

**JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)
MINISTRY OF INFRASTRUCTURE MONGOLIA*
MONGOL POST COMPANY**

**THE STUDY
ON
THE POSTAL SERVICE IMPROVEMENT PLAN
IN
MONGOLIA**

**FINAL REPORT
[SUMMARY]**

March, 2001

NOMURA RESEARCH INSTITUTE, LTD.

PADECO CO., LTD.

*Due to a change of national organization in August 2000, the former Ministry of Industry and Development was replaced by the Ministry of Infrastructure.

Referential Exchange Rate (Monthly Average in November 2000)

One US Dollar = 109.95 Japanese Yen = 1,040 Tugrik

Sources: Bank of Tokyo-Mitsubishi (for USD – Yen conversion)

Trade and Development Bank of Mongolia (for USD – Tugrik conversion)

March, 2001

PREFACE

In response to a request from the Government of Mongolia, the Government of Japan decided to conduct Study on The Postal Service Improvement Plan in Mongolia and entrusted the study to the Japan International Cooperation Agency (JICA).

JICA selected and dispatched the study team headed by Mr. Akira Noda of Nomura Research Institute, Ltd. And consist of Nomura Research Institute, Ltd. And PADECO Co., Ltd. To Mongolia, 4 times between March, 2000 and December, 2000. In addition, JICA set up the advisory committee headed by Mr. Hideki Bando, Senior Researcher, Institute for Posts and Telecommunications Policy, Ministry of Posts and telecommunications between July, 2000 and March, 2001.

The team held discussions with the officials concerned of the Government of Mongolia, and conducted field surveys at the study area. Upon returning to Japan, the team conducted further studies and prepared this final report.

I hope that this report will contribute to the promotion of this project and to the enhancement of friendly relationship between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned of the Government of Mongolia for their close cooperation extended to the Team.

Kunihiko Saito
President
Japan International Cooperation Agency

March, 2001

Mr. Kunihiko Saito
President,
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. Saito,

Letter of Transmittal

We, the members of the JICA Study Team, hereby submit the final report on the findings of the study on planning for improvement of postal services in Mongolia. Field studies commenced in March 2000, and the entire study was completed in March 2001.

The report sets forth the proposed master plan for improvement of postal services in Mongolia and the business of the Mongol Post Company (MPC). Care was taken to see that the master plan achieved a conformance among the component plans for postal services and the MPC in the aspects of new services, organizational setup, human resource development, and finances. Besides formulating plans for the balance of payments, we also made evaluations, from the technical and social aspects as well as the economic aspect, of cash flow and the feasible amounts of investment in facilities and equipment. The findings provided footing for preparation of plans for phased implementation extending to 2010 as the target year. We are convinced that their implementation will make a great contribution to improvement of levels of efficiency and productivity in postal services.

We are deeply indebted to the concerned personnel at JICA, the Ministry of Foreign Affairs, the Ministry of Economy, Trade, and Industry, and the Ministry of Public Management, Home Affairs Post and Telecommunications in Japan for their invaluable guidance and support in the execution of the study, as well as to the concerned personnel at the Ministry of Infrastructure, MPC, and other institutions in Mongolia for their kind cooperation and assistance with our activities.

Very truly yours,

Mr. Akira Noda
Leader

JICA Team for Study of Plans for Improvement of Postal Services in Mongolia

Summary

1. Backgrounds and Objectives

In the field of postal services, the Japanese government dispatched one expert in postal administration to Mongolia for short-term stays in each of the three years 1995, 1996, and 1997. These experts assisted human resource development, identified major problems, and noted the need for a development study of postal services.

In October 1998, the Mongolian government requested Japanese assistance with the formulation of a master plan for improvement of postal services based on the advice of these experts.

Upon receiving this request, the Japanese government sent a preliminary study mission to Mongolia in October 1999 for discussion of the S/W agreement. S/W agreement copies were signed and exchanged on 2 November, 1999. Based on the agreement the main study for the postal service improvement was conducted from March, 2000 until March, 2001.

This study has two major objectives.

