

# **EXPENDITURE REFORMS COMMISSION**

**FIFTH REPORT  
7<sup>TH</sup> MARCH, 2001**

**GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
NEW DELHI**



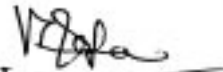
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GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
EXPENDITURE REFORMS COMMISSION  
नई दिल्ली /New Delhi, the 7<sup>th</sup> March, 2001

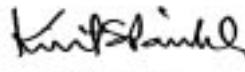
## PREFACE

This is the Fifth Report of the Expenditure Reforms Commission and covers:

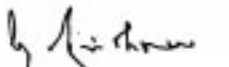
- Part I ... Department of Posts  
Part II ... Department of Supply and  
Part III ... Autonomous Institutions

Shri S.C. Mahalik, former Secretary, Department of Posts, Shri R.P.Singhal, former Director General, DGS&D and ex-officio Secretary, Department of Supply, and Shri S.Krishnan, IA&AS (Retired) former Member (Finance) and Additional Secretary, Department of Posts functioned as the Commission's advisors and assisted in the formulation of the suggestions relating to the Department of Posts, Department of Supply and Autonomous Institutions respectively. The Commission wishes to place on record their sincere appreciation for the support extended by them.

  
(V.S. Jafa)  
Member

  
(Kirit Parikh)  
Member

  
(C.M. Vasudev)  
Ex-officio Member

  
(K.P. Geethakrishnan)  
Chairman

*PART I*

**RATIONALISATION OF THE  
FUNCTIONS, ACTIVITIES  
AND STRUCTURE  
OF THE  
DEPARTMENT OF POSTS**

# **RATIONALISATION OF THE FUNCTIONS, ACTIVITIES AND STRUCTURE OF THE DEPARTMENT OF POSTS**

## **CONTENTS**

	<b>Page</b>
Executive Summary	123-128
1 History & Present Profile	129-131
2 Financial basis of the Post	131
3 External Environment	132-135
4 Additional Resources Mobilisation	135-145
5 Expenditure Compression	145-151
6 Future Strategy	151-152

## **ANNEXURES**

Annexe A ... Organisational Chart of Secretariat	... 153
Annexe B ... Organisation Chart of Postal Services Board	... 154
Annexe C ... Panchayat Sanchar Sewa Yojana	... 155-156

## DEPARTMENT OF POSTS

### EXECUTIVE SUMMARY

#### 1. History and Present Profile

1.1. Established in 1854, the Postal Department is one of the oldest departmentally-run public sector undertakings of the Government of India. Its legislative basis is the Indian Post Office Act, 1898.

1.2. While there were 23, 344 post offices at the time of Independence, the number of post offices as on 31.3.1999 was 1,54,149, of which 1,37,847 were in rural areas. During 1998-99, the Department of Posts handled 1576.64 crore articles including 26.82 crore registered articles. It also handled 10.91 crores of money orders amounting to Rs. 4829.86 crore.

1.3. The Department of Posts operates the Savings Bank on behalf of the Ministry of Finance. The cumulative outstanding balance of 11.09 crore accounts in all forms of National Savings as on 31.3.1999 was Rs.1,55,295 crore. It also operates Postal Life Insurance, which has 30.67 lakh policies with an aggregate assured sum of Rs.10,037.13 crore.

1.4. As on 31.3.1999, the department had 2,92,672 full-time regular employees and 3,09,915 part-time extra-departmental agents, employed in rural branch post offices.

1.5. The department is headed by a Secretary who is also the Chairman of the Postal Service Board and also the Director-General of Postal Services. There are 19 postal circles each headed by a Chief Postmaster-General.

#### 2. Financial Basis of the Post

2.1 Postal Service, which was a part of the undivided Post & Telegraph Department prior to 1.1.1985, was cross-subsidized from the surpluses of the Telegraph Wing. After separation of the Postal Service as a separate department, the subsidy comes from the general budget of the central government. The subsidy from the general budget increased by 1632.8% from 1992-93 to 1998-99.

#### 3. Post's External Environment: Legal and Structural Issues

3.1 The de jure legal monopoly of the department, which still continues, has

been eroded on the ground by a large number of private courier services who have taken away a good proportion of the high revenue-yielding traffic from the state owned monopoly operator i.e. the Post.

3.2 The Post Office Act, 1898, needs to be totally overhauled by providing a legal basis to the privately operated couriers and withdrawing the legal protection of monopoly over letter services to the Post.

3.3 The department continues to own and operate a large number of ancillary logistic services even though outsourcing these would be a cheaper alternative.

3.4 Physical transmission of written message is getting outdated because of new means of electronic mail. The future of the department depends upon its ability to adopt new technology.

3.5 A large number of postal organisations world over have been corporatised. While there is a strong case for India Post to be corporatised, to start with, the premium services of the Post should first be corporatised. The present Postal Services Board should be strengthened by the addition of a full time Finance Member and should have statutory status and enhanced administrative and financial powers.

#### **4. Additional Resource Mobilisation**

4.1 On the analogy of reforms in the electricity and telecommunications sector, determination of postal tariffs needs to be distanced from the government. While three different models could be thought of in this regard, there is an urgent need for setting up a commission to advise, within six months, on the further upward revision of tariff.

4.2 Tariff deciding powers should be transferred from legislative control to executive control.

4.3 The Department of Posts owns 5189 office buildings and about 1900 vacant plots of land. The department should consciously exploit its land and building through BOOT or BOOL and earn a revenue of about Rs.10 crore per annum.

4.4 A number of premium services like Speed Post, Satellite Post, Business Post, e-commerce need to be exploited to their full business potential. This process could yield substantial additional revenues. These premium services should be corporatised to facilitate private sector participation, which could bring in capital and technology.

4.5 Remuneration for operating savings bank and other savings schemes needs to be refixed to reflect correctly and fully the proportion of expenditure incurred

on providing these services, after building in improved operational efficiency norms. The feasibility of assigning a greater role to the Department of Posts in these programmes needs to be explored.

4.6 The Post should exploit its wide network and points of presence to retail the products and services of banks, insurance companies and mutual fund companies. This could have substantial revenue earning potential.

## **5. Expenditure Compression**

5.1 The commission referred to earlier in para 4.1 should also advise on the new work norms to be adopted for the various activities, and pending introduction of these new norms, there should be a total freeze on filling up of vacant posts and on fresh recruitment.

5.2 The departmentally-owned-and-operated Mail Motor Service had an expenditure of Rs.37.9 crore in 1998-99. It spent Rs.16.13 per kilometer, which, compared to private transporter's costs, is high. This service should be abolished at stations where the fleet strength is less than 10. At other stations, it should be continued as profit centres but abolished if the rate per kilometre is not competitive in the market.

5.3 The Civil Construction Wing of the department comprising 23 civil and 6 electrical divisions spent Rs.48.72 crore in 1998-99. Since this was a common service for both the Department of Posts and the Department of Telecommunications, a Civil Wing for only the Department of Posts after the corporatisation of DOT is not viable. The works can be entrusted to other construction agencies in the public and private sector.

5.4 A large accounts organisation comprising about 7900 officers and staff is no longer essential with large scale computerisation and automatic data accounting systems introduced in postal operations. Much of this work can be entrusted to accountants working in Postal Operative Offices. Only a small accounts organisation may continue to perform the work according to the Central Government Accounting Codes.

5.5 A large number of housekeeping functions like that of chowkidars, farash, waterman, sweepers and gardeners should be outsourced as the latter is cheaper and more efficient.

5.6 A large number of one-man and two-men post offices in urban areas should lose their status as self-accounting offices and function as extension counters of bigger offices. Basic postal services like sale of stamps and stationery and registration should be outsourced to licensee postal agents on the basis of revenue sharing as has been done for public call offices.

5.7 Post Box delivery should be made compulsory for all government, business, industry and commercial establishments in order to freeze the growing demand for postmen. Collection of mail from letterboxes should be outsourced. Even delivery of ordinary mail can be outsourced.

5.8 The extra-departmental system is an innovative arrangement for providing low cost service in rural areas. Even in this system there is still a large proportion of uncovered costs. Cheaper methods for effecting delivery of postal services in rural areas would therefore need to be introduced. The extra departmental system should be frozen at the present level and gradually replaced by outsourcing such work to panchayats, village cooperatives or rural PCO operators on a revenue-sharing basis.

## **6. FUTURE STRATEGY**

6.1 The Department of Posts is today perceived as a large loss making organisation, with an increasing proportion of costs having to be met by transfers from the central budget. Moving away from this 'loss making' label is a prerequisite if this organisation is to function with a sense of purpose and pride. Towards this end, a multi-pronged approach would need to be launched and implemented in a time bound manner - say over five years. Important elements of such a strategy would be tariff revision, diversification to provide new services and products, greater role and involvement in agency functions and increased efficiency of operations in all activities, leading to lowering of costs.

6.2 The services now offered cover the entire country and a wide range of products. The attempt should be to recover costs on each activity through a two-pronged approach of upward revision of tariff and increased efficiency of operations leading to lower costs. Seeking to load too much on any particular set of activities would be counter productive in the emerging competitive scenario.

6.3 There could be areas or products where recovery of costs in full is not found to be feasible. The under-recovery in such activities should be covered, i.e. cross subsidized by excess recoveries in other activities.

