

Connecting people, creating opportunity: Modernizing Kazakhstan's postal service



Islamic Development Bank Group

Kazakhstan is a huge country, with long distances between cities and a widely dispersed population. Postal services play a vital role in bridging the communications gap. In addition to delivering mail and parcels, rural post offices often provide the only banking facility where people can deposit savings, secure loans, collect their wages and pensions, and pay utility bills.

In this project, the Islamic Development Bank (IsDB) supported a restructuring and modernization initiative for the national postal service. By investing in this public sector institution, the Bank was able to improve people's lives and livelihoods – particularly those living in remote rural communities. Better access to communications and financial services makes life easier as well as creating new business opportunities.

A rural lifeline

Kazakhstan is the world's ninth largest country, with an area larger than that of Western Europe. The most economically advanced of the former Soviet central Asian republics, Kazakhstan is currently reinventing itself as a prosperous and modern Eurasian nation. While foreign investment has helped to develop the country's significant oil and gas reserves, economic growth and wealth distribution remain uneven, with those who live in remote and scattered rural communities lagging behind the richer city dwellers.

Kazakhstan's immense land area creates particularly difficult conditions for effective communications. For example, it is more than 3,000 kilometres by road from the Caspian Sea in the west to Lake Zaysan in the east; and the journey from the



The post is fundamental to
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rural and urban populations, people and government



In a huge country like Kazakhstan, remote rural communities rely on their post office for communications and financial services. These ladies are collecting their pensions from their local branch in Chemolgan.

commercial centre, Almaty, to the new capital, Astana, takes a good 24 hours by train. In addition, almost 40 per cent of Kazakhstan's 17 million inhabitants live in rural areas, many in remote hamlets scattered widely across the vast steppe.

In such a huge country, the post is fundamental to communications between rural and

urban populations, and between people and government. Kazakhstan has had a national postal system since the early 1900s, but economic recession and lack of investment at the end of the Soviet era led to the axing of services and the closure of many post offices. By 2000, the mail service had become unreliable and money transfers at post offices were subject



The modernized Central Almaty post office has greatly improved both the range and efficiency of services.

to frequent and frustrating delays. Computer and letter-sorting equipment was out of date, staff were poorly paid and demotivated, and management and accounting systems were not up to the job.

There was a clear need for investment to modernize and restructure the national public sector mail and postal savings service, Kazpost, to make it more competitive and commercially oriented as well as financially independent and sustainable. In addition to developing an important communications and financial lifeline for rural people, such an investment would make good business sense in Kazakhstan's fast-growing economy. Improving Kazpost's services would create new business opportunities and, at the same time, expand the market for its services, boosting turnover and profit.

Infrastructure for a growing economy

With an eye on the potential to improve lives and livelihoods among remote rural communities, as well as building infrastructure to foster the country's economic growth, IsDB provided *Bai' al Muajjal* or 'instalment sale' financing¹ of US\$9 million – around two-thirds of the total US\$14.35m investment required for the modernization initiative. The Government of Kazakhstan provided the balance.

The first step in the three-year project (commencing in 2003) was to update the computers and software.

Suppliers installed new cash desks, sorting and banking equipment – including ATMs, electronic scales, franking machines and other items necessary to improve efficiency. Meanwhile, a fleet of new delivery vans, railway wagons, security trucks and off-road vehicles began to improve the reliability of deliveries.

At the start of the project there was no facility for remote post offices to talk to each other, or to head office, so contractors installed a brand-new system of communications using fixed and mobile radio stations and, for the most remote rural areas, satellite phones.

Training programmes for staff on how to use the new equipment and improve efficiency were crucial, and each contract included training, with a total of 1,351 staff attending training courses. Senior staff also received management training. Consultants oversaw the restructuring of the organization and administered proper financial audits.

By January 2007 – a month ahead of schedule – all the new equipment and systems were in place. Costs had been kept in check and savings on certain items allowed the purchase of some additional equipment.

