measuring Commercial Sustainability
 - Development of a framework that can be used to define and measure Commercial Sustainability using appropriate operational and financial indicators.

- F. Assessing Commercial Sustainability
 - Utilising the above framework to assess the commercial sustainability of each DPO with a view to improving such sustainability.
- G. Recommendations of suitable business and operational models
 - Identifying how each DPO can adopt different business and operational models to improve their commercial sustainability viability while maintaining their ability to provide a universal service.
- H. Recommendations of Policy and Regulatory Measures
 - Policy and regulatory measures that are required to ensure commercial sustainability and universal service are balanced.

2. FINDINGS

2.1 Postal Sector Definition

The scope of the Postal Sector broadly covers the acceptance (including over-the-counter, unmanned collection receptacles or pick-up), processing, transportation (also referred to as conveyance) and delivery of letters and parcels, post office counter services related to letter and parcel delivery, and other related services such as Post Box (P.O Box) rentals.

At the same time, DPOs (typically the incumbent operator that provides postal services often under a partial legal monopoly) also offer an increasing range of services outside the Postal Sector such as pensions payments, telephone or Internet access, financial services and various retail services. At the SADC level, the recommended Postal sector-definition also includes Courier Services (acceptance, processing, conveyance and delivery of letter-type documents and parcels distinguished by additional features such as speed, tracking and proof of delivery).

2.2 Historical Performance of Designated Postal Operators (DPOs)

For an overwhelming majority of countries, the Postal Sector has historically provided an important medium of communication for business and commerce. The sheer size and impact of the Sector has also been significant in terms of employment and support for rapidly globalizing trade, industry and services.

Over the past 30 years, the history of postal services in most developing countries, including those in the SADC region, has been largely defined by an evolution from a government department that was linked with telecommunications services to a separate, state-owned corporate entity that now operates in a liberalised market with a limited legal monopoly over some services in certain cases. The state-owned monopoly era dates back to the 1980s when postal services could operate with cost and service inefficiencies because they faced virtually no challengers. Many also had significant non-mail income earners such as a postal savings bank or a contract to distribute government benefits.

As for the letter-Post or mail segment, monopolies on collection, transportation and delivery, generally, kept rivals out of the market. A further advantage for the DPOs was the limited levels of digital channels and heavy reliance on ordinary letters for communication.

This situation however changed with the structural adjustment process of the early 1990s which saw many developing countries begin the journey of reforming their communications markets. This process typically included the dismantling of the integrated PTT (Post, Telephone, and Telegraph) structure and liberalisation of the communications industry. This not only left most of the DPOs financially exposed (without the support of Telecommunications) but also ushered in a wave of fierce competition from global parcel delivery companies as well as from multiple private courier operators and electronic communications.

Even with continued, albeit limited, monopoly protection in some areas of business, declining letter volumes and increased parcel volumes (mainly attributable to ecommerce and trade) have continued to challenge the concept of providing postal services universally. Furthermore, DPOs were compelled to adapt to the new market realities, partly, through increased diversification, investment in ICT infrastructure and customer-driven innovation where possible.

2.2.1 Financial Performance

2.2.1.1 Balance Sheet Analysis

From the outset, the study hypothesized that Commercial Sustainability is a function of **Impact**, **Operational** and **Financial** Sustainability. It was considered necessary to focus, first, on assessing the Financial Performance of the DPOs using available historical balance sheet information for a period of at least 5 years. While the only official financial statements that were available at the time of the study were from 4 out of the 13 CRASA Member Countries (Botswana, South Africa, Malawi and Namibia) this still provided some useful insights for further discussion as follows.

A. Growth in Assets

Assets are items of value, such as property and equipment, which an enterprise owns or leases in order to operate. In the Context of DPOs, the physical post office network is considered to be a significant asset for generating revenue, increasing value and more importantly, facilitating the running of the business. Figure 1 shows that the asset bases (both current and non-current) of the 4 sampled DPOs have been expanding over the last 5 years in monetary terms.

This trend on its own does not however tell the full story as some non-current assets such as land and building naturally appreciate in value over time. If therefore, the growth in assets being exhibited by the DPOs is largely attributable to the appreciation in value of their physical networks, as may be the case for Botswana and Malawi, then this is not likely to improve the actual financial viability of these corporations.

In this context, it may be concluded that the growth in assets that is dominated by growth in current assets (see South Africa in Figure 1) is a more favourable position in terms of the overall financial sustainability of the DPOs as this generally tends to improve their ability to convert such assets into liquidity and meet their most immediate liabilities.



Figure 2 Growth Trend in Assets

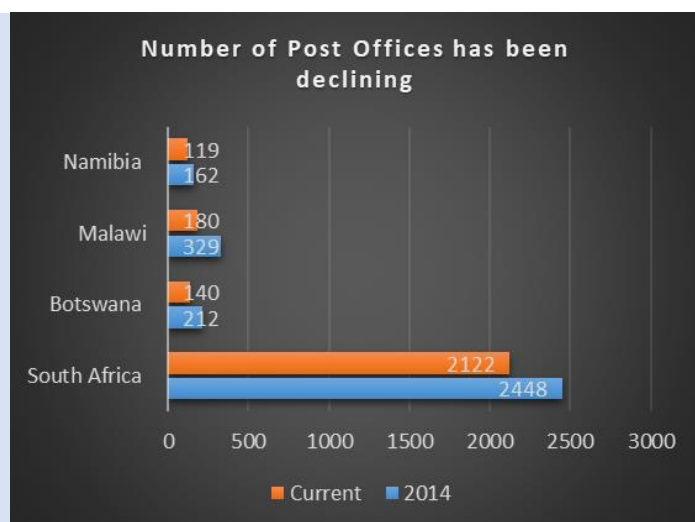


Figure 3. Decline in Postal Outlets from 2014 to 2019 (Source UPU)

However, Figure 2 reveals that the number of Post Offices have actually declined significantly from 2014 to date. In terms of percentage, this decline has been most severe in Malawi (45%), Botswana (34%) and Namibia (27%).

B. Liquidity

Liquidity is another key consideration in the context of this study. The ability of DPOs to meet their most urgent financial needs such as paying of employee emoluments and taxes is arguably one of the most reliable metrics for assessing their Financial Sustainability. With the limitations in historical financial data, the researchers focused on computation and comparison of The Current Ratio for the 4 sampled DPOs.

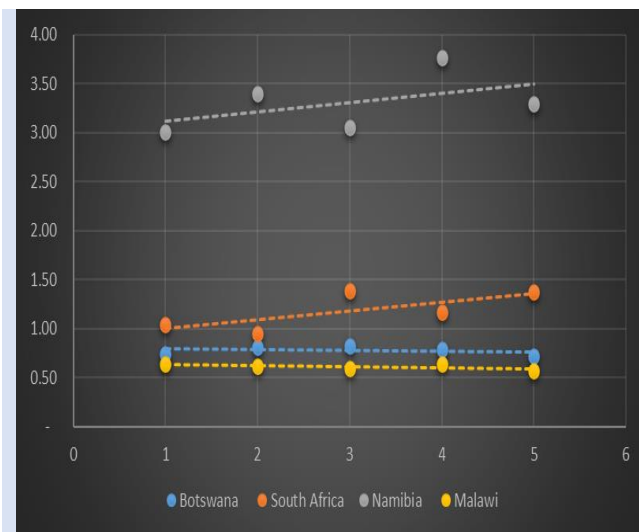


Figure 4. Current Ratios for Past 5 Years (Source Annual Reports)

- All things being equal, a high Current Ratio is generally considered to be better than a low (below 1) ratio because it means the company is more likely to meet its liabilities which are due over the next 12 months.
- From the analysis, Nampost and SAPO are relatively better off in terms of liquidity than Botswana Post and Malawi Postal Corporation whose ratios have been consistently below 1 for the 5-year period under review.

2.2.1.2 Income and Expenditure Analysis

Profitability is another critical metric in assessing Commercial Sustainability. With the available data, the researchers have been able to compute and compare the Gross and Net Profit Margins for all 13 DPOs in the SADC Region (see Appendix 1). Each margin individually gives a different perspective on the DPOs' operational efficiency and taken together, provide insight into the DPOs operational strengths and weaknesses (SWOT).

A. Gross Profit Margin

Gross profit margin shows how well a company generates revenue from its costs that are directly tied to production. It is calculated by dividing gross profit by a company's revenue. As an accepted rule of thumb, Gross profit margin should always be interpreted within the context of the industry and past company performance. It is obviously better to have a higher gross profit margin number as it represents the total gross profit per dollar of revenue. On the other hand, a negative gross profit margin can be reported by a company for several reasons including; declining revenue, poor pricing of products, increased competition, cost increases and macroeconomic shocks.

As indicated in Appendix 1, Lesotho, Botswana and Mauritius have consistently had positive Gross Profit Margins over the past 3 years. Angola, Tanzania and Zimbabwe have also reported positive margins in the 2018/19 period. It is however evident that for the majority of the DPOs, negative margins have been recorded in at least 3 of the last 5 years. This trend may be an indication of a systemic, long-term problem that ultimately affects the commercial sustainability of these entities and is therefore worthy of further investigation.

B. Net Profit Margin

Net Profit margin is the percentage by which a company's total revenue exceeds or is less than its overall expenses. It is calculated by subtracting total costs from total sales and then dividing it by total sales.