6.4 If there are areas/products where, on larger considerations, government wishes to keep cost of services at sub-optimal levels, there also the Department of Posts should seek to cover the under recovery to the extent possible through cross subsidization within the system and the gap should be met by explicit subsidy from the central budget. The activities for which such subsidy would be available have to be carefully chosen and kept to the minimum - these could be post cards and rural network. The upper limit for the subsidy- say Rs.500 crore per annum - should also be carefully determined and announced in advance. This limit should be such that, while on the

one hand, it does not undermine the enthusiasm of the Department of Posts in their efforts to reach zero deficit in five years, it does not also, on the other, make the Department of Posts too complacent and lose focus on their efforts.

6.5 In all activities there should be a conscious effort for a reduction in the cost of operations, in particular through introduction of new work norms, which would ensure higher efficiency and productivity. Until new work norms are introduced, there should be a complete freeze on filling up of vacancies and on fresh recruitment.

6.6 Tariff setting powers should be transferred from legislative control to executive control.

6.7 A commission should be set up to advise within six months both on further tariff revision as well as new work norms for all activities.

6.8 Additional resources should be raised by introducing new innovative products and services, leasing and sale of postal land and building, large scale operation of e-mail, providing logistic support to e-commerce etc. The revenue earning potential in these activities would be quite large.

6.9 The wide network and points of presence should be utilised for retailing products and services of banks, insurance companies and mutual fund companies. The revenue potential of such initiatives would also be quite substantial.

6.10 The remuneration for operating savings bank and other savings schemes should be refixed to reflect correctly and fully the proportion of expenditure incurred on providing these services, after building in improved operational efficiency norms.

6.11 Considering the large volume of time, effort and staff devoted to this particular agency functions, the feasibility of assigning a greater role to the Department of Posts in these programmes need to be explored.

6.12 A number of ancillary logistic services like construction wing could be abolished and others like Mail Motor Service and accounts organisation downsized leading to a saving of Rs.88 crore per annum.

6.13 The urban postal service needs to be rationalised by abolishing a large number of one-man and two-men post offices, withdrawal of savings bank work from most of the urban post offices and creating a few specialised offices for banking purposes, rationalising delivery work and outsourcing collection and delivery of ordinary mail in urban areas.

6.14 The extra-departmental system in rural areas should be frozen at the present level and gradually replaced by outsourcing this work to panchayats,

cooperatives, P.C.O. licencees etc. on a revenue sharing basis for providing postal services in both urban and rural areas.

6.15 Premium postal services like Satellite Post, Business Post and Speed Post etc. should be brought under a corporate set up.

6.16 A full time Finance Member, equal in status and rank to other members, should be inducted into the board and the board should be given greater financial and administrative authority. The objective should be to prepare the ground for eventual corporatisation of the entire organisation.

## **Rationalization of Department of Posts**

### **1. History and Present Profile**

1.1 Organised postal service in India, as it is known today, started about the same time as telegraph and railways some hundred and fifty years ago. The Postal Department under a Director-General was set up in 1854. The Postal Department is thus one of the oldest departments of the Government of India and the postal service is one the oldest departmentally-runs public utility undertakings of the country.

1.2 Since a number of small parallel postal networks were at that time operating in the country and postal service was considered as a 'natural monopoly', the Indian Post Office Act was enacted in 1898 which conferred on the central government the exclusive privilege of conveying by post, from one place to another, all letters with a few exceptions. This 102-year old Act still stands in the statute book with minor modifications from time to time.

1.3 Postal services encompass three broad areas of activity i.e. retailing postal products and services, transmission of postal articles and delivery of postal articles. Retailing inter alia includes:

- \* sale of postage stamps and stationery
- \* booking of registered articles, both letters and parcels
- \* booking of insured articles, both letters and parcels
- \* booking of value-payable articles, both letters and parcels
- \* remittance of money through money orders and postal orders
- \* acknowledgement service in respect of registered, insured and value-payable articles and money orders.

1.4 India has the largest number of post offices in the world. At the time of Independence, there were 23,344 post offices in the country, mostly in urban areas and some larger villages. While before Independence, the post office was perceived as an instrument of imperial expansion and consolidation, providing postal connectivity was looked upon as a social responsibility in the post-Independence period. A deliberate policy of expansion of the postal network especially in rural and remote areas was adopted. The number of post offices on 31.3.1999 was 1,54,149 of which 1,37,847 post offices were in rural areas. On an average, a post office serves an area of 21.32 sq. kilometres and a population of 5477.

1.5 Mail processing, transmission and delivery are the core activities of the Department of Posts. Letters are collected from 5.68 lakh letter boxes in the country. During 1998-99, the Department of Posts handled 1576.64 crore articles, of which

26.82 crore were registered articles. It also handled 10.91 crore money orders amounting to Rs.4829.86 crore. These are processed for transmission and eventual delivery by a network of 573 sorting offices. The bagged mail is transported by road, rail and air. During 1998-99, the Department of Posts paid Rs.49.47 crore to the Indian Railways, Rs.51.32 crore to various airlines, Rs.18.87 crores to road transporters and others and spent Rs.29.48 crore on its own Mail Motor Service.

1.6 The Department of Posts, because of its wide reach and large number of points of presence, is utilised by other departments of the central government and state governments to perform several functions on their behalf. The Post Office Savings Bank (POSB) is the most important of such agency functions performed by the Department of Posts on behalf of the Ministry of Finance. Post Office Savings Bank operates 11.09 crore accounts under various saving schemes. The cumulative outstanding balance in all forms of National Savings as on 31.3.1999 was Rs.1,55,295 crore. The annual mobilization of savings in the POSB is about Rs.25,000 crore.

1.7 Postal Life Insurance (PLI), operated by the Department of Posts, is one of the oldest welfare schemes for the government employees. Introduced in 1884 for the postal employees, it today covers employees of the central government and state governments, the armed forces personnel, employees of central and state public sector undertakings, employees of autonomous bodies, financial institutions, nationalized banks, local bodies, universities and government-aided educational institutions. As a result of Malhotra Committees' recommendation, its mandate was enlarged in 1995 to cover the general populace in the rural areas. It operates 30.67 lakh policies with an aggregate assured sum of Rs.10,037.13 crore. During 1998-99, PLI paid Rs.40.19 crore to the Post, which is treated in postal accounts as recoveries.

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

1.9 To operate the service and man 1,54,149 post offices in the country, the Department of Posts has 2,92,672 full time regular employees and 3,09,915 part-time or extra-departmental agents, an institution unique and peculiar to this department. While the full time regular employees man head post offices and sub-post offices, part-time extra departmental agents man the extra-departmental branch post offices, which are by and large located in rural areas.

1.10 For the purpose of management, the Department of Posts has a Secretary

to the Government of India, who is also the Director General of the department and Chairman of the Postal Services Board. The Board has three members, one each in charge of Operations, Development and Personnel. Below the Board at the apex there are nineteen circles, each headed by a Chief Postmaster General. Each circle is further divided into regions, each region being headed by a Postmaster General. Each region has a number of divisions headed by a Senior Superintendent or Superintendent. The organisation chart of the headquarters of the department and of its field formations is at Annexe 'A' and 'B' respectively.

## **2. FINANCIAL BASIS OF THE POST**

2.1 Postal service was rendered by a combined Department of Posts and Telegraph till January 1985. The department as a whole was conceived and operated as a public utility like the railways and electricity. Though the railways had a separate budget accounting for its revenue and expenditure, the Post and Telegraph was a part of the general budget of the central government. The economic philosophy of the government in regard to Post and Telegraph was succinctly summed up by the Member in charge of Industry & Commerce in the Viceroy's Executive Council in 1922, "The Government does not look upon the Post and Telegraph to contribute to the general revenues but it should at least pay its way through". The post-Independence period was marked by the rapid expansion of the postal network and increase in manpower. Due to slow induction of technology and old staff norms, manpower costs increased exponentially. Corresponding adjustment of product and service pricing lagged behind expenditure in a soft state, which perceived postal services as the common man's means of communication and, therefore, needed to be under-priced with the state picking up the subsidy tag. The subsidy was a cross subsidy from the Telegraph in a combined Post and Telegraph Department but gradually the burden of cross subsidization depleted the resources of the Telegraph Wing which required massive capital for its expansion. Pressure from the Telegraph Wing and multinational financial institutions, which became lenders to the massive expansion of the Telegraph Wing led to the complete separation of postal services from the telecommunications services in 1985. Since then, the liability for postal subsidy is being borne by the general exchequer. In other words, instead of the telecommunication user subsidizing the ubiquitous common man using the postal service, the general tax payer bore the subsidy for the postal service. The postal deficit met from the general budget increased 1632.8% from 1992-93 to 1998-99 to reach Rs. 15909.7 million, competing for top place with food and fertilizer subsidies.

### 3. POST'S EXTERNAL ENVIRONMENT: LEGAL & STRUCTURAL ISSUES

3.1 During the last couple of decades, many significant developments have taken place in the external environment of postal services.

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

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

While the Act has included post cards within the definition of letters, the term 'letters' has not been defined in law. This lacuna and imprecision in law along with the exceptions provided in law has led to the large number of private couriers conveying letters purportedly as documents which "concerns the affairs of the sender or receiver, sent by a messenger on purpose". While they have cornered the high revenue yielding part of the written communication market, Department of Posts is left with low revenue yielding and expensive traffic as a part of its universal service obligation. The efforts of the Department of Posts to meet the challenge of the couriers in the premium product and service segments of the market has been limited by the governmental culture of slow response instead of quick business decisions.