Faster delivery; greater volume

The most immediate and noticeable effect of the modernization was a sharp increase in the volume of mail and parcel delivery – by over 200 per cent

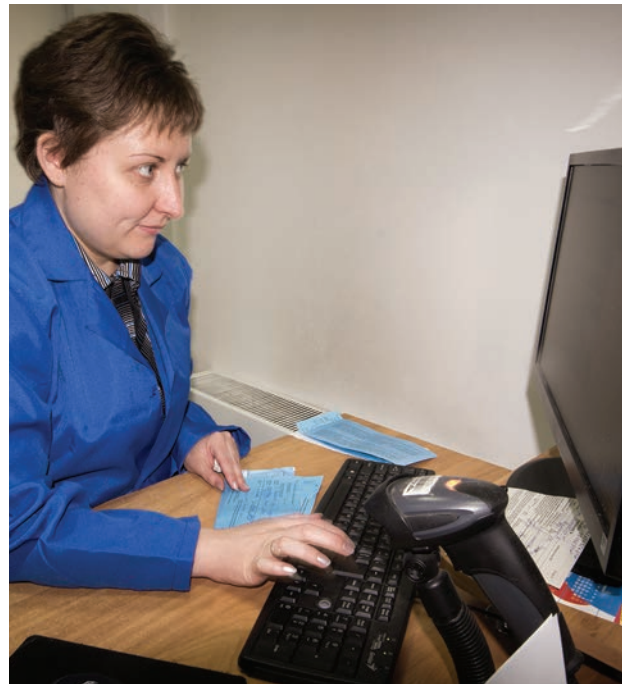


**Average delivery times
have been cut from four to two days**

between 2003 and 2009. At the same time, average delivery times have been cut from four to two days and a new mail tracking service has led to a significant reduction in the amount of lost post.

Since 2000, Kazpost has provided financial services, such as payment of pensions, allowances and salaries, money transfers and the facility to pay utility bills. Customer demand for these services has increased considerably, particularly since the reorganization has delivered a faster and more efficient service. Customers living in rural areas have benefited most, since they no longer have to travel long distances to go to the bank.

In 2003, Kazpost introduced postal shopping, enabling rural communities to order goods from catalogues, when previously they had little choice or had to make the long journey to the nearest large town. Now farmers can order seeds and plants, students can order books, and parents



A postal employee in Almaty works on the digitized tracking service. Computers have enabled a renovated Kazpost to introduce new services.



A Kazpost customer browses one of the new shopping catalogues at her post office. Postal shopping has proved very popular with city and country people alike.

can order clothes and shoes for their children for delivery to the local post office. The service has also created new business opportunities by expanding market access for retailers.

Customers interviewed during the project evaluation said they were very happy with the new Kazpost, particularly the new financial services like pension and salary payments and the ability to pay utility bills at the local post office.

International recognition ... and a new challenge

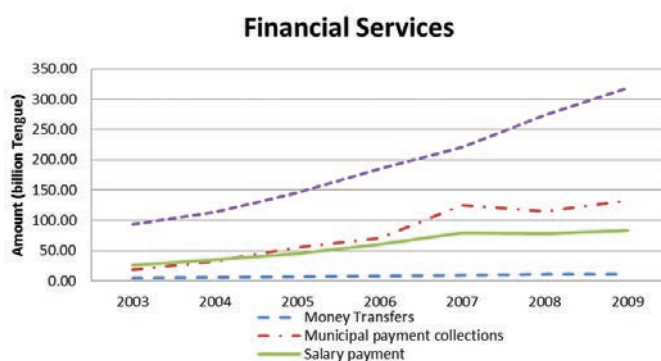
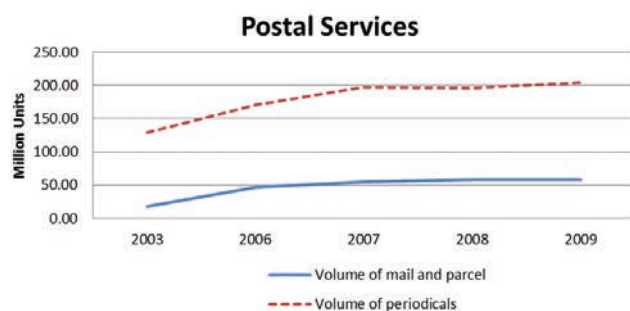
This project illustrates how a relatively simple investment in modern equipment, training and better management information can improve services and create a more sustainable business. As the new Kazpost grows in turnover and profitability, it will make a significant contribution to the welfare of rural communities and the country's economy.

The restructuring and training has helped Kazpost management to become more commercial, focusing on customers and laying the foundations for a sustainable and financially independent future. In 2004, Kazpost introduced a quality management system in line with the International Organization for Standardization's ISO 9000 benchmark. This initiative bore fruit in 2007 when Kazpost was granted ISO certification.

Kazpost has also become a member of the Universal Postal Union. This helps to keep the organization up to date with new developments, network with important partners around the world, and establish links and joint ventures that will strengthen its international mail delivery services.



"Paying my electricity, gas and water bills through Kazpost is quick and efficient, and I can collect my pension at the same time," says Dilbar Shoibekova from Chemolgan, Karasai district.