A positive net profit margin demonstrates that the company is running in profit whereas a negative ratio indicates that the company is making less money than it is spending. To put it in simple terms, a higher net profit margin means a company is doing a good job of controlling its costs and its pricing strategies are good as well.

Referring back to Appendix 1, only Lesotho¹, Namibia and Mauritius recorded positive Net Profit Margins consecutively over the last 3 years. Zimbabwe and Tanzania recorded positive margins in the 2018/19 period while Angola, Mozambique and South Africa have had consistently negative margins over the last 5 years. As with the Gross Profit Margin, the Net Profit trend may indicate a historical, systemic problem with sales, pricing and/or cost containment. There is therefore value in determining whether such a problem can be linked directly or indirectly to the Universal Service Obligation within the context of this study.

C. Revenue Associated with Letter-Post

In the examination of the revenue structure, the available information has made it possible for the researchers to isolate the percentage of the DPOs' revenue that can be attributed to Letter-Post. The significance of this relationship is that Letter-post revenue is currently the best proxy for revenue derived from the USO.

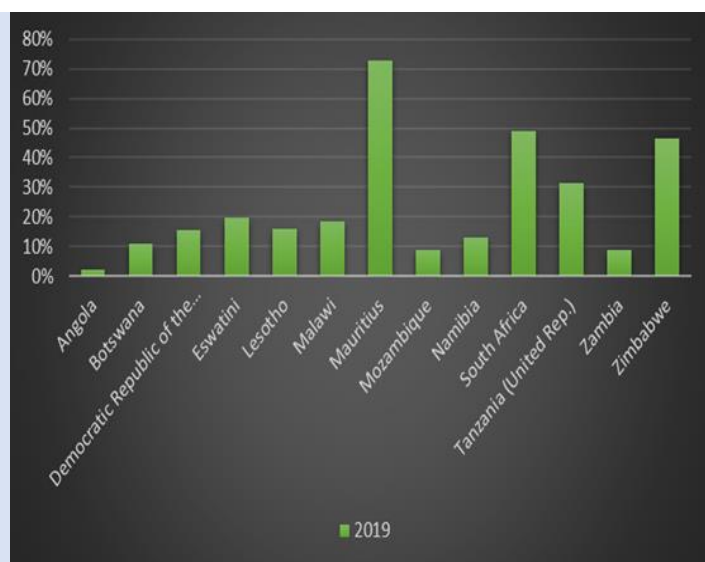


Figure 5. Percentage of Revenue Derived from Letter-Post (Source UPU)

- As indicated in Figure 5 below, Only Mauritius, South Africa, Tanzania and Zimbabwe derived more than 20% of their revenue from Letter-Post during the year 2018/2019.
- This indicates that the majority of the DPOs were obliged to provide a service from which they derive less than one fifth of their revenue.

¹ In the case of Lesotho, Government pays the staff costs for the DPO and this cost is therefore omitted from the operational costs that are reported to the UPU. This contributes significantly towards the profitability position.

D. Costs Associated with Letter-Post

In terms of costs however, the available information suggests that Letter-post accounts for a significant proportion of the Operating Costs of the sampled DPOs. This proportion was estimated by adding the percentage of costs associated with delivery staff to that which was attributable to transportation as shown in figure 5 below.

This is further explained by the high percentage of Postal Outlets that are located in Rural Areas (Also in Figure 5).

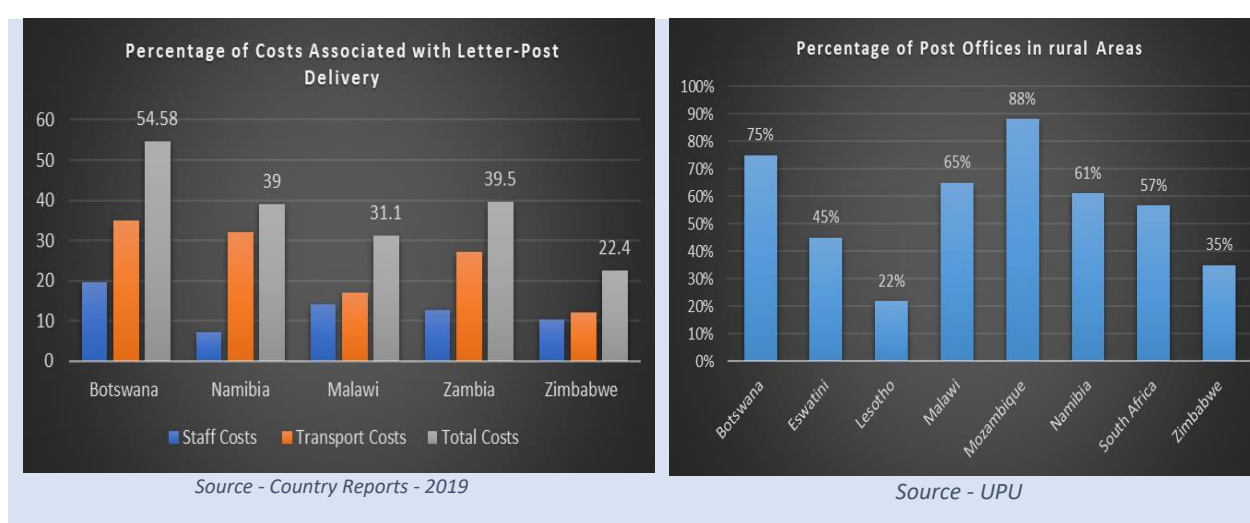


Figure 6. Estimated Percentage of Operating Costs Associated with the USO

2.2.2 Operational Performance

A. Letter-Post Volumes

In terms of operational performance, a greater emphasis was once again placed on the Letter-Post volumes over the past 5 years as derived from the UPU Postal Statistics database. It was in this regard fortunate that the most complete set of data (Eswatini, Mauritius, Namibia, South Africa and Zimbabwe) also accounts for more than 50% of the total letter-post volumes generated in the SADC region, thereby providing a reliable indicator for regional mail volume trends over the period as follows.

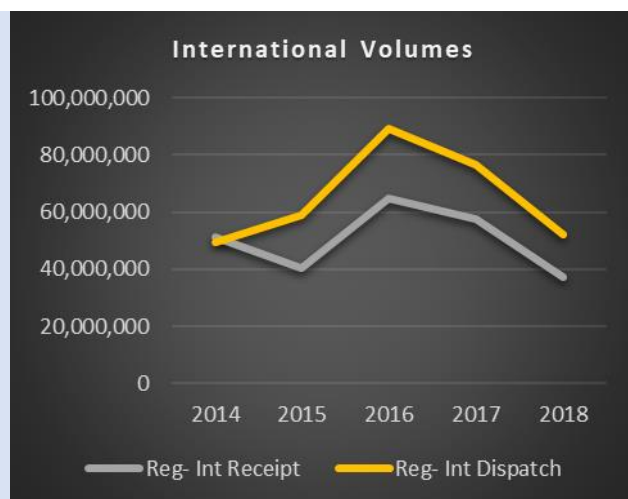


Figure 7. International Letter-Post Volumes (Source UPU)

- To put this trend into context, international inbound and outbound volumes collectively account for only 11% of the total Letter-post volumes considered during the period.
- While volumes may have peaked in 2016, the trend now shows that the international segment is in steep decline.

Since within the context of the UPU's current product definition, Letter-Post included Small Packets which are considered to be the growth area in terms of Postal Ecommerce, the trend above certainly warrants further investigation.

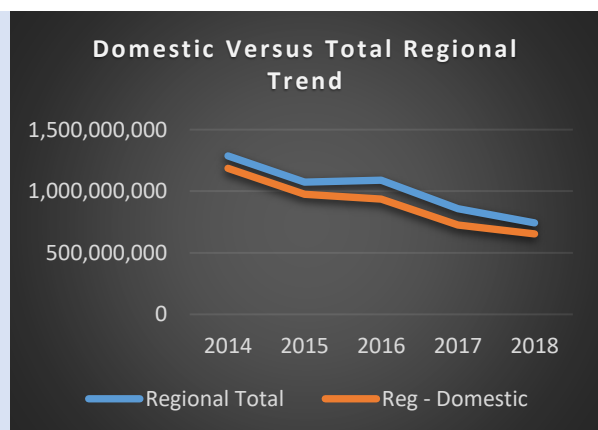


Figure 8. Combined Domestic Letter-Post Volumes (Source UPU)

- The decline is even more evident when the domestic volumes (which account for 89% of Letter-post mail) is compared with the total mail volumes for the period under review.
- See Appendix 2 for National Trends.

B. Parcels, Express and Logistics

International Parcel, Express and Logistics volumes are particularly relevant in assessing the commercial sustainability of DPOs because this is the segment that is expected to grow in line with Ecommerce growth-trends. The overall trend for the selected group of Countries (Angola, Botswana, DRC, Malawi, Mauritius, Namibia, South Africa, Tanzania and Zimbabwe) shows that international volumes have been declining.

The trend also shows that the region is predominantly an inbound market for parcels and express items with the outbound segments accounting for significantly lower volumes. Furthermore, Appendix 3 indicates that only Mauritius and Tanzania have recorded notable growth in terms of international parcels and express with inbound volumes leading this growth significantly.