3.3 When the service sector in India was either non-existent or was in an embryonic form, utility service providers had to build up an integrated organization encompassing many ancillary logistic services like transportation, construction, health care, house keeping etc. With the rapid growth and diversification of the service sector, it is neither economic nor efficient for in-house agencies to provide such ancillary logistic services without outsourcing them and concentrating on one's core activities.

3.4 Technology is the survival kit and competitive edge of any modern organisation. It has totally changed the way business is conducted especially in the communication sector. Physical exchange of data and message is fast being replaced

by electronic exchange through the world-wide web. The constraints of physical transportation by surface or air are fast disappearing which has the tremendous potential of relieving an end-service provider like the Department of Posts of its reliance on physical carriers like railways and airlines. The Post has to choose to become an e-mail operator instead of a snail-mail operator if it has to survive competition.

3.5 The primary legal issue arising out of the changes in the Post's external environment is the continuance of Post's de jure monopoly in letter service. Recognising the de facto operation of a large number of couriers in the market, the antiquated Post Office Act of 1898 needs to be completely overhauled and the couriers who are operating without the rights and obligations imposed by law must be brought under a license regime for proper regulation of their activities. The Post must be prepared to face competition as was recommended more than a decade ago by the Committee on Postal Excellence. Once the comfort of legal protection is removed, the Post has to gear itself up to face the market demands for efficiency. It is understood that a new version of the Post Office Act is on the anvil for a long time. This must be brought to the statute book very early.

3.6 For the purpose of creating a level playing field for the legally recognised couriers and the state owned postal service and also to enable the Post to face the emerging threats and to exploit new opportunities, there are sufficient grounds to corporatise the Post. The inefficient and financially-ailing postal services all over the world, e.g. in USA, Canada, UK, France, Germany, Australia, Malaysia have demonstrated remarkable turn-around after they were corporatised.

3.7 U.K. started the corporatisation of the Post in 1969, US Postal Service was corporatised in 1971 and Canada Post in 1981. Western European countries started late but most innovative developments have taken place in these countries. Some of these developments are, first, regulatory and operational functions have been separated and the latter function entrusted to a corporatised entity; second, while regulatory functions are generally vested in a ministry of the government, there is a growing trend towards establishing regulators independent and autonomous of the government as in the Netherlands; and, third, the new postal corporate entities are expected to be financially self-supporting or generate profit without sacrificing their universal network, the latter mostly through franchising. But more significantly, the large Western European postal corporations are acting more and more like private companies by diversifying into new business areas, entering into joint ventures with private companies and acquiring through purchase private companies in analogous or complementary areas. KPN, the holding company of the Dutch Postal Corporation has purchased TNT, the global transport company, which has a presence all over the

world. Germany's Deutsche Post has acquired a 25 per cent share in DHL, a renowned courier company. France's La Poste has expanded its operations through a large number of subsidiary companies. Sweden, Finland and Denmark have together formed a company called Nord Pack AB for transportation of goods in the international market. The British Post Corporation has just been authorized to venture into such areas and is likely to find a large international transport operator as a partner.

3.8 Postal organisations in Asia-Pacific region have also not lagged behind the North American and Western European countries. Eight postal organisations in Asia have been corporatised and six more are likely to be corporatised in the next couple of years. India, Pakistan (its corporate structure has been reverted back to a government department) and Bangladesh represent a sub-continental culture of standing outside the mainstream of postal developments all over the world.

3.9 Till the Post in India largely acted as a carrier of written communication between individuals and had the role of establishing a network in unopened and inaccessible areas, it had a public service role and character. During the last decade, not only has the share of the Post in the communication market declined, but also more significantly the share of private communication between individuals in the postal traffic has declined with the growing share of business-to-business, business-to-individual and individual-to-business communication. The Post in India is therefore acquiring a business character and has to face competition. The time is ripe to remove the governmental controls on the Post and vest it with operational and financial flexibility of a corporation.

3.10 There will be many opponents and detractors of the suggestion for corporatisation of the Post in India. Their usual arguments will be the so-called social service character of the Post, the need to continue with a cheap postal service with state subsidy for the benefit of the common man. Answers to these specious arguments have been given in various parts of this report dealing with specific issues of the original financial basis of the Post and the need for tariff reform. But taking note of the difficulties in overnight corporatisation of the Post, a gradual approach may be adopted i.e. immediate corporatisation of the premium services which have no social service character and which do not require public subsidy. These corporate entities can become subsidiary companies after the entire Post is corporatised as a parent holding company. The corporatisation of premium services has been discussed in para 4.4 of this report.

3.11 Pending the corporatisation of the Post, the existing Postal Services Board, which was created by an executive order in 1959, needs to be given statutory backing and clothed with greater financial and administrative authority. The financial powers of a ministry/department of the Government of India enjoyed by the Post under the

Delegation of Financial Powers Rules, 1978, are wholly inadequate for an organisation like the Post. With the delegation of greater financial powers, the Postal Services Board should have a full time Finance Member equal in rank and status with other members.

#### **4. ADDITIONAL RESOURCE MOBILISATION**

4.1 While a public utility like the Post does not aim at maximizing profits and dividends, it cannot continue with deficits with detrimental effects on its own development and the national exchequer. The vast areas of Post capable of additional resource mobilization have been discussed below.

4.2 **Tariff Reform:** The most salutary financial basis of Post as a public utility viz. that "it must pay its way through" was thrown overboard by irrational expansion of the network and manpower without corresponding increase of the user charges. Starting with the mid-sixties, the Department of Posts has been suffering from revenue deficit year after year. The net postal deficit has grown from Rs. 91.81 crore in 1992-93 to Rs.1590.97 crore in 1998-99, an increase of 1632.8 per cent. The postal deficit in 1999-2000 was Rs.1595.82 crore. Against the projected deficit of Rs.1994.47 crore in B.E.2000-2001, the deficit projected in the R.E. is Rs.1576 crore. The B.E. 2001-2002 projects a deficit of Rs.1683 crore. Dependence on manpower, rather than technology has resulted in manpower cost growing due to periodic pay hikes effected by central pay commissions and the in-built system of payment of dearness allowance in line with the increase in the consumer price index. While expenditure has steadily increased, postal tariffs have not been correspondingly increased to reflect costs. For instance, the post-card tariff remained static from 1973 to 1997-a record of price freeze on extra-economic considerations. Out of 20 classified postal services, only 4 services i.e. letters, insurance, foreign mail and Speed Post produced a surplus totally inadequate to offset the losses of the remaining 16 services. A comparable utility like electricity which had a legal mandate of Electricity (Supply) Act, 1948 to earn a return of at least 3% on the net fixed assets of the state electricity board has been bled white by tariffs set on extra-economic considerations. With the total accumulated losses of the state electricity boards exceeding Rs. 20,000 crore, there was no investible surplus for replacement, upgradation or capacity addition. Political ratemaking is the antithesis of public utility pricing and has stunted the growth and development of the infrastructure utilities by starving them of any revenue surplus for investment. The result is a run-down system whose quality of service is third-rate by global standards. Since electricity is an essential input in infrastructure, the sector has been reformed to entrust tariff setting to professional and independent regulatory commissions, who will take a few years to rebalance tariffs and restore the financial health of the sector. In the postal sector, there are instances abroad where ratemaking has been entrusted to a

professional authority outside political decision-making as in the case of Postal Rates Commission in U.S.A. and Federal Prices Commission in Australia. Wherever this has been done, the traditionally sick postal service has generated a revenue surplus, substantial investments have been made in upgradation and technology induction and quality of service has improved. Reforms in the power and telecommunication sectors in India during the last four years provide indicative models for similar reforms in the postal sector.

4.2.1 Three alternative models of tariff regulation can be examined for adoption:

**Model I:** The existing government-owned-and-operated postal service is corporatised for eventual private sector participation in activities which have a clear business orientation like Speed Post, Satellite Post, Business Post and Postal Life Insurance. While government retains the power to frame policy and give policy directions, an autonomous statutory commission is established to (i) issue licence to the corporatised postal service and all privately owned couriers (ii) monitor the performance of the licensees (iii) determine tariffs and (iv) protect consumer interest.

**Model II:** The existing government-owned-and-operated postal service is corporatised. Government retains the power to frame policy and give policy directions and grant licence to the corporatised postal service and privately owned couriers. An autonomous statutory Postal Rates Commission is created to determine tariffs of the licensees keeping in view efficiency, economy and consumer interest.

**Model III:** Similar to the regulatory regime obtaining in the pre-corporatised telecommunications, the operating arm of the postal service is carved out as a separate departmental organisation which is still government-owned-and-operated. Government retains the power to frame policy, give policy directives and grant licence. A statutorily autonomous Postal Rates Commission is created to determine tariffs keeping in view efficiency, economy and consumer interest.

4.2.2 While Model I is the ideal model already adopted in the power sector, it is imperative to at least start with Model III and move towards Model I over a period of time. Whichever model is finally chosen has to be created by appropriate legislation and not by executive notification.

4.2.3 Pending setting up of a separate mechanism for tariff regulation, the Post Office Act, 1898 needs to be amended to transfer the power of tariff-making in respect of a number of postal services like post card, letters, book packets and newspapers from legislative control to executive control as was the case with telecommunications before TRAI as the tariff regulator was established. Meanwhile, there is an urgent need to revise the rates of a large number of services which are being provided at present below-cost. While the present costs are mostly because of known inefficiencies

in staffing and operations and need to be critically reviewed, the gap between cost and price is so wide in the case of all the 16 classified loss-making services that a considerable upward revision will result only in approximation towards their normative costs.