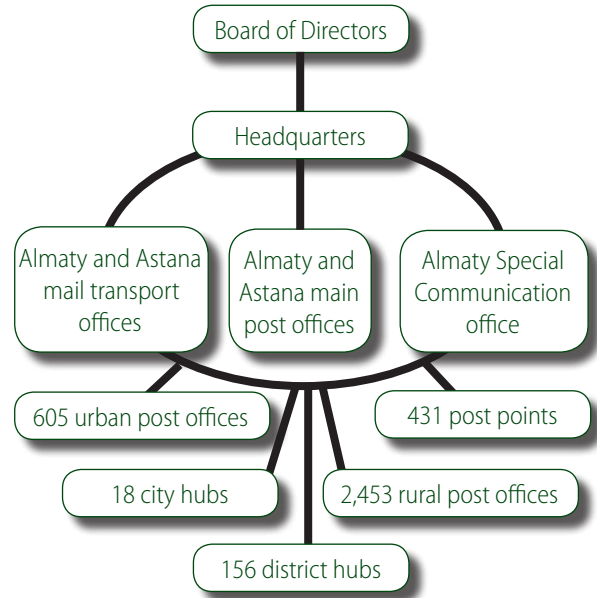


As Kazpost grows, it will make a significant contribution to rural communities and the country's economy



"Our new services include online delivery tracking and soon we will offer Internet banking as well," says Galym Toktabayanov, Karasai District Post Office Manager.

Kazpost Organization



Building on the momentum sparked by the IsDB investment, Kazpost is working to expand its international services. A new runway at Astana airport, constructed specifically for Kazpost's domestic and international air freight, will support this area of business growth. Another business opportunity for Kazpost that would also be of great value to small-scale entrepreneurs and

farmers in rural areas would be to provide micro-credit.

One major challenge for the continued expansion of Kazpost is the Internet, and Kazpost is developing additional online and financial services to compete. However, online ordering is likely to increase the volume of parcel deliveries, and

The Kazpost project by numbers...

2.7 million Area of Kazakhstan in square kilometres

17 million Population of Kazakhstan

US\$9.0 million 'Instalment sale' support to Kazpost by IsDB

US\$14.35 million Total investment in the modernization initiative

3,500 Post office branches countrywide

58 million Letters and parcels delivered by Kazpost in 2009

300% Increase in value of Kazpost financial services between 2003 and 2009

2 days Average delivery time in 2009 (down from 4 in 2003)





Regular management meetings ensure Kazpost keeps a strong commercial and customer focus. Here Bekzhigit Berkberdiev, Director of the Almaty Post Office (second from right), meets with colleagues.

Kazpost is well placed to benefit from new business opportunities in this area, so long as it can hold its own against other courier services. Staff retention is another issue that Kazpost is currently addressing.

citizens benefit from improved standards of living. A focus on rural services is particularly important so wealth does not become concentrated solely in urban and industrial areas.

Investment in Kazakhstan's communications infrastructure is an important part of the country's economic development. The country has large oil and gas reserves and good infrastructure will increase the spread of wealth, ensuring more

At the same time, promoting sustainable growth in businesses outside the oil, gas and mining sectors is vital. IsDB is contributing to broader infrastructure development in Kazakhstan by investing in roads and water resources.



Loading parcels into delivery vans at the sorting office in Almaty. The volume of mail and parcel deliveries has increased markedly since the modernization initiative.

Success factors

Government commitment

The government's development policy highlighted the need to improve Kazpost and this ensured government commitment to the modernization initiative. This commitment is being carried through by Kazpost itself, which has become much more professional and customer-oriented since its modernization. Its path of development is therefore "highly likely" to be sustained, according to the IsDB Project Post-Evaluation Report.

Tight budget control

Regular financial audit ensured that only minor changes were made to the estimated costs as the project proceeded. In fact, members of the project team were able to buy some components at a lower cost than anticipated, allowing them to purchase additional equipment.

Meeting development and commercial objectives

In addition to aligning with IsDB's strategic objectives to promote socio-economic development, this project made good business sense, since Kazakhstan has a fast-growing economy and the communications industry is vital to supporting new business development. The project shows that a relatively simple investment in modern equipment and training can go a long way in improving the business, its services to customers, and its sustainability.

Wider strategy

The project sits within a wider development strategy in which the Kazakhstan Government is seeking additional international investment in road, rail and other infrastructure. IsDB is contributing to this objective by also funding road-building and rural water-supply programmes under separate projects.

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¹ A credit sale of an asset, delivered on the spot, in which the purchaser can pay the price of the asset at a future date, either in a lump sum or in instalments.

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