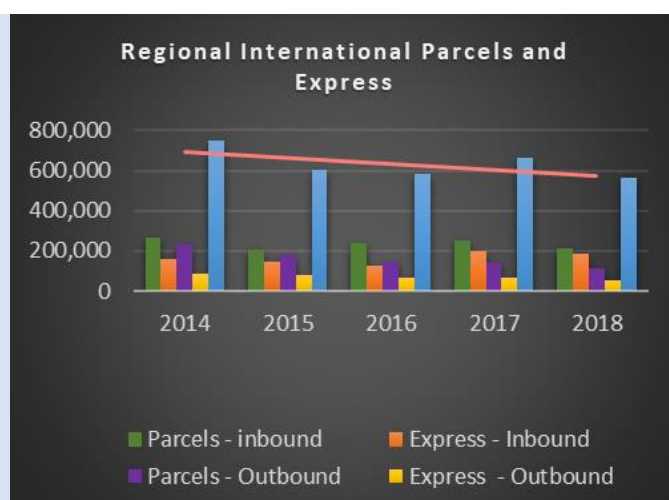
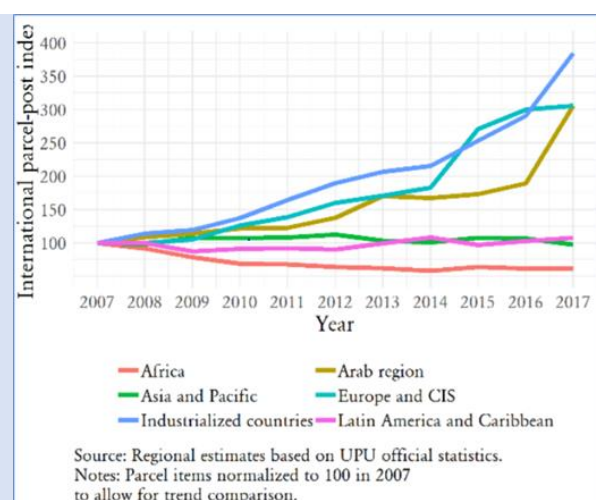


Figure 9. Combined International Parcel and Express Volumes (Source UPU)



Source: Regional estimates based on UPU official statistics.
Notes: Parcel items normalized to 100 in 2007 to allow for trend comparison.

Figure 10. Global Parcel and Express Trends (Source UPU)

While SADC trend is largely consistent with that of the African Region in general as observed by the UPU in its 2019 Postal Economic Outlook Publication, other regions such as Europe, Industrialised Countries and even the Arab region have been recording significant year-on-year growth in international parcel volumes as shown in Figure 9.

2.2.3 Section Summary

- L. From a history of full monopoly stemming from the early 1980s, DPOs in SADC now operate in a liberalised market with competition from private courier companies that are active in the acceptance, conveyance and delivery of documents and goods distinguished by value-added features and price;
- M. DPOs have generally adapted to the new market conditions by diversifying and investing in ICT infrastructure to drive and support new customer-centric products and services;

- N. Commercial sustainability is hypothesised to be made up of Impact, Operational and Financial Sustainability – with Financial Sustainability being the primary factor;
- O. In terms of Asset -growth, the sampled DPOs demonstrated a gradual increase in their asset-bases but this growth was not mirrored by growth in their physical networks. There has in fact been a substantial decrease in the number of postal outlets over the same period;
- P. In terms of Liquidity, Namibia and South Africa demonstrated positive liquidity ratios while Botswana and Malawi maintained ratios below 1 for the entire 5-year period reviewed;
- Q. In terms of profitability; with the exception of Lesotho, Namibia and Mauritius, the majority of the DPOs in SADC have recorded negative Net and Gross Profit Margins over the past 5 years potentially signalling a systemic problem of sales, pricing and/or cost-containment or even a combination of the above;
- R. In terms of revenue, only Mauritius, South Africa, Tanzania and Zimbabwe derived more than 20% of their gross revenue from Letter-post services. This is contrasted with the significantly higher percentage of costs that are associated with the provision of the same Letter-post services;
- S. Furthermore, the majority of the sampled DPOs maintain more postal outlets in rural, than in urban areas (e.g. Botswana – 75%, Malawi – 65%, Mozambique – 88%);
- T. For letter-post volumes, the international segment accounts for only 11% of total volumes and has been declining since peaking 2016. Domestic Letters, accounting for 89% of the total, have been declining even more steeply since 2014;
- U. In the case of parcels, which have been combined with express and logistics for this analysis, SADC is a predominantly inbound market which has recorded a gradual decline in international volumes that is contrary to the type of ecommerce-associated growth that has been recorded in Europe and the Arab region over the same period;
- V. Available data further suggests that the region’s postal network is yet to fully tap into and benefit significantly from the worldwide growth in ecommerce that should be translated into increased parcel and express volumes as is the case in other regions.

2.3 Universal Service Obligations (USO) Imposed on the Designated Postal Operators in SADC

2.3.1 Background and Context

The overarching hypothesis of this study is that the Commercial Sustainability of the DPOs is negatively impacted by their obligation to provide universal services (the USO) in their respective jurisdictions. Expressed differently, it has been assumed that the socio-economic impact, operational and financial soundness of the DPOs is somehow compromised by the obligatory provision of certain services throughout the country.

Firstly, the theory of the Postal USO can be summed up as follows: Certain postal services are considered to be important public services that are linked to the basic human right to communication. All citizens in a country should therefore have access to such services regardless of their geographical location or income.

It is this principle that underpins the Universal Postal Convention which, in Article 3, obliges Member Countries of the Universal Postal Union (UPU) to; ensure that all postal consumers enjoy the right to a universal postal service involving the permanent provision of quality **basic postal services** at all points in their territory, at affordable prices. This is to be done by setting forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services to be offered and the requirement for quality and affordability, taking into account both the needs of the population and the national conditions.

The basic services referred to above are further defined as follows:

- a. Letters, postcards, printed papers and small packets up to 2kg
- b. Literature for the blind up to 7kg
- c. Special bags (Known as M-Bags) containing newspapers, periodicals, books and similar printed documentation for the same addressee, up to 30kg and,
- d. Parcels up to 20kg.

Within this context therefore, the definition of universal service can be considered in the following key areas:

A. Products:

These are the basic services as listed above.

B. Access to Postal Services:

i. Location

Where postal outlets are located; which in the universal access concept may include targets such as having a postal office in every district or the proximity of such an outlet to the targeted population.

ii. Type

This refers to the definition of a postal outlet and the use of agencies, franchises and other network expansion options.

iii. Hours of Operation

When can members of the public access the services.

iv. Posting Facilities

The number and location of roadside posting boxes and similar facilities.

v. Delivery Facilities

Number and location of Post Office Boxes (P.O. Boxes).

C. Delivery Mechanisms:

The key feature of delivery is whether delivery is made at home or to a designated collection point. In most African countries for instance, delivery is predominately made to P.O. Boxes that are located at post offices. Consumers must therefore “buy into the network” by renting a P.O. Box for an annual fee.

D. Frequency:

Frequency of delivery is simply the number of times mail must be delivered per week. Universal service is typically not uniform throughout a country with different standards generally being set for urban and rural areas.

E. Quality:

A key element of universal service is the Quality of Service (QoS). This includes the speed of transmission measured by Regulators from the time of posting to the time of delivery. Typically, areas with the highest volumes tend to require higher QoS standards than low-volume areas.

F. Price

Affordability is often quoted regarding the price of postal services, which has led to prices being set below cost in many countries.

2.3.2 USO Situation in Africa and SADC

A. Access to Postal Outlets

Universal service in Africa is not well-defined. Most countries follow the UPU products-based definition referred to above. Few countries have gone further to define access standards for postal services and the level of access varies quite widely between countries. Figure 10 below demonstrates this phenomenon by showing the average population per permanent post office.

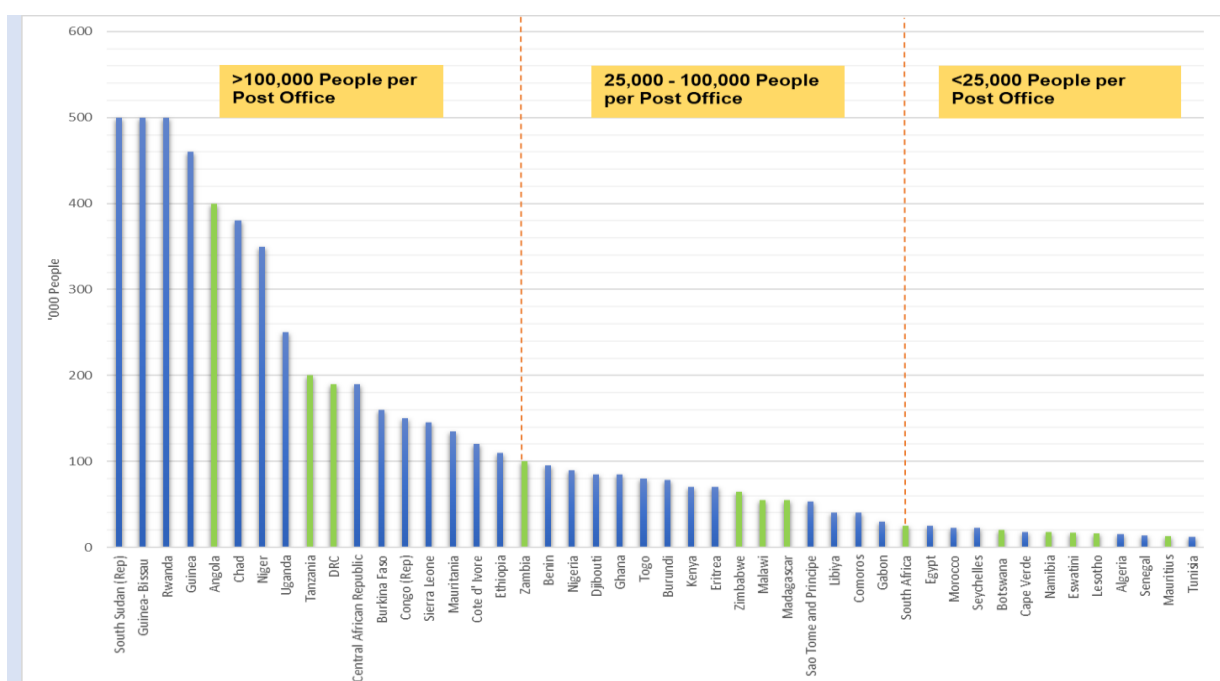


Figure 11. Access to Postal Services (Source Analysys Mason)

In respect of providing access using this metric, Africa can be broadly split into three groups:

- 1 Post Office per 100,000 people
- 1 Post Office for 25,000 – 100,000 people
- 1 Post office for less than 25,000 people.