4.2.4 To take the case of post cards first. Against the estimated cost of service of 452.81 paise, the average revenue is 25 paise resulting in a subsidy of 427.81 paise or 94 percent of the cost. The annual subsidy on the estimated 42.52 crore post cards used is Rs.181.90 crore. While it is nobody's case that the tariff of post card should be increased to Rs.5.00 to make it a profitable service, serious consideration should be given to decrease the present level of subsidy to a rational level. The per capita monthly use of post cards calculated on the basis of the assessed annual traffic of 42.52 crore post cards for a population of 100 crore is only 0.035. Even assuming that only 10 per cent of the population use post cards, the per capita monthly consumption is only 0.35. Therefore, increasing the post card tariff will not put an unbearable burden on the ubiquitous common man whose cause is apparently so dear to every decision-maker. On the basis of present traffic, every 10 paise increase in the present tariff will yield an additional revenue of Rs.4.25 crore per annum.

4.2.5 In the case of letter cards, popularly known as Inland letters, the estimated cost of service is 448.84 paise whereas the average revenue per card is 191.67 paise. The element of subsidy per card is 257.17 paise or 57% of the cost. The estimated annual subsidy on the basis of the estimated traffic of 56.99 crore is Rs.146.56 crore. The monthly per capita use of letter cards calculated on the basis of the estimated annual traffic of 56.99 crore is 0.047. If it is assumed that only 10% of a population of 100 crore use the service, the monthly per capita consumption is 0.47. Since this is not as basic a service as the post card, considering the value for money there is a strong justification for drastically reducing the present subsidy.

4.2.6 With the proposed increase of letter card tariff from the existing Rs.2, inter se relativity of service charge would justify the increase in the rate of letters from the existing Rs.3 for every 20 grams.

4.2.7 Registered newspapers carry a heavy load of subsidy, originally meant for the ostensible purpose of dissemination of information at a time when there were few other sources and instruments of dissemination of information. The estimated cost of service of a single copy registered newspaper is 588.48 paise against the average revenue of 26.45 paise. The subsidy per copy is 562.03 paise i.e. 96 percent of the cost. The estimated annual subsidy on the basis of estimated traffic of 11.07 crores is Rs.62.22 crore. The subsidy on registered newspapers (bundles) is 1073 paise per bundle i.e. 94 percent of the cost. The estimated annual subsidy on the basis of estimated

traffic of 3.39 crore bundles is Rs.36.37 crore. The total subsidy on registered newspapers is Rs.98.59 crore.

4.2.8 In this age of electronic information, newspapers are no longer the only or the primary source of information. Most newspapers also pay a commission to the distribution agents far higher than what they pay as postage. The existing subsidy exceeding 90 percent of the cost requires very critical review. Since tariff of registered newspapers has not been revised since 1.1.87, a major revision is required to be done immediately.

4.2.9 Book packets containing printed books carry a subsidy tag of Rs.46.41 crore per annum. The estimated cost of the service is 1262.87 paise against an estimated revenue of 242.91 paise i.e. a subsidy of 81% of the estimated cost. The existing rate of 50 paise for every 100 grams is far too low considering the present day price of books. A substantial upward revision of the rates is called for in respect of this service.

4.2.10 Book packets containing periodicals are subsidized to the extent of Rs.18.65 crore per annum. While the estimated cost of the service is 1259.19 paise, the average estimated revenue realization is 700.88 paise, a subsidy of 44% of the estimated cost. As a first step, the existing rate of Re.1 for the first 100 grams or part thereof and Rs.2 for every additional 100 grams or part thereof should suitably be increased.

4.2.11 Another service which has no equity objective but carries a massive subsidy tag is registration service. While the estimated cost of the service is 2691.12 paise, the revenue is 1366.67 paise, a subsidy of 1324.45 paise i.e. 49 percent of the cost. The estimated annual subsidy based on the estimated traffic of 27.97 crores is Rs.370.45 crore. The high cost of the registration service is essentially due to the relatively higher time factor allowed for the complex operations associated with the service at every stage of handling i.e. booking, dispatch, transportation and delivery. The existing item-specific accounting and recording in registration service did not pose many problems when the number of items handled was less and manpower costs were low. If the tariff of the service has to be protected from very sharp escalation, the cost of the service has to be brought down by drastic procedural reform. One reform which has been advocated for a long time i.e. bulk entry of registered articles instead of item-specific accounting and recording has the potential of considerable manpower savings but has naturally been opposed by the postal staff unions. Unless this minimum procedural reform is introduced the cost of the service cannot be held in check. The result will be either increase in rate to cover costs or suffer the burden of subsidy, which will steadily grow. Therefore, a composite strategy of cost-reduction and rate increase

has to be adopted in a calibrated manner to ensure reduction of the present level of subsidy.

4.2.12 There are many other services where the present level of subsidy needs to be reduced or done away with altogether. What has been discussed in detail above are some of the more glaring examples of the urgent need for rationalization of postal tariffs.

4.2.13 The Finance Bill 2001 contains a number of proposals for increase in postal tariffs largely on the lines discussed in the preceding paras. The proposed increases are likely to yield an additional revenue of about Rs.300 crore in a full year. Since the proposed changes are likely to come into effect from June, the additional revenue expected during 2001-2002 is likely to be about Rs.225 crore. With the additional revenue, the deficit of the Department of Posts projected in BE 2001-2002 is likely to come down to about Rs.1458 crore. Even at this level the deficit is still at an unacceptable high level and clearly there is a case for a further upward revision of tariff on many products. For instance though the existing rates of postal products like post cards, book packets containing printed books, book packets containing periodicals and registered newspapers (single copies) are proposed to be nearly doubled, the percentage of subsidy on these products would continue to be at unacceptably high levels.

4.3 Postal Land and Buildings: Since the post office was a symbol of imperial presence, it occupied the centre point in all metro and mini-metro cities. A post office is not only a retail outlet but an accounting centre as well. A clear distinction should be made between the retailing activity of the post office and its accounting and administrative functions. While its retailing activity must continue in the urban business hubs, its accounting and administrative functions can be performed as efficiently in the suburbs. Modern technology has now made it possible to carry out banking and financial retailing thousands of kilometres away in call centres. A similar approach must be adopted for the post office in order to release high cost and high rental postal land and buildings in the city centres for more productive investment. For instance, the property owned by the department in the vicinity of Taj Mahal Hotel in Bombay is being used by an ancillary logistic service like the Mail Motor Service. If this property is developed to its maximum permissible floor-space index, it will yield large revenue either by rental or outright sale. For a cash-starved organization, it would not be appropriate to invest capital in such activities. It would be far more expedient and appropriate to adopt any of the methodologies like BOT, BOOT or BOOL for development by a private property developer.

4.3.1 At the end of 1998-99, the Department of Posts owned 5189 office

buildings and 2240 staff quarters. It also owned about 1900 vacant plots of land. The thrust of the department since the beginning of the Five Year Plans is to replace rented buildings by owned buildings. Ownership involves not only capital investment but annual maintenance costs. During 1998-99, the department spent Rs. 40.30 crore on maintenance and petty works, excluding pay and allowances of the staff engaged for it. The architectural and construction quality of postal buildings and the cost escalations have been discussed elsewhere in this report. The quality of maintenance is also not commensurate with an annual expenditure of Rs. 40 crore. Efficient organisations around the world are divesting themselves of ownership obligations to concentrate on their core activities. The Post should, therefore, adopt the principle of hiring buildings and make deviations from this principle only in rare cases. On acceptance of the policy, all vacant plots of land should either be sold outright or given to private developers on the basis of BOT, BOOT or BOOL. The additional revenue mobilization on this account is estimated as Rs.10 crore per annum.

#### **4.4 Premium Postal Services and Technology:**

**4.4.1 Speed Post:** Low-cost universal postal services not only yielded low revenues but provided the lowest common denominator in terms of service efficiency, which did not satisfy the niche segments in a highly diversified communication market. Though from the early times the government-operated postal service is considered a natural monopoly and mandated as such by law to prevent “cherry-picking” or “cream-skimming”, taking advantage of the infirmities of law, vast areas of inefficiency of the universal service and the emerging needs of the market, a large number of privately-run couriers came into being and eroded the business of the Post. The Department of Posts reacted to the challenge by introducing a new service called Speed Post for the top end of market at a higher price. Speed Post which carried 11,19,000 articles and earned a revenue of Rs. 3.17 crore in 1987-88 has grown about nineteen times to carry 1,95,95,000 articles in 1998-99 and earn a revenue of Rs. 91.36 crore. Though no firm and reliable estimate of the size of the courier market is available, guess estimates put the transactions in this market at Rs. 1000 crore per annum. Speed Post with less than 10 per cent market share has to diversify its product profile by identifying sub-niches in this customer group, carry out massive technology upgradation and calibrate the tariff through price-sensitivity analyses if it has to command a larger market share. Its delivery reliability within a guaranteed time schedule should be enhanced by deploying dedicated and motorised delivery personnel. This is one service where the department earns an estimated revenue of 5513 paise per article against the estimated cost of 2233.72 per article, a handsome margin of 3279.28 paise per article. Speed Post has the potential of earning an additional Rs.50 crore if promoted in an aggressive manner.