- (1) To formulate a master plan for the improvement of postal service.
- (2) To pursue technology transfer to counterpart personnel in the course of the Study.

2. Outline of the JICA Study

The JICA Study commenced in earnest in March 2000. The Study Team consisted of seven members with special competence in the fields of general control/postal services, postal policy and planning, transportation planning, market surveys and planning for new services, collection and delivery planning, analysis of management and finances, and systems of human resource development and organization. To startup the study, the Study Team prepared the inception report in late March, and started discussions with Mongol side and field survey.

The field survey was carried out in Mongolia from April to September 2000, with cooperation by counterparts such as MPC(Mongol Post Company) and MOI(Ministry of Infrastructure) in Mongolia. The Study Team examined the postal service business (including the postal service system, transportation network, market, needs for new services, and management and finances). In this series, the Study Team prepared the progress report and the interim report and provided analysis and comments on the current status, issues, future directions, etc. in order to facilitate adequate discussions with Mongolian side as well as to promote technology transfer to Mongolia.

In December 2000, the Study Team drafted a master plan for postal services, evaluated planning proposals, made estimates of investment costs, and put together financial plans and phased service plans. Based on these plans, it then prepared the draft final report presenting the assortment of specific plans for service improvement and the estimated course of

improvement (costs and schedule) in accordance with these plans. The final report was prepared in March, 2001.

3. Social and Economic Environment in Mongolia

Mongolia is a large country with a total area of about 1.56 million square kilometers. Topographically, it can be divided into three major zones such as the tableland zone, the desert zone, and the mountainous zone. In terms of administrative units, it consists of 21 Aimags (provinces) with subsidiary units of Soums (townships) and bags (villages). It has a continental climate, and temperature differences between January and July reach 38 degrees (centigrade) on the average and 51 degrees at the maximum. The population is dispersed over the vast expanse, and this makes it extremely hard to construct not only the postal network but also networks for transportation, electricity, and telephone service. In postal services, trains and aircraft are used for long-distance transport, and trucks and buses, for short-distance transport.

In 1999, Mongolia had a total population of 2,417,000. Of this total, some 691,000, or 28.6 percent, lived in the national capital at Ulaanbaatar (UB). The pattern of population concentration in Ulaanbaatar is anticipated to deepen. In almost all of the 21 Aimags, the population density is very low at only about three persons per square kilometer. In Ulaanbaatar, use of communication means applying new technology (e.g., cellular telephones and the Internet) is increasing. In addition, ownership of automobiles is also increasing, and the number of vehicles on the road is steadily rising, especially in Ulaanbaatar.

The Mongolian economy went into stagnation following the shift to a market economy in 1990, but returned to the growth path in 1994 and has been expanding ever since. For 2000 and succeeding years as well, the government of Mongolia is forecasting real GDP growth rates in the range of 2.9 - 4.1 percent. In industrial activities, too, there is also a trend toward gravitation in Ulaanbaatar. Ulaanbaatar accounts for 46.2 percent of the country's total industrial product and 25.3 percent of the total number of employees. As such, it should continue to be the main engine of the Mongolian economy.