Within this context, the first group with 1 outlet per 100,000 people or more can be said to have a weak Universal Postal Service in terms of Access. The Second group can be considered to be providing basic access. It is expected that this group has a healthy network of outlets throughout the country that however lacks penetration.

The final group on the other hand (25,000 or less per outlet) is approaching the best world practice. This situation in SADC is as shown below.

| Group 1 <100,000 | Group 2 25,000 – 100,000 | Group 3 >25,000 |
|---|-----------------------------|---|
| Angola DRC Malawi Mozambique Tanzania Zambia | Eswatini Zimbabwe | Botswana Lesotho Mauritius Namibia South Africa |

Figure 12. Access to Postal Services in SADC (Source Analysys Mason)

Figure 12, below provides additional context to this situation by defining the types of access targets that the National Regulatory Authorities have included in DPOs' Licence in line with the applicable regulatory instruments. As indicated, Targets are yet to be defined in Eswatini, Malawi and Zambia while Targets relating to geographical coverage of a Post Office, distance to a service point and home delivery are some of the targets that have been included in Angola, Botswana, South Africa and Zimbabwe.

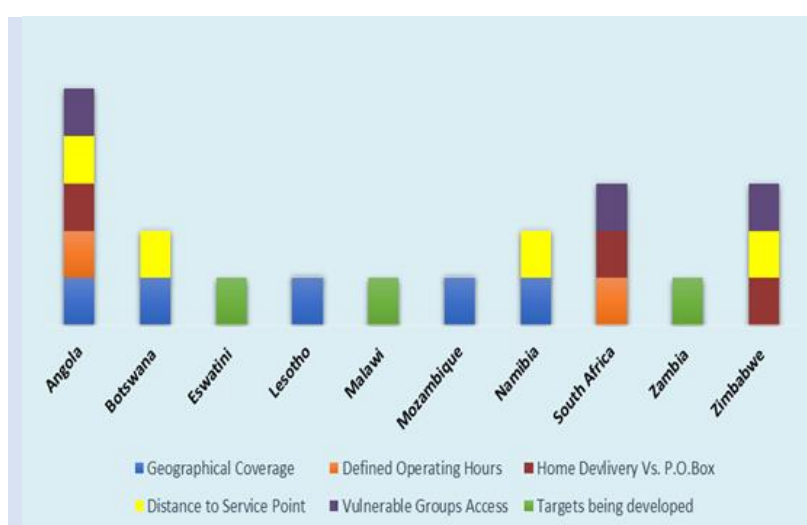


Figure 13. USO Accessibility Targets in SADC Countries (Source CRASA Country Report 2019)

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B. Policy, Legal and Regulatory Framework

In terms of the policy and regulatory framework for the USO, the majority of the SADC Countries (8/13) have Policy documents that specifically provide for the Postal USO. In support of the policy positions, 9 countries have provisions for USO in their primary postal laws, while a further 6 have operationalised this through secondary legislation. Also, in majority, are the countries that have issued the Licence to the DPOs.

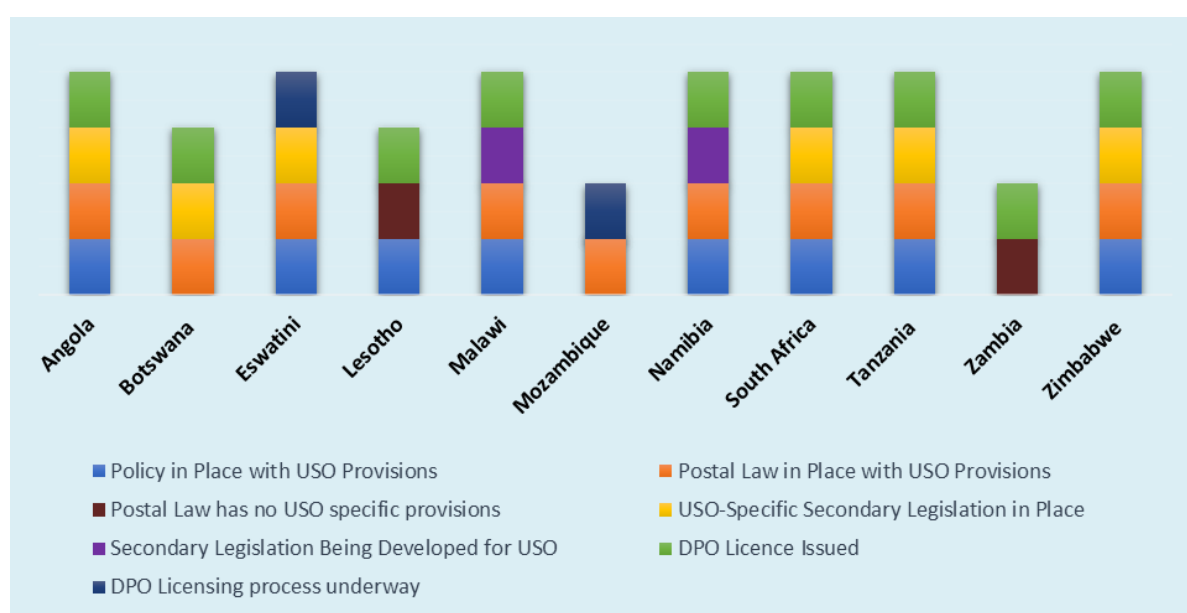


Figure 14. Status of USO Policy and Regulatory Frameworks in SADC Countries (Source CRASA Report on Implementation of Postal Guidelines 2019)

C. Scope of Universal Service Obligations (USO)

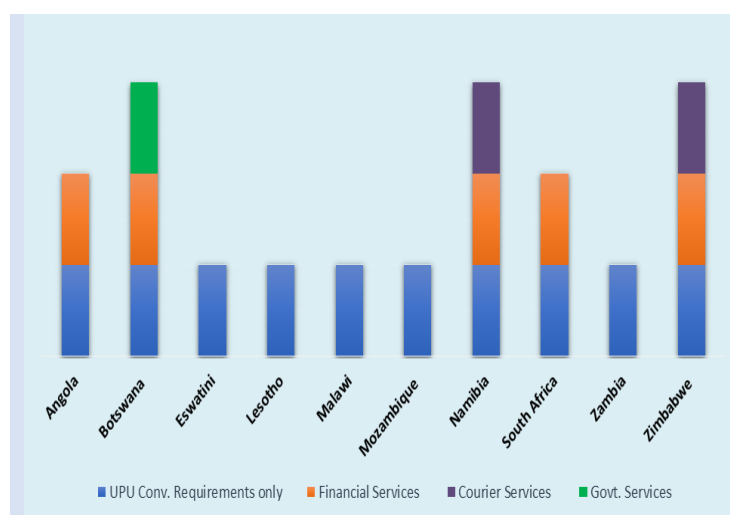
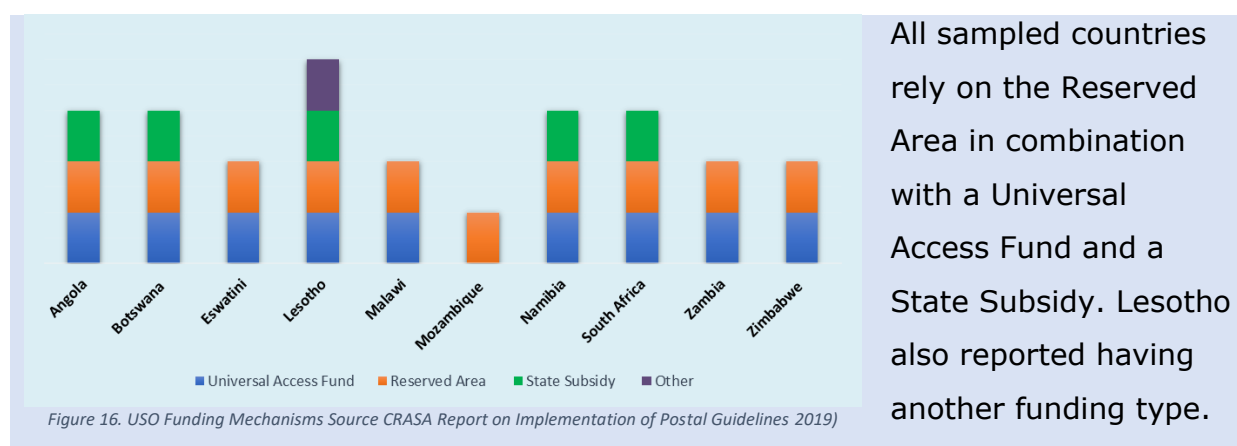


Figure 15. Scope of USO in SADC Countries (Source CRASA Report on Implementation of Postal Guidelines)

In terms of the scope of products included in the USO, all 10 of the sampled Countries rely on the UPU Convention Requirements as the basis for their USO definition. Only Botswana has included the provision of Government Services in the scope of its USO.