**4.4.2 Satellite Post :** The potential of Satellite Post, earlier known as Hybrid

Mail when it was started in 1995, has not been exploited by the department. The communication market in India was neatly carved out between two monopoly operators - telecommunications had monopoly over voice communication and the postal service over written communication. Rapidly changing technology and other developments in the external environment have led to de facto deregulation of the communication market. The earlier neat boundaries between various modes of communication have disappeared with the appearance of convergence technologies. The post is no longer constrained to use surface and air transportation to physically carry messages. If it continues to depend on the physical transportation, its products will be derisively called 'snail-mail' comprising mostly high volume but low revenue-yielding and low time-sensitive mail. With the declared policy of the government to set up 'cyber dhabas' and Sam Pitroda-led World Tels' MOU with nine state governments for rural computer connectivity, even the rural mail traffic handled by the Post will be eroded, leaving the Post to handle only highly-subsidized registered newspapers, book packets and post-cards. The Post will be financially choked and become a national basket-case.

4.4.2.1 Satellite Mail does away with physical transmission and substantially reduces the time lag between sending of a message and its delivery. It takes advantage of and optimizes the use of an infrastructure of 75 V-SATs and a very large number of modems connected to telephones, originally set up for transmission of money orders, for transmission of messages. It is not dependent on computer connectivity from customer-end to customer-end but only between sender post office and delivery post office. In other words, it is an e-mail transmitted and delivered by the post office. Therefore, in the framework of 'cyber dhaba,' the post office has to play a leading role; the post office has to become the nodal point in computer connectivity. It will, thus, become the biggest e-mail operator in the country. It will not only provide a high performance and time-bound delivery but reduce manpower costs and transportation costs thus ensuring a reasonable rate structure. This service needs a total overhaul with intensive and focussed marketing and competitive pricing to turn it into a major business activity. The Post can earn at least Rs.50 crore per annum by becoming a major e-mail operator.

4.4.3 **Business Post:** The high volume mail from business to household and from business to business clogs the postal sorting and transmission system and imposes a high cost on the system. It also imposes a cost on the business - production of a hard copy, folding and enveloping, addressing, payment of postage, bundling and handing over to a designated post office. A number of postal administrations in the West have introduced a service known as 'hybrid service' whereby the post office does the entire processing on the basis of data supplied by the business either on-line or off-line. Actual printing and processing takes place in a nodal point of several geographical

regions to save post office sorting and transmission time and cost. Since this work is technology-driven and is capital-intensive, a number of postal administrations like those in Italy, Switzerland and Sweden have entered into joint ventures with private entrepreneurs, which have proved profitable. This is a totally untapped market in India and can prove to be a money-spinner for the Post. The revenue estimated by a potential private sector operator, Elsag Baily of Italy is about Rs.40 crore per annum.

**4.4.4 Role of Post in e-commerce:** A large number of dotcoms engaged in e-commerce have sprung up in the country. While the financial transactions can be completed on the internet, physical delivery of goods purchased and sold can only be done by a courier. Speed Post can aggressively market its capability to become the preferred courier of these dotcoms. With growing e-commerce, this will be another money-spinner for the Post.

**4.4.5** The premium products and services if exploited to their full potential can yield an additional revenue Rs.90 crore per annum.

**4.4.6 Organisational structure of the Premium Services:** Premium services and products which the Post already offers or will offer in future has a greater business focus than its traditional universal services. Their unfettered growth, innovation and financial accountability can be better ensured if they are separately bundled in a corporatised structure which will pay for the services provided by the Post and will charge for the services rendered to the Post. A mere profit centre structure within the government is unlikely to succeed in a competitive environment. A corporatised structure will also enable it to have private sector participation in areas needing technology infusion and professional management. The existing Directorate of Business Development should be the umbrella organisation for all premium services and the nucleus of the new corporation. It should recruit professionals in the field of marketing, finance, and information technology. The Department of Posts may be the administrative department for this corporation. A part of the surplus of this corporation should be paid to the operating arm of the Department of Posts for fulfilling the latter's universal service obligation.

**4.5 Post Office Savings Bank:** The Department of Posts operates the Post Office Savings Bank on behalf of the Ministry of Finance. At a time when the branches of commercial banks were few in number, the Post, because of its wide network and points of presence, was entrusted with the task of mobilizing public savings. Apart from the normal savings accounts, it offers a large variety of savings instruments like savings certificates, term deposits, recurring deposits etc. The Table below indicates the size of the Savings Bank.

**Table-1: Saving Bank**

	1994-95	1995-96	1996-97	1997-98	1998-99
1. General No. of savings A/Cs all types (in Million)	128.47	160.55	99.88	107.02	110.97
Outstanding balances in all forms of National Savings (Rs. In Million)	827464	663083	1057734	1267542	1552956
<b>2. Details of Accounts</b>					
SB	47141177	51921282	54137964	57964932	59010621
PPF	550667	661942	795639	924341	1048504
CTD	7553952	7311216	1865946	1843875	1721997
RD	66762049	93981613	36178443	38399036	40163817
TD	1415844	1476741	1541800	1676420	1941797
FD@	5045230	5194473	5365250	6207303	7079030
Total	128468919	16054267	99885042	107015907	110965766
Outstanding balances in all types of certificates (Rs in Million)	540427.12	619176.80	723173.37	860650.10	1048332.00
Outstanding balance in PPF A/Cs (Rs. Rs.In Million)	10272.67	14029.04	18473.19	24159.96	33380.00

@ Includes Monthly Income Scheme and National Savings Scheme

80 per cent of the net amount deposited in the Savings Bank in a month in each state is lent to the respective state governments at a low rate of interest. The remaining 20 per cent accrues to the central government. The Ministry of Finance lays down policy and undertakes promotional activities of National Savings along with the state governments. The Department of Posts is remunerated for operating the Savings Bank, the basis of remuneration and the rate varying from time to time. The existing basis of remuneration is an amount per account.

4.5.1 The officers and the employees' unions of the department have always demanded that instead of the department operating the Savings Bank as an agent on payment of a fixed remuneration, it should own and operate the Savings Bank. While the objective behind the demand has not clearly been delineated, the underlying motivation is to use the outstanding balance in the Bank for funding postal operations and development. With the present arrangement of lending 80 per cent of the net monthly deposits to the state governments, and after providing for the administrative expenditure and the interest liability, the funds available for any possible deployment by the Department of Posts will not be large enough. The share of the central government

which would be at the disposal of the Department of Posts will also have to be prudently invested to earn a reasonable return to meet a part of the administrative cost and interest liability. These funds obviously cannot be used for meeting the postal deficit, which would be an expenditure without return. Also, postal projects do not yield a cash return. In the absence of a cash return, it would not be appropriate to invest any fund in postal development activities. The balance of advantage, therefore, lies in the Department of Posts continuing to operate the Savings Bank as an agency function.

4.5.2 The experience of postal administrations of a number of countries is that while work of purely postal nature constitutes about 80 per cent of the total work of the post office producing a revenue equal to 60 per cent of the total earning, agency functions constituting 20 per cent of the total work produces about 40 per cent of the total revenues. The Table below indicates a similar experience in India Post:

**Table:2**

*(Rs. in crore)*

	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>
Revenue Receipts	1214.62	1566.52	1722.57	2020.12
Recoveries	1064.44	1037.97	1037.75	1162.46

Since the rate of remuneration payable by the Ministry of Finance to the Department of Posts was finalised prior to the revision of pay and allowances on the recommendations of the Fifth Pay Commission, there is an urgent need to revise this rate keeping in view the present structure of pay and allowances. Remuneration for operating savings bank and other savings scheme should be refixed to reflect correctly and fully the proportion of expenditure incurred on providing these services, after building in improved operational efficiency norms.

Considering the large volume of time, effort and manpower deployed on this activity, there is a case for exploring the feasibility of assigning to the Department of Posts a greater role in this programme. Allied to this, will be the question whether these costs should not rightly be reflected as part of the cost of mobilising these savings and paid for by the "beneficiaries", instead of being met from the central budget. These are best gone into as part of the larger issue of mobilising small savings and the pattern of sharing, as between the centre and the states not only of the resources mobilized but also of the cost and the repayment liabilities.

The strategy of the Department of Posts should be to maximise its earnings from this type of functions. A part of this strategy should be not to be a captive agent of a single principal. Australia Post performs front office retailing on behalf of a number of Australian banks that are connected on-line with the postal retail

outlets. With the growing computer connectivity, the Department of Posts should develop capability in its retail outlets to work as a multiple retailer. Commercial banks, who are extremely cost-conscious and prudent in expanding their retail network, would welcome this type of outsourcing. But for tapping the business of other commercial banks, the Savings Bank operations of the department have to be totally re-organised by creation of specialized savings bank offices in urban areas, withdrawal of savings bank work in one-man and two-men offices in urban areas, larger computer connectivity, use of chip-based smart cards for customer use, longer transaction hours, anywhere banking through V-SAT linkage and creation of a core cadre dedicated and specialised banking operatives and managers. To start with, a separate Directorate of Post Office Savings Bank on the pattern of Directorate of Business Development and Directorate of Postal Life Insurance should be created to bestow greater focus on the Savings Bank-related activities. Though the Ministry of Finance as the principal has the role of laying down policy, the reality is that the Department of Posts as the operator of the Savings Bank has not been given adequate powers to provide a satisfactory and speedy customer service especially in areas like settlement of deceased claim cases and premature encashment or closure of accounts. At a later stage, the operations of the Directorate can be corporatised and the corporate organisation can be a retailer of a variety of financial instruments and services either singly or in joint venture with other similar organisation in the financial sector. The revenue potential of such retailing activities can be of the order of Rs.100 crore per annum.