4. Current Status and Issues on Postal Services

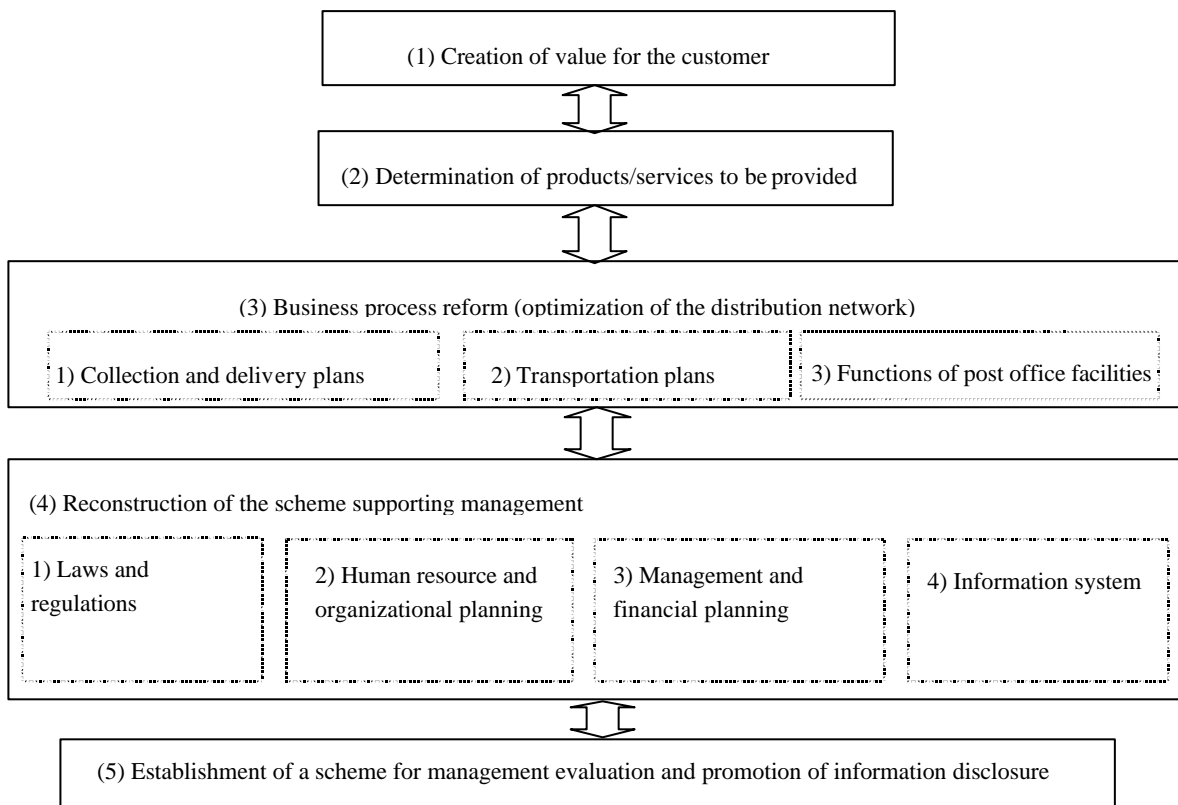
As the postal service entity in Mongolia, the MPC provides newspaper and mail delivery services and various other services through its post offices. It also provides incidental services such as passenger transport using postal vehicles. However, use of postal services is on a very low level, and it would be no exaggeration to say that the postal network is currently supported by delivery of newspapers and magazines. Postal services have fallen into a vicious cycle, whereby use is being held down by the loss of popular confidence in them through the high

postage rates and problems such as mail item loss, non-arrival, and damage. Furthermore, private carriers such as DHL have entered the market, mainly in the international parcel segment in Ulaanbaatar, and this is causing a problem of so-called "cream-skimming," since Ulaanbaatar constitutes the biggest market.

In spite of these circumstances, the MPC has posted a net surplus each year since 1998, and there was no major issue on the financial aspect. For the MPC in its capacity as the postal service supplier in Mongolia, the major tasks for the future appear to be approaches to increasing the reliability of postal services, expanding the service demand while getting an advantage in the competition with other carriers in Ulaanbaatar as the most promising market, maintenance and reinforcement of distribution and the post office network on the Aimag level, and response to new wants and needs emerging in the transition to a market economy.

5. Results of the Study

The operators of postal services in other countries rebuild their services with the creation of value for the customer as the foremost consideration. The use of postal services in Mongolia is very limited, however the MPC has an important mission as described in 3. In consideration of the situation in Mongolia as well as foreign practices, the Study Team conducted the study.



According to the extensive questionnaire surveys and face-to-face interviews of general public/consumers, companies and government/international organizations conducted in Mongolia by the Study Team, the important value desired by the customers are reliability and speed, and it is suggested that MPC must urgently improve reliability and speed of its services and simultaneously provide various products/services based on needs of customers. Needs for new services include door-to-door delivery service in Ulaanbaatar, massive volume user services, EMS (Express Mail), remittance and payment services, and various convenient services at post offices.

In addition, the Study Team conducted various field surveys in such areas as collection/delivery, transportation, organization and personnel training, and management and finance, etc. by following such analysis and issues as described in the previous section, and summarized the detailed results in the report.