D. USO Funding Mechanisms



2.3.3 Understanding the Financial Burden of the USO

A. Background and Context

As observed above, costing the USO was not really considered to be essential in the Monopoly era because the said monopoly was expected to compensate the DPOs for providing services in unprofitable areas. In the mid-1990s however, the European Union (EU) began to discuss liberalisation of the Postal Sector and introduced the Postal Directive of 1997. Among other objectives, the directive outlined a timetable for opening the postal market to competition. Calculating the cost of the USO, therefore, became a primary concern as the DPOs realised that their Reserved Area and method of funding the USO was now under threat. A study was subsequently commissioned to look at the cost of universal service in each EU country.

The first method that was considered in the EU study was the Net Avoided Cost (NAC) method developed for the telecoms industry to calculate the cost of providing universal service. In a postal context, it focuses on answering the hypothetical question: "if the universal service provider could choose not to provide services to those areas which give rise to loss-making items of mail, by how much would its profits increase?". This method was widely criticised as being unsuitable because it failed to take into account the impact of market liberalisation (loss of revenue to competitors) and could only work in a stable market.

The failure of the NAC method gave rise to the Entry Pricing (EP) method developed by PwC and Royal Mail. This approach was explicitly developed to deal with a dynamic market where increased competition is expected through the deliberate reduction of the reserved area. It addresses the question: "Under specific liberalisation assumptions, by how much will the profit of the business be reduced if there remains a requirement to provide the universal service at uniform prices?". This method therefore estimates the revenues that would be lost to competition if the DPO has to meet the USO at uniform process. Contrary to the NAC, the EP considers the profit-making items which are most likely to be lost to competitors.

B. Limitations of NAC and EP methods for Costing the USO in SADC

The challenge with both the NAC and EP methods is their application in developing countries and in SADC in particular. Both are focused on Letter-post services and the impact of uniform pricing on the cost of the USO. The two methods were also based on countries that had separate Access and Delivery functions, which is not usually the case in developing countries, in general and SADC in particular.

C. Recommended Methodology for USO Cost Determination in SADC

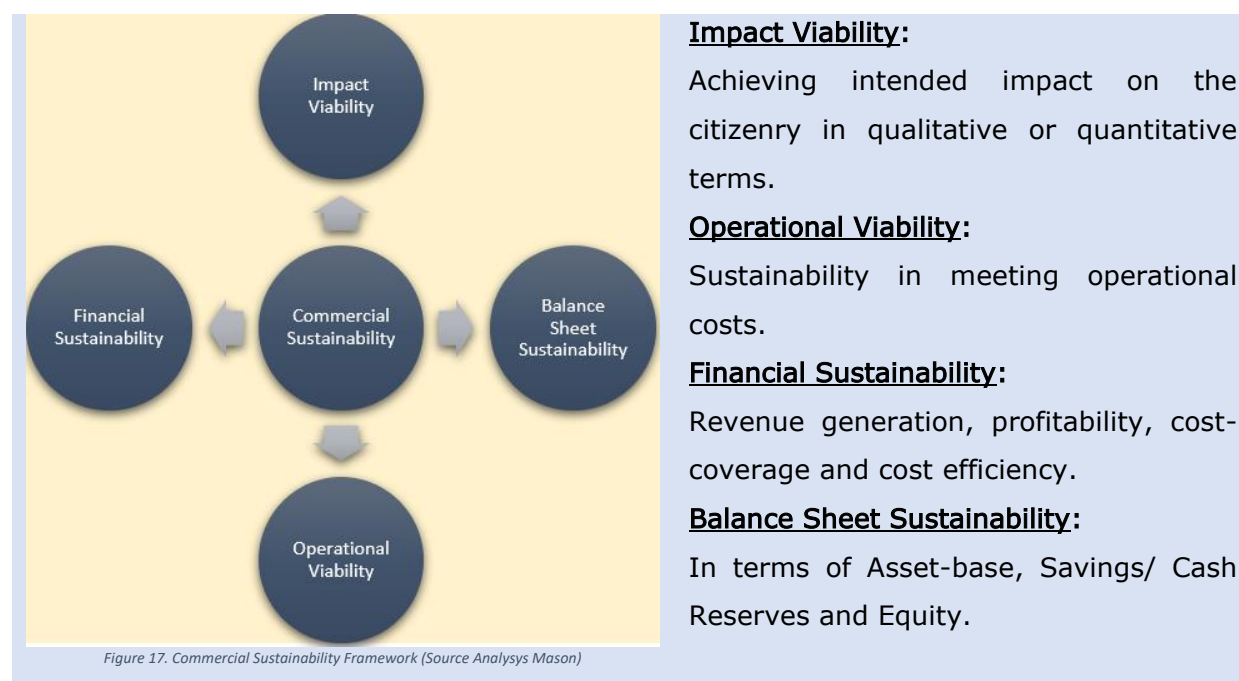
Noting the limitations of the two methods, Graeme Lee of Sunflower Associates developed a Network Cost model to establish the cost of the universal service specifically in a developed country-context. This method takes into account the costs and revenues associated with each post office in the network, determining which are profitable and which are loss-making. The assumption is that a commercial organisation would not operate a loss-making office. The method does however require a sound understanding of the costs and revenues of the network.

This concept is not without precedent. In both Sweden and the United Kingdom, the postal markets have been fully liberalised but the DPO in each country has a significant network of rural outlets.

These operators successfully argued that the cost of maintaining rural post offices was not in their best commercial interests and that these offices generated significant losses. In both cases, specific subsidies were subsequently awarded for the continued provision of rural post offices. In SADC, the same model has been used successfully in Zambia and Malawi by focusing on the following question: “If the DPO were a purely commercial undertaking with no need to provide the USO, what would be the extent of its network”. In practice, however, answering such a question would require significant cost data which is often not available. This limitation is, nevertheless, overcome by comparing the postal network with that of commercial undertaking such as commercial banks to determine the number of outlets that might be retained if the DPOs was operating on a purely commercial basis. In so doing, the cost of the USO would be identified as the cost of maintaining those additional outlets.

2.4 Impact of the USO on Commercial Sustainability of DPOs

Commercial sustainability as a concept can be measured in a number of ways. In the context of this study however, the objective was to achieve this through a Commercial Sustainability Framework which takes into account four specific factors as shown in Figure 15.



2.4.1 Impact Viability

Impact viability in the context of this study refers to demonstratable sustainability of the DPOs in terms of achieving the intended impact on the citizenry in qualitative or quantitative terms. After reviewing the available data, the researchers have concluded that the UPU's Integrated Index for Postal Development 2IPD is a reasonable proxy for measuring the impact of Posts within their respective jurisdiction. This is because the Index relies on a redefined understanding of postal development which is further aligned with the United Nations' 2030 Agenda, embodied by the Sustainable Development Goals (SDGs). Examining postal development through the lens of sustainable development matters for both the prosperity of the postal sector and the impact that the sector has on the citizens.

The 2IPD achieves this by measuring the performance of countries across four key dimensions of postal development: Reliability, Reach, Relevance and Resilience. Postal data is used mainly to compute indicators associated with quality of service, transactions, volumes and connectivity. Statistics are then applied to the measurement of revenue streams and economies of scale while surveys feed into more qualitative considerations such as inclusiveness and integration. Ultimately, the quantitative nature of the 2IPD makes it an ideal tool to study the postal sector's contribution to the achievement of the UN SDGs and, in the context of the study, the impact viability of DPOs. As a composite index, it uses an algorithm to generate an overall score of between 0 and 100 for each assessed country as follows:

- The **Reliability** score reflects performance in terms of speed and predictability of delivery across all the key segments of physical postal services;
- The **Reach** score, synthesizes global connectivity as indicated by the number of partner networks and the volumes of international exchanges;
- The **Relevance** score, measures the intensity of demand for the full portfolio of postal services relative to the best performers in each category of postal activity; and
- The **Resilience** score indicates the level of diversification of revenue streams and the capacity to innovate, deliver inclusive postal services and integrate sustainable development targets into postal business operations.

For the purpose of assessing Impact Viability, the researchers have tracked the 2IPD scores of all 13 SADC DPOs over a 3-year period and computed the average score which is depicted in Figure 16. The simple interpretation is that the higher the 2IPD Score, the higher the Impact Viability of the DPO.

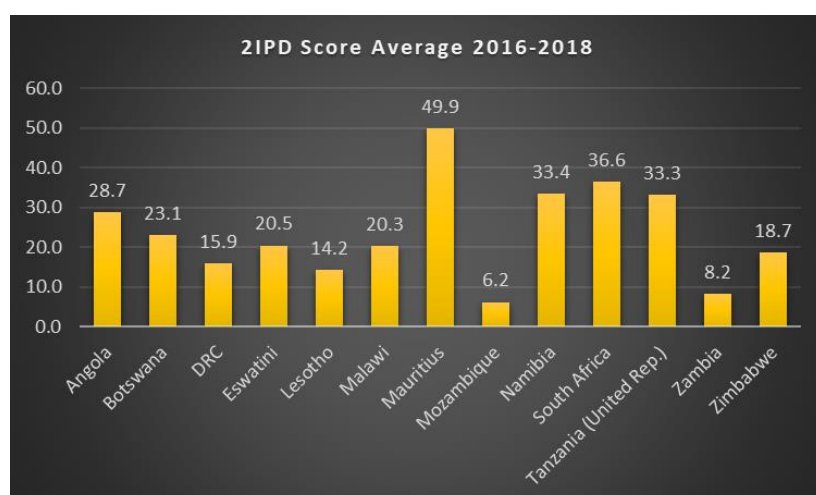


Figure 18. Average of 2IPD Scores 2016-2018 (Source UPU)

How does the USO Affect Impact Viability?

It is assumed that in the absence of the USO, a DPO's services would be defined purely on a commercial basis, with potentially only a subset (or none at all) of the USO service being included in the product portfolio.

2.4.2 Operational Viability

Operational Sustainability in the context of this study was considered to mean the ability of the DPOs to operate with the necessary operational efficiency for the medium-long term. This naturally encompasses sustainability in terms of meeting operational costs through efficient use of selected network elements.

How does the USO Affect Operational Viability?

The USO generally requires the DPO to maintain an extensive network of post offices with all the accompanying operational costs, even for areas with very low demand to support a business case.

For the Commercial Sustainability Framework, Operational Viability has initially been measured as follows:

| Network Element | Measurement Metric | Interpretation |
|----------------------|--|---|
| Human Capital | Number of Staff per unit mail traffic volume | <p>The main OPEX item for a DPO will be staff remuneration. The evolution of staff numbers is therefore crucial for assessing operational viability especially in comparison to mail volumes as this represents a measure of operational productivity or efficiency.</p> <p>This efficiency shall be computed as follows:</p> <ul style="list-style-type: none"> Letter-Post Volumes/Total Number of Staff [4/10] Parcel & Express Volumes/Total Number of Staff [6/10] |
| Delivery | Delivery Channels | <p>DPOs that have more than one delivery channel are expected to be more able to adapt to new market conditions. In the same vein, DPOs that rely solely of P.O. Box delivery are expected to be less able to adapt to the evolving market needs and will therefore be give a lower score in this metric.</p> <ul style="list-style-type: none"> 0 – 40% P.O. Box Delivery [5/10] 40 – 70% P.O. Box Delivery [3/10] >/= 70% P.O. Box Delivery [2/10] |
| Network Augmentation | Own Versus Agency/Franchise | <p>DPOs that include postal agents and franchising to augment their networks are considered to be more likely to lower operational costs and therefore receive a higher Operational Viability Score:</p> <ul style="list-style-type: none"> 0 – 10% of network [1/10] 10 – 20% of network [3/10] >/=20% of network [6/10] |

Figure 19. Operational Viability Matrix (Source CRASA)

2.4.3 Financial and Balance Sheet Sustainability

Financial and Balance Sheet sustainability have been combined for the purpose of this measurement. For financial sustainability, the key considerations are revenue generation, profitability, cost-coverage and cost efficiency. In the case of Balance Sheet sustainability, the main issues are the asset base in relation to immediate and long-term liabilities, as well as ability to meet USO network expansion/maintenance capital requirements.

How does the USO Affect Financial and Balance Sheet Sustainability?

Private couriers are able to compete much more effectively than the USO provider because they can 'cherry-pick' the most profitable customers and services in the most profitable location. Furthermore, the need to maintain operational capacity of the network may require investment that cannot be justifiable from a commercial perspective.

In the context of this study and with the limitations of data, Financial and Balance Sustainability will be measured as follows:

| Element | Measurement Metric | Interpretation |
|-------------|--------------------|---|
| Revenue Mix | Growth potential | <p>The reliance on letter-post revenue which is in decline is a threat to financial sustainability. DPOs that invest in deriving more revenue from growth areas as ecommerce and financial services receive a better sustainability rating than those that rely heavily on dwindling Letter-post volumes.</p> <ul style="list-style-type: none">○ 0 – 10% reliance on Letter-post [6/10]○ 10 – 20% reliance on Letter-post [3/10]○ 20 – 30% reliance on Letter-post [1/10]○ >/=30% Reliance on Letter Post [0/10] |

| | | |
|---------------|---------------------|--|
| Liquidity | Current Ratio | <p>A high Current Ratio is generally considered to be better than a low (below 1) ratio because it means the company is more likely to meet its liabilities which are due over the next 12 months.</p> <ul style="list-style-type: none"> ○ 0 – 1 Current Ratio [0] ○ 1 – 2 Current Ratio [4/10] ○ ≥ 2 Current Ratio [6/10] |
| Profitability | Gross Profit margin | <p>It is generally better to have a higher gross profit margin number as it represents the total gross profit per dollar of revenue.</p> <ul style="list-style-type: none"> ○ Negative Gross Profit Margin - [0/10] ○ Positive Gross Profit Margin - [10/10] |
| | Net Profit Margin | <p>A positive net profit margin demonstrates that the company is running in profit whereas a negative ratio indicates that the company is making less money than it is spending.</p> <ul style="list-style-type: none"> ○ Negative Gross Profit Margin - [0/10] ○ Positive Gross Profit Margin - [10/10] |

Figure 20. Balance Sheet and Financial Sustainability Matrix (Source CRASA)

2.5 Commercial Sustainability Framework

One of the key objectives of the study was to develop a Commercial Sustainability Framework with the necessary Operational and Financial parameters for defining and measuring Commercial Sustainability in the context of Designated Postal Operators (DPOs). As may be inferred from the above, such a framework has been conceptualised to be an index made up of an Impact Viability Score, an Operational Viability Score and a combined Financial/Balance Sustainability Score.

The maximum score for each category is 10. The weight attached to each score has been determined based on their relative importance, with Financial/Balance Sheet Sustainability being given a Weight of 50%,

Operational Viability – 30% and Impact viability contributing 20% towards an overall rating out of 100 as illustrated below.

| Category | Metric | Maximum Score | Contribution to Total Rating |
|--|---|---------------|------------------------------|
| Impact Viability | 2IPD Score of DPO/10 | 10 | 20% |
| Operational Viability | Human Capital Productivity/ Efficiency: 1. Letter-Post Volumes/Total Number of Staff [10] 2. Parcel & Express Volumes/Total Number of Staff [10] | 20 | 30% |
| | Delivery Channels: 1. 0 – 40% reliance on P.O. Box Delivery [5] 2. 40 – 70% reliance on P.O. Box Delivery [3] 3. >/= 70% reliance on P.O. Box Delivery [2] | 5 | |
| | Network Augmentation: 1. 0 – 10% of network [1] 2. 10 – 20% of network [3] 3. >/=20% of network [6] | 6 | |
| Financial and Balance Sheet Sustainability | Liquidity: 1. 0 – 1 Current Ratio [0] 2. 1 – 2 Current Ratio [4] 3. >/= 2 Current Ratio [6] | 6 | 50% |
| | Profitability: 1. Negative Gross Profit Margin - [0] 2. Positive Gross Profit Margin - [10] 3. Negative Gross Profit Margin - [0] 4. Positive Gross Profit Margin - [10] | 20 | |

Figure 21. Commercial Sustainability Matrix with Weighted Scores

2.6 Commercial Sustainability Framework applied to SADC DPOs

The application of the Commercial Sustainability Framework above was limited by the non-availability input data for all the metrics from all the DPOs. Nevertheless, the researchers were able to compute the Rankings for the 3 DPOs that had the full set of required data (Malawi, Namibia and South Africa) as follows:

| Code | Category | Metric | Scores | | | Weighted Rating | | |
|--------|--|---------------------------|----------|----------|--------------|-----------------|---------|--------------|
| | | | Malawi | Namibia | South Africa | Malawi | Namibia | South Africa |
| I | Impact Viability | 2IPD Score /10 | 20.3/100 | 33.4/100 | 36.6/100 | 4 | 7 | 7 |
| O | Operational Viability | Letter-Post | 0/10 | 5/10 | 2/10 | 8 | 13 | 11 |
| | | Parcels & Express Volumes | 0/10 | 3/10 | 0/10 | | | |
| | | Delivery Channels | 2/5 | 2/5 | 3/5 | | | |
| | | Network Augmentation | 6/6 | 3/6 | 6/6 | | | |
| F | Financial and Balance Sheet Sustainability | Liquidity | 0/6 | 6/6 | 4/6 | 0 | 38 | 17 |
| | | Profitability | 0/20 | 10/20 | 0/20 | | | |
| TOTALS | | | 28.3 | 62.4 | 51.6 | 12 | 58 | 35 |

- Malawi has the lowest Commercial Sustainability Rating. This is mainly the result of low Liquidity and Profitability Scores
- Namibia, on the other hand has a considerably higher rating due to scoring highly in terms of Liquidity and Profitability and also in the area of operational viability.
- South Africa scored highly under impact, delivery channels and network augmentation but lowly under profitability.