## **5. EXPENDITURE COMPRESSION**

5.1 This goal of deficit reduction should be achieved not only by tariff reform but also through greater efficiency and productivity gains in all areas of activities as also abolition/rightsizing/outsourcing of ancillary logistic services now being performed in house. As has been stated earlier, the existing costs contain many elements of inefficiency including a major element of manpower deployment based on old work norms. These work norms need to be revised taking into account the technological advances made and simplified work procedures introduced over the years. New work norms incorporating higher productivity in every sphere of postal activity must be devised in a specified time frame, probably in a year's time. Till these new work norms are introduced, there should be complete freeze on filling up of vacant posts and surpluses resulting from the application of new work norms redeployed in new activities, which have the potential of yielding economic returns. Once this is done and costs are contained, there will be less and less reliance on tariff increases and a relatively stable and consumer-friendly regime can be ushered in. Tariff reform is only a temporary measure and an initial step towards a self-reliant India Post, while its future competitiveness will be guided by efficiency and productivity increases and its ability to exploit economic opportunities in new business areas.

5.2 **Mail Motor Service:** While for inter-city transportation the Department of Posts invariably employs common carriers like the airlines, railways and road transporters, both state-owned and private, intra-city transportation in most of the major urban centres is carried out by the departmentally owned Mail Motor Service. At the end of 1998-99, the Mail Motor Service owned 1119 vehicles of various capacities, the majority of them i.e. 814 being between 1.5 ton and 2 ton. It was manned by 12,627 non-gazetted personnel and spent Rs. 37.9 crore during the year. Its total kilometrage during the year was 23.5 million at the rate of Rs. 16.13 per kilometre. For the repair of its vehicles, it also owns workshops at major metro cities, which undertakes not only first line repairs but second and third line repairs.

5.2.1 While the major portion of the fleet is concentrated in a few urban centres, a large number of cities have a fleet strength of less than 10. In such centres, efficiency of service is affected by either one or two vehicles going off the road for maintenance or repairs or by the drivers taking leave. As a first step, Mail Motor Service should be abolished at such stations and mail carriage given on contract to private operators. For instance, amongst the major cities carriage of mail by private transport operators has been in operation in Lucknow for several decades efficiently and at a lower cost per kilometre. Once this is done the fleet can be concentrated in the metros and mini-metros in order that the advantages of a minimum size or critical mass can be had. The next step should be to treat the Mail Motor Service as a separate profit centre enabled to charge the user entity a rate per kilometre which would bring cost-consciousness in the user and encourage efficient scheduling and discourage idle or empty runs. To bring about a competitive edge, if the rate per kilometre of the Mail Motor Service is considered higher than the local private transporter, there would be a strong case for abolishing a non-strategic and ancillary service unit like Mail Motor Service.

5.3 **Civil Wing:** The Department of Posts had at the end of 1998-99, 5189 owned buildings and 23600 rented buildings. Beginning with the First Five Year Plan, construction of buildings to accommodate offices, especially operative offices, has been one of the major plan activities and the only capital-intensive scheme of the Department. Carved out of the Central Public Works Department in the early sixties to exclusively cater to the construction and maintenance needs of a major user like the then P&T Department, it has the typical characteristics of a government building agency i.e.

- \* Total lack of cost control leading to a manifold escalation over the original approved cost
- \* Time overruns
- \* Shoddy architecture and building quality.

5.3.1 It has 23 civil divisions and 6 electrical divisions for construction and maintenance employing 1341 gazetted and non-gazetted personnel. During 1998-99, it spent Rs. 48.72 crore on construction, petty works and maintenance, both civil and electrical, including overheads.

5.3.2 Public Works Department of the central and state governments had served their purpose at a time when building sector outside the government was not well organized. Today there are even a number of state-owned corporations like NBCC and RITES who have considerable expertise in construction and maintenance. These organizations have built up a reputation for completion of large public buildings. Relatively smaller buildings including staff quarters can be entrusted to state housing boards or urban development authorities. It is, therefore, more economical and efficient to outsource this activity and totally abolish the in-house agency of the Civil Wing.

5.3.3 The Civil Wing was created to cater to the needs of the entire Posts and Telecommunications. With the recent corporatisation of Telecommunications, which had the lion's share of the Civil Wing, the rump which will remain with the Post would be unviable as an entity. On this ground alone, the separate existence of the Civil Wing for the Department of Posts is wholly unnecessary.

5.4 **Accounts Organisation:** The retail outlets of the Department of Posts known, as Post Offices are a matrix of account centres organized in a hierarchy of branch offices, sub offices and head offices. These offices maintain initial accounts of receipts and payments, which are consolidated and classified in the government's uniform account pattern by the Circle Accounts Offices and by the apex headquarters for preparation of the central government's Statement of Revenue and Expenditure by the Controller General of Accounts. The Circle Accounts Offices also perform the task of post-check of revenue and expenditure at voucher level. At the end of 1998-99, the Accounts organisation employed 825 Group A and Group B officers and 7034 other non-gazetted staff. During the year, the department spent about Rs. 94 crore i.e. 2.8 per cent of its total working expenses on accounts and audit, the major portion being on the Accounts organisation.

5.4.1 This is another necessary but essentially a support service, which can and should be downsized. The cadre of P.O. & R.M.S. accountants who maintain the initial accounts in the head offices can be and should be trained to maintain classified accounts. The classified accounts of the Head Post Offices can be sent either off-line or on-line to Postal Accounts Offices for consolidation by computers. The need for voucher level post check of money orders known as pairing is fast disappearing with more and more money order traffic entering the satellite transmission path with its in-built pairing software. The entire cadre of sorters numbering 249 and about half or

more of Junior and Senior Accountants numbering 5006 can therefore be abolished. A small Circle Accounts Office should be responsible for consolidation of classified accounts, post-check of major expenditure and internal audit. The abolition of 114 posts of chowkidars and sweepers by contracting out housekeeping services has been dealt with separately. With the abolition of 31 civil and electrical divisions, 31 posts of Accounts Officers in Group 'B' can also be abolished.

5.4.2 The implementation of the various measures recommended above, would lead to a reduction of about Rs.88 crore in the expenditure per annum.

5.5 **Other House Keeping Services:** The four main trades of full time regular employment are sweeper, farash, waterman and chowkidar. At the end of 1998-99, there were 1050,212, 444 and 1908 employees respectively in the above four trades. In addition to the above, there may be thousands of men working only part time in these trades and other trades like gardener etc. as extra departmental or contingency paid. With a larger number of efficient and relatively cheaper housekeeping agencies offering services in the market, such house-keeping services need to be outsourced, especially in larger offices where there are large concentrations of watch and ward staff and sanitation staff. The job of waterman like the punkha puller of yesterday is a totally out-dated institution and should be abolished straightaway. The entire department should follow the example of Postal Staff College, Ghaziabad, where outsourcing such services has been eminently successful.

## 5.6 POSTAL OPERATIONS

5.6.1 **Urban Postal Service:** There has been an irrational growth of full-service post offices in the urban areas because of the relaxed standards prescribed for their opening i.e. a minimum of 5 hours of work according to the departmental work measurement standards and income to off set expenditure according to the departmental formula. One-man and two-men post offices according to these standards have sprung up in close vicinity of each other. At the end of 1998-99, there were 16302 urban post offices. Out of 25117 sub post offices, 10855 were single-man post offices and 7295 were two-men post offices. As full-service offices, they generated work of maintaining their own accounts and also the work of verification and consolidation of their accounts in the head post offices. A considerable amount of man-hours is wasted in accounting activities, which could have been saved if they had functioned as extension counters of bigger offices instead of full-service self-accounting units. In terms of customer service also, they are less than satisfactory, especially in retailing financial services like savings bank, which are relatively complex and require a modicum of expertise in the subject matter. Withdrawal of savings bank work from one-man and two-men post offices in urban areas and entrusting this work to a few specialised savings bank branches have

been suggested in dealing with Savings Bank in para 4.5.2. What needs to be done is to retain an adequate but far less than the existing number of full-service post offices, and convert many of the existing full-service post offices into extension counters in order to provide basic postal services i.e. postal stamps and stationery, franking, registration. These basic services could also be provided by the private sector under franchise from the Department of Posts. The scheme of Licensed Postal Agents, which has met with strong opposition from the employees unions as a threat to regular employment needs to be strengthened and extended in order to provide the often-needed services nearer to the customers and at a time when the post offices are closed.

5.6.1.1 Delivery of mail in urban areas is expensive and inefficient. While a large delivery staff is deployed for the multi-storeyed buildings at the city centres, the growing areas at the periphery of the cities lack adequate delivery staff. For some years to come, households in India will continue to depend on the ubiquitous postman for doorstep delivery. Meanwhile all governmental, business, industrial and commercial establishments qualifying for listing in the yellow pages should, through a mixture of incentive and compulsion, be made to collect their mail from designated post offices. This will release a large number of delivery staff for redeployment in urban peripheries and in delivering time sensitive and revenue-earning speed post articles and in e-commerce.