6. Postal Service Improvement Plan (Master Plan)

Outlook for the postal service market is that the main market is the Ulaanbaatar city, followed by four Aimags including two cities such as Darhan and Eldenet where increase in the population is estimated. It is important for the MPC to gradually expand services in other

Aimags than Ulaanbaatar city, while carefully looking at market and risks according to items of services.

Based on the extensive field surveys, MPC must overcome the difficulties and transform the current situation to the “beneficent circle”.

Issues for MPC

Short term issues	Long term issue
<ul style="list-style-type: none"> • Establishment of reliability and speed • Gradual expansion of services 	<ul style="list-style-type: none"> • Construction of a postal system with extensibility

The master plan for improvement of the MPC must be formulated in accordance with the following three guidelines.

- (1) Provision of services that match customer needs
- (2) Establishment of a self-funding capability
- (3) Establishment of accountability

The master plan was formulated in consideration of the difference in market between Ulaanbaatar city and other Aimags as well as the priority of measures, and phased plan was prepared. The following are the description of the characteristics.

- Plans for improvement and new services are separately proposed in Ulaanbaatar and other Aimags.
- In Ulaanbaatar city, postal market should be expanded while winning competition with private companies during the year from 2001 to 2005 . In order to do that, it is necessary for MPC to establish modern new postal services called “Pigeon Mail” and gradually replace existing mail services. Other new services including remittance and payment services and post office services should be also provided in consideration of the demands while accumulating business know-how.
- The next step will be the long term from 2006 to 2010, and MPC should rapidly increase “Pigeon Mail” services and expand various services in other Aimags while in the transition to the market economy.
- MPS should maintain the postal delivery network nationwide, at least the current level of delivering to Soums once a week in minimum.

The Pigeon Mail services are the totally modern new services with such functions as door-to-door delivery, timely, convenient and high quality without lost or damage, flexible

operation depending on the demands, and introduction of the private sector vitalization. Other new services proposed include remittance and payment services which are commonly an important function of postal services, and other various post office services such as mail order, retail, business center, government entrusted services, etc.

The assumed scenario of new services and growth will change the picture of financial situations significantly. MPC require some level of investment of about 1 billion Tg in cash in 2003, which needs to be acquired through borrowing, aid or increase in equity, however future improvement of management which will be followed by the increase of profit can be expected.

7. Estimated Operation Expense

Base on the comprehensive analysis until above mentioned, the following six programs for MPC's investment are considered to be required. The total amount of investment is about 980 million Tg (Note. Items #2 and #4 are annual invest amount). In the short term, the investment is mainly for fixtures and small conveyer equipment, etc and is not so high in amount, but in the long run, investment will increase due to the rapid expansion of Pigeon Mail services and related investment for vehicles, new facilities and PCs.

(1) Program for improvement in collection, delivery, and sorting work

This investment is for conveyers, etc. which increase the reputation of MPC services by removing problems of lost, damage, etc. The amount is 74 million Tg. which is considered not large, however the consequent effect on improving reputation is expected significant.

(2) Program for investment in improvement of post delivery

In consideration of the road, geographic, and weather conditions in Mongolia, Russian jeep is assumed. As the average durable period for postal vehicle is considered seven years, 15 vehicles will be replaced each year out of total 102 vehicles in operation. The amount of investment will be 75 million Tg each year.

(3) Program for investment in management support system

About 200 PCs will be introduced for the purposes of utilizing as the management support system and as the new services such as remittance and payment services, etc. The amount of investment will be 400 million Tg.

(4) Program for training

Investment for training executives, managers and staffs will be 8.29 million Tg each year.

(5) Program for investment in mail handling facilities

In the Ulaanbaatar city, it will be necessary to cope with handling of increased mail volume in the future, and the amount of investment in such facilities will be 360 million Tg.

(6) Programs for investment in vehicles for Pigeon Mail services

In order to improve Pigeon Mail services, it will be necessary for MPC to operate 3 to 4

vehicles additionally. If assumed with light vehicle of Japanese