3. Conclusions and Recommendations

3.1 Ultimately, it may be concluded that the impact of the USO is to decrease rather than enhance the Commercial Sustainability of DPOs. In this regard, the USO represents a Net Burden for the DPO. While there may be some revenue upside and intangible benefits, the inaccessibility of low density of rural areas means that high levels of investment are still required for relatively small amounts of additional revenue. The conclusion, indeed, supports that view that universal service is not commercially justifiable and the USO must therefore be imposed.

3.2 The following recommendations are hereby put forward for the consideration of CRASA Members and their respective national stakeholders:

3.2.1 From the policy and legislative perspective, it is strongly recommended that Members accelerate the process of formally defining the USO in terms of Accessibility, Delivery, Quality and Pricing. It is clear that the product-based definition as derived from the UPU Convention is not sufficient on its own and these additional parameters will help to clarify the actual requirements that DPOs need to adhere to in terms of the USO along with the related cost implications.

3.2.2 All DPOs should further be requested to provide the necessary financial and operational details that can be used to carry out the types of analyses that were restricted to only a few of the DPOs in this study. It should be the norm and standard practice for all DPOs to regularly provide Audited Financial Statements and other such information which can be used to maintain and even expand the Commercial Sustainability Framework that has been initiated in this study.

- 3.2.3 While the study has succeeded in establishing a link between commercial sustainability and the USO, it is recommended that additional work be undertaken to quantify this impact in monetary terms for each of the participating DPOs. This should go hand in hand with the computation of the Commercial Sustainability Scores of all the remaining DPOs (Apart from Malawi, Namibia and South Africa). This will have the additional benefit of diagnosing specific areas of attention that each country needs to focus on in order to improve their initial rating. It has, for instance, been indicated that while Malawi has considerable strength in its network augmentation approach, liquidity, profitability and operational efficiency remain problematic.
- 3.2.4 DPOs should consider network expansion strategies that rely more on agencies and franchising in order to lower the operational costs associated with the USO.
- 3.2.5 All Members are encouraged to take deliberate measures at Policy, Regulatory and Operational level to address the shortcomings in the ZIPD Scores particularly relating to Reliability, Reach, Relevance and Resilience of Postal Services in each jurisdiction. This will ultimately improve the Impact Viability Scores of each Country and the overall Commercial Sustainability rating.
- 3.2.6 Further research is also recommended to identify the causes for the failure of most SADC Countries to take advantage of the growth in ecommerce to increase Parcel and Express Volumes. This additional work may also include an assessment of the feasibility of structural separation or unbundling of the DPO so as to distinguish the services associated with the USO and those that are commercial and profitable.

4. References

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2. The Postal Sector in Developing and Transition Countries Contributions to a Reform Agenda (World Bank Group – 2004)
3. Financial performance of state-owned enterprises in emerging economies Research executive summary series Volume 8 (Chartered Institute of Management Accountants – CIMA)
4. ERGP (18) 49 Report on developments in the postal sector and implications for regulation (2019)
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Appendix 1: Gross and Net Profit Analysis 2014 - 2018

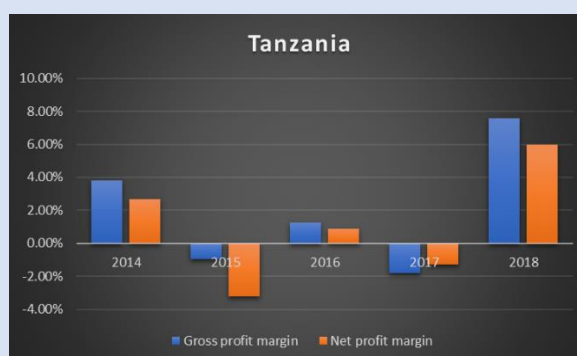
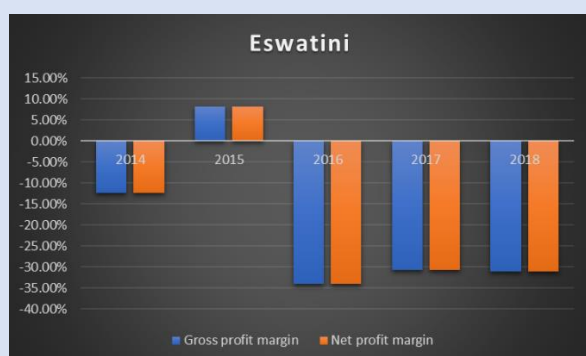
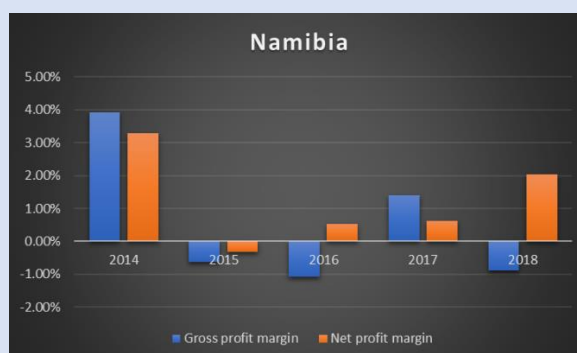
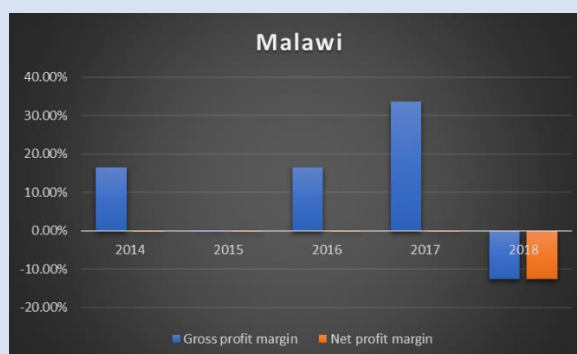
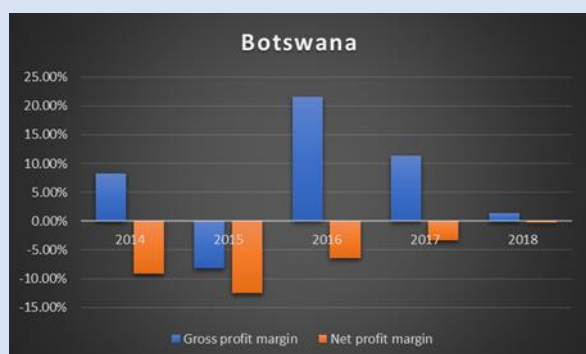
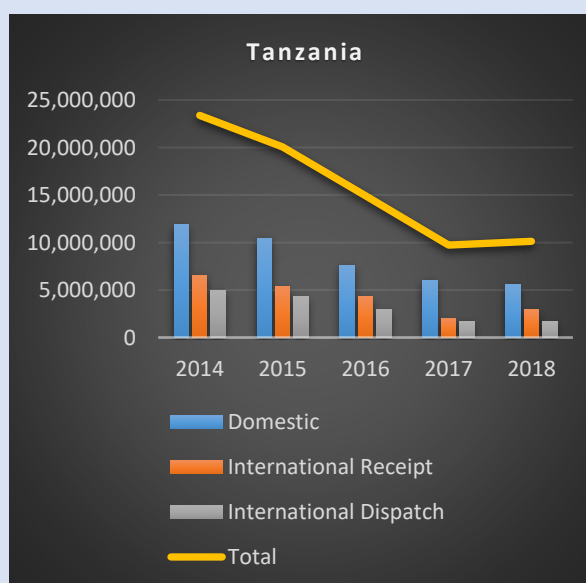
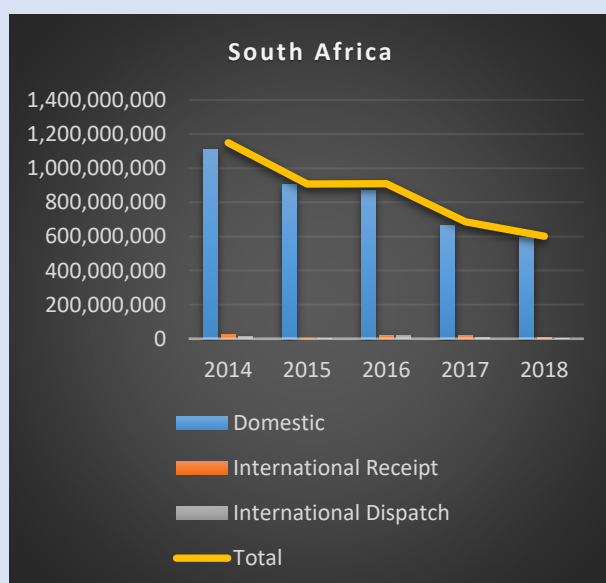
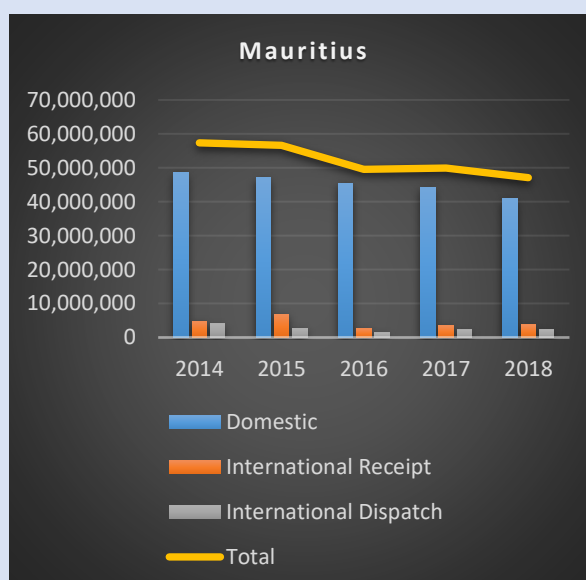
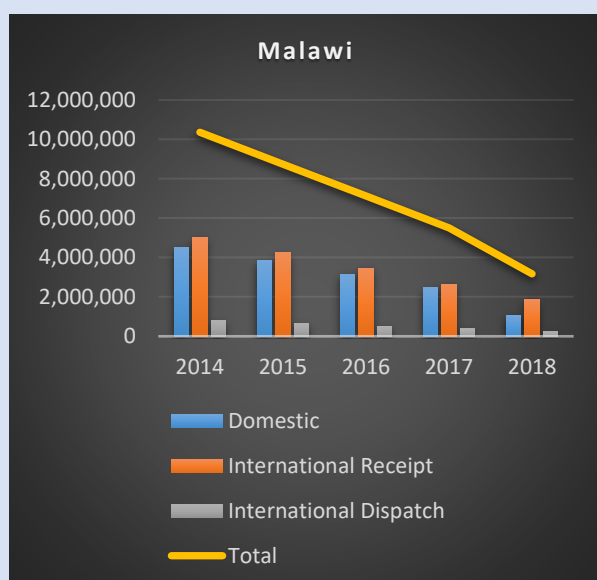
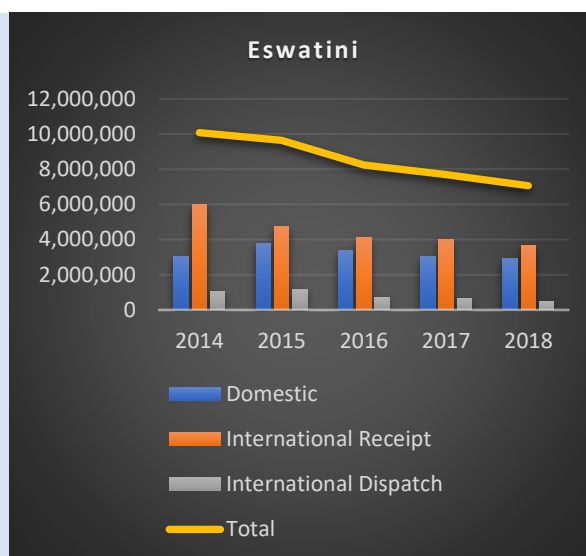
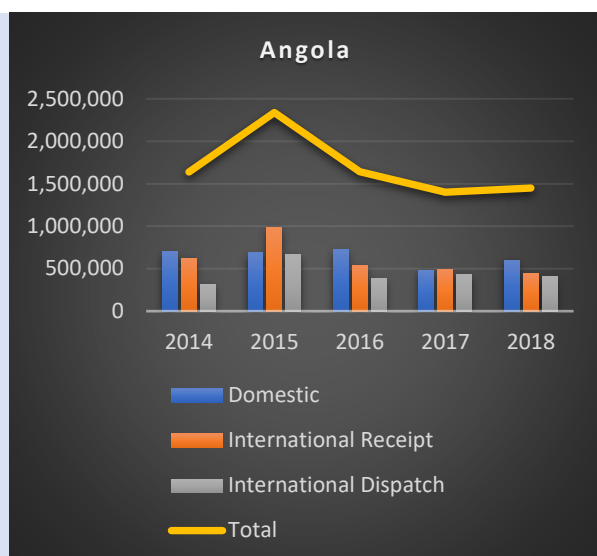