5.6.1.2 Though collection and delivery of mail is one of the core activities of the Department of Posts, the activity itself does not require a high level of skill, which is available only in-house. At the end of 1998-99, there were 1493 designated Letter Box Peons to collect mail from the street letterboxes. In addition, some of the 10,992 packers and 4858 mail peons also collect mail from the mail receptacles. Considering the fast-changing external environment where mail by post is no longer the only means of exchanging sensitive messages which would have necessitated an authorized agent of the State to handle it, this activity can be entrusted to a non-governmental agency resulting in the abolition of at least 1493 designated Letter Box Peons though the actual savings would be more.

5.6.1.3 Compared to collection of mail as an activity, delivery of mail, especially accountable mail and financial instruments like money order, is a more complex activity. Safety, reliability and responsibility for cash require an authorized person of the department to deliver registered and insured letters and parcels and money orders. But delivery of ordinary mail can be entrusted to non-government agencies with no adverse effect on security or reliability. To begin with, this should be initiated in urban peripheries, which are under-served at present due to inadequacy of delivery staff and gradually extended to other areas.

**5.6.2 Rural Postal Service:** At the end of 1998-99, out of a total number of 1,54,149 post offices in the country 1,37,847 post offices were functioning in the rural areas of the country serving 6,34,321 villages where 74.20 per cent of the country's population lives. On this date, there were, 1,25,437 extra-departmental branch offices with 3,09,915 employees in rural areas. In spite of this massive retail network, which is more than double of China's, the demand for opening more post offices in rural areas grows daily as it is perceived as a relatively inexpensive symbol of developmental work initiated at the behest of local politicians. Thus, opening a post office often takes precedence over providing clean drinking water or watershed management even in arid and semi-arid areas!

**5.6.2.1** The extra-departmental system, an institution unique and peculiar to the Department of Posts, was introduced in a cost-conscious utility like the Post in order to provide basic postal facilities at a relatively lower cost in the rural areas. The extra-departmental agents manning the rural post offices did not depend for a living wage on the Department of Posts. They had other primary vocations like farming, teaching or petty trading and were men of some means engaged in public service. They were paid an allowance more akin to an honorarium than regular wages. This postal agency system was originally designed to be a privatized form of postal service on the analogy of a similar system obtaining in U.K. where grocery or medicine stores provided basic postal services in the rural and sparse-traffic areas. However, there have been increasing demands for wages in line with those of regular employees and for other conditions of service like leave, pension, gratuity etc. Such demands, if conceded, would negate the very principle of providing low cost services in rural areas. Considering that even under this arrangement there is substantial uncovered cost, there is in fact a need for exploring even cheaper methods for delivery of postal services in rural areas.

**5.6.2.2** While it may not be feasible to shrink the present network drastically, a complete freeze must be applied on further expansion of present extra departmental system to more rural areas. Rural Post Offices normally provide basic facilities of sale of postal stamps and stationery and collection and delivery of mail. The Panchayat Sanchar Seva Yojana introduced some year ago needs to be revived and revitalized. The gist of the scheme is annexed as 'C'. Alternatively, village cooperatives, wherever existing, may be harnessed to this task on the basis of revenue sharing. PCO operators in rural areas should also be allowed to sell postal stamps and stationery on the pattern of licensed postal agents in urban areas. Collection and delivery of mail in rural areas should also be entrusted to the licensed postal agent on the basis of revenue sharing as has been done for collection of speed post articles in urban centres. Delivery of postal articles at the doorstep should be replaced by the addressee collecting it from the existing nearest retail outlets of the department. These arrangements should be

introduced even in those areas where extra departmental staff system exists, in a phased manner as and when these staff attains the age of superannuation.

## **6. FUTURE STRATEGY**

6.1 The Department of Posts is today perceived as a large loss making organisation, with an increasing proportion of costs having to be met by transfers from the central budget. Moving away from this 'loss making' label is a prerequisite if this organisation is to function with a sense of purpose and pride. Towards this end, a multi-pronged approach would need to be launched and implemented in a time bound manner - say over five years. Important elements of such a strategy would be tariff revision, diversification to provide new services and products, greater role and involvement in agency functions and increased efficiency of operations in all activities, leading to lowering of costs.

6.2 The services now offered cover the entire country and a wide range of products. The attempt should be to recover costs on each activity through a two-pronged approach of upward revision of tariff and increased efficiency of operations leading to lower costs. Seeking to load too much on any particular set of activities would be counter productive in the emerging competitive scenario.

6.3 There could be areas or products where recovery of costs in full is not found to be feasible. The under-recovery in such activities should be covered, i.e. cross-subsidized by excess recoveries in other activities.

6.4 If there are areas/products where, on larger considerations, government wishes to keep cost of services at sub-optimal levels, there also the Department of Posts should seek to cover the under recovery to the extent possible through cross subsidization within the system and the gap should be met by explicit subsidy from the central budget. The activities for which such subsidy would be available have to be carefully chosen and kept to the minimum - these could be post cards and rural network. The upper limit for the subsidy- say Rs.500 crore per annum - should also be carefully determined and announced in advance. This limit should be such that, while on the one hand, it does not undermine the enthusiasm of the Department of Posts in their efforts for reaching zero deficit in five years, it does not also, on the other, make the Department of Posts too complacent and lose focus on their efforts.

6.5 In all activities there should be a conscious effort for a reduction in the cost of operations, in particular through introduction of new work norms, which would ensure higher efficiency and productivity. Till new work norms are introduced, there should be a complete freeze on filling up of vacancies and on fresh recruitment.

6.6 Tariff setting powers should be transferred from legislative control to executive control.

6.7 A commission should be set up to advise within six months both on further tariff revision as well as new work norms for all activities.

6.8 Additional resources should be raised by introducing new innovative products and services, leasing and sale of postal land and building, large scale operation of e-mail, providing logistic support to e-commerce etc. The revenue earning potential in these activities would be quite large.

6.9 The wide network and points of presence should be utilised for retailing products and services of banks, insurance companies and mutual fund companies. The revenue potential of such initiatives would also be quite substantial.

6.10 The remuneration for operating savings bank and other savings schemes should be refixed to reflect correctly and fully the proportion of expenditure incurred on providing these services, after building in improved operational efficiency norms.

6.11 Considering the large volume of time, effort and staff devoted to this particular agency functions, the feasibility of assigning a greater role to the Department of Posts in these programmes need to be explored.

6.12 A number of ancillary logistic services like construction wing could be abolished and others like Mail Motor Service and Accounts organisation downsized leading to a saving of Rs.88 crore per annum.

6.13 The urban postal service needs to be rationalised by abolishing a large number of one-man and two-men post offices, withdrawal of savings bank work from most of the urban post offices and creating a few specialised offices for banking purposes, rationalising delivery work and outsourcing collection and delivery of ordinary mail in urban areas.

6.14 The Extra-Departmental system in rural areas should be frozen at the present level and gradually replaced by outsourcing this work to panchayats, cooperatives, P.C.O. licencees etc. on a revenue sharing basis for providing postal services in both urban and rural areas.

6.15 Premium postal services like Satellite Post, Business Post and Speed Post etc. should be brought under a corporate set up.

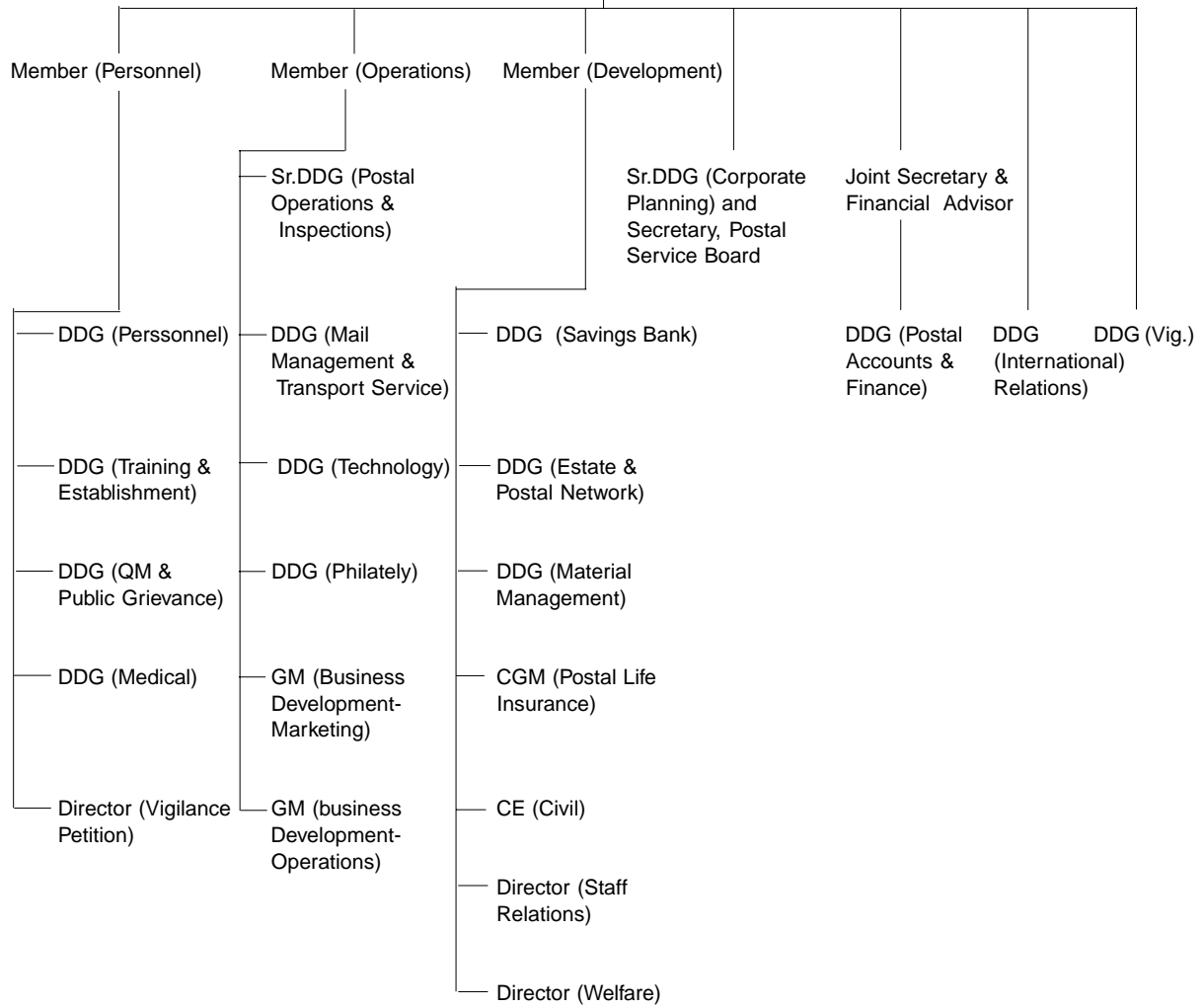
6.16 A full time Finance Member, equal in status and rank to other members, should be inducted into the Board and the Board should be given greater financial and administrative authority. The objective should be to prepare the ground for eventual corporatisation of the entire organisation.