Figure 22 Gross and Net Profit Margin Trends of DPOs (Source UPU)

Appendix 2 Regional Letter-Post Volumes



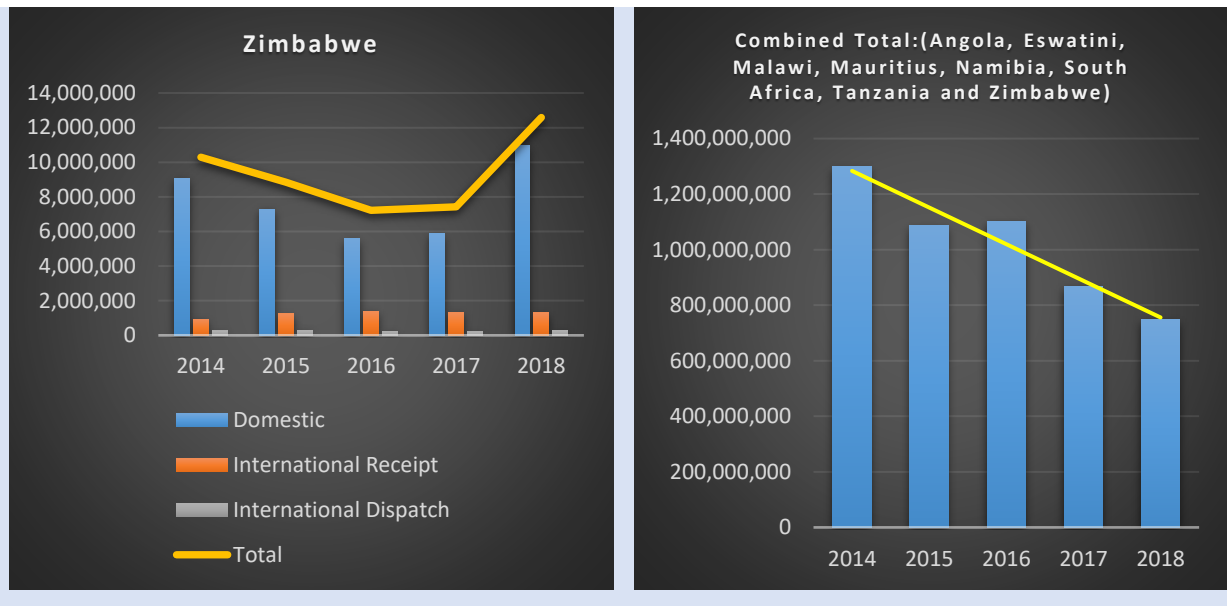


Figure 23. Regional Letter-Post Volumes (Source UPU)

Appendix 3: International Parcel and Express Volumes



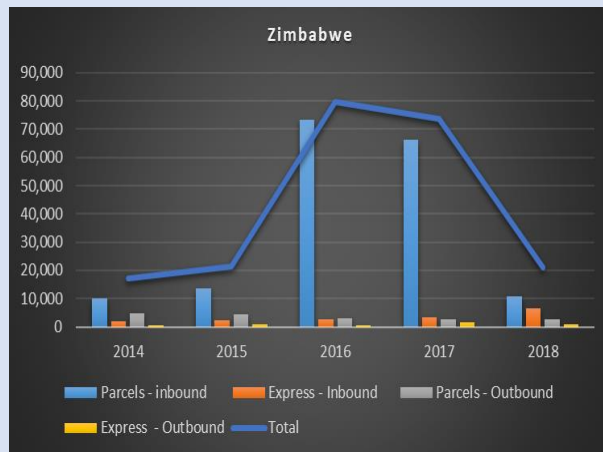
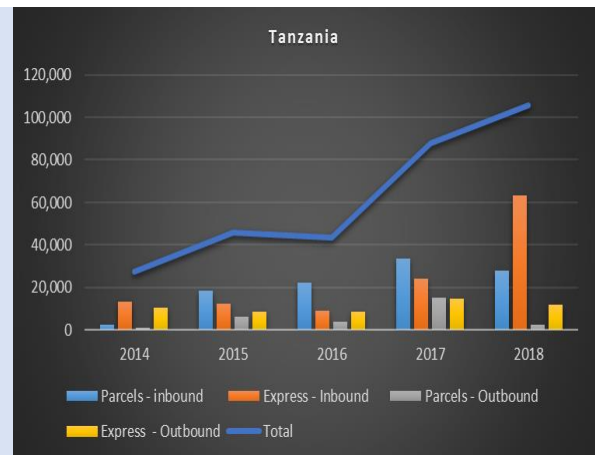
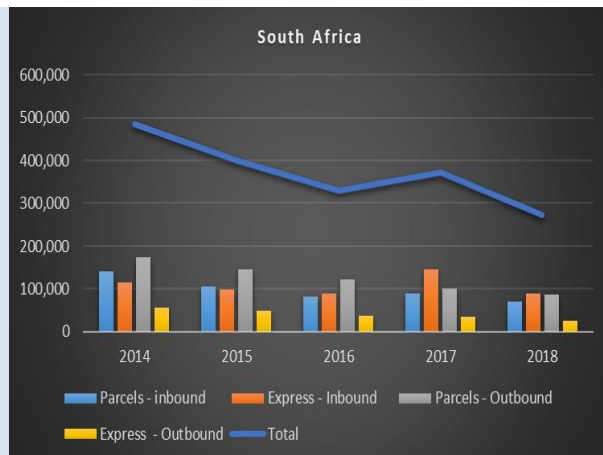


Figure 24. Regional Parcel and Express Volumes (Source UPU)