**ORGANISATION CHART OF THE DEPARTMENT OF POSTS**

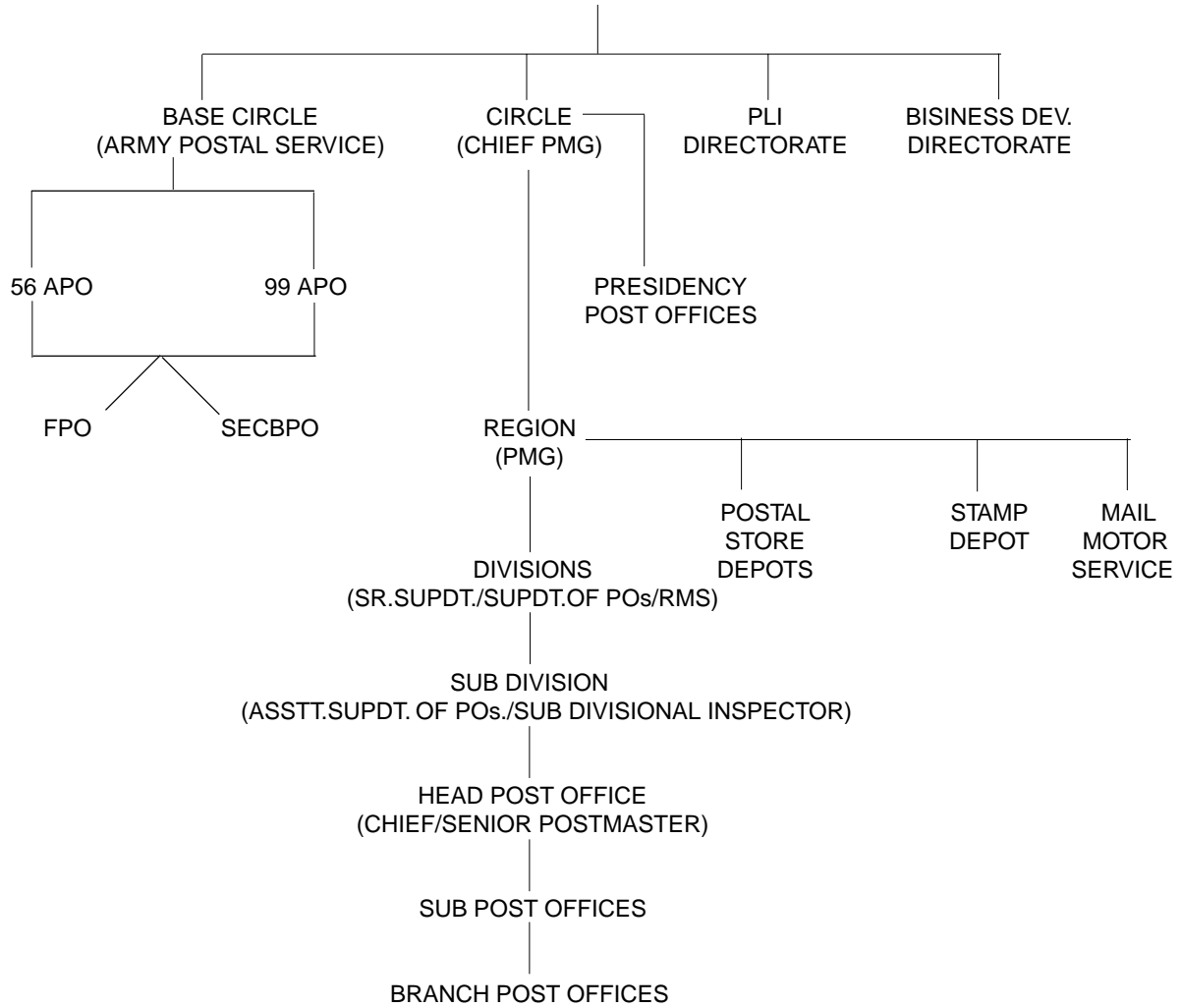
**MINISTER FOR COMMUNICATIONS**

**MINISTER OF STATE FOR COMMUNICATIONS**

**SECRETARY**



**DEPARTMENT OF POSTS  
POSTAL SERVICES BOARD  
DIRECTORATE**



## PANCHAYAT SANCHAR SEWA YOJANA

### 2. Details of the Scheme:

2.1 Panchayat Sanchar Sewa Yojana has added a new tier to the postal network in place of extra departmental post offices, but without replacing the existing ones. Under this scheme, the panchayat appoints a local youth having minimum qualifications of pass in Xth standard as an agent of Panchayat to run the Sanchar Kendra for around 3 hours every working day. The Sanchar Kendra Agent is not an employee of postal department nor would the postal department run the Panchayat Kendra but the department would reimburse 'fixed' allowance and other incentives at pre-specified rates and also provide linking mail and accounting arrangements, forms and stationery stamps and seals etc. to enable the Kendra to function as per detailed guidelines formulated by the department. These guidelines also stipulate that where the Panchayat Kendra fails to act as per guidelines laid down by the department then the contract can be terminated through one month's notice by the Department after giving opportunity to the gram panchayat to show cause why the contract should not be discontinued.

### 3. FUNCTIONS OF PANCHAYAT KENDRA:

3.1 The following functions shall be performed by the Panchayat Kendra unless otherwise specified by the Department.

- a) Booking of registered letters except VPP and Insured articles.
- b) Sale of postage stamps and postal stationery.
- c) Grant of certificate of posting.
- d) Operation of Mahila Samridhi Yojana Scheme (now discontinued).
- e) Collection and delivery of mail including clearance of letter boxes, where feasible.
- f) Propagation of Small Savings Scheme and Rural Postal Life Insurance.
- g) Other functions of Branch Post Office as and when the Department is satisfied that Kendras are able to discharge them.

3.2 In addition to the above, the following optional functions may be given to the Sanchar Kendra in charge by Supdt./Sr. Supdt. Post Offices of concerned division.

3.3 Conveyance of mail from Account Office or nearest post office to Sanchar Kendra and vice-versa.

3.4 The Sanchar Kendra Agent under the scheme shall also be entrusted with operation of STD/PCO/Panchayat phone subject to fulfillment of eligibility criteria and terms and conditions laid down by Department of Telecommunications, in villages where such facility does not exist at present. The existing PCO holders can also be utilised as Sanchar Kendra Agents.

#### 4. REMUNERATION/COMMISSION:

A fixed allowance of Rs.300 per month for providing counter services and for collection, conveyance and delivery of mail wherever permitted will be paid.

The agent of the panchayat will be compensated for other postal services provided in the panchayat areas by payment of: -

- a) A commission of 5% of the value of stamps/stationery will be allowed at the time of purchase in normal rural areas. In hilly and tribal areas, commission at the following rates will be allowed: -
  - i) On sale upto Rs.100 - 5%
  - ii) On sale upto Rs.101 to Rs.200 - 7.5%
  - iii) On sale upto from Rs.201 and above - 10%
- b) A commission of 50 paise for booking and delivery of registered articles.
- c) Commission at the prescribed rates for handling Mahila Samriddhi Yojana Accounts.
- d) Commission at the prescribed rate for propagating Postal Life Insurance and National Savings Scheme.
- e) Commission at the rates to be prescribed for providing other services.

4.2 The scheme is a voluntary scheme where the Department would extend postal facilities at the gram panchayat headquarters subject to the condition that the gram panchayat shall provide suitable accommodation with free access and proper security, furniture, letter scale and cost of stamps/seal at its own cost and would also provide a cash imprest to enable the Panchayat Agent to purchase stamps and postal stationery from the Accounts Office. The Department of Post will provide the forms and stationery and also reimburse 'fixed' allowance and incentives to the gram panchayat for payment to its agent after the panchayat enters into agreement with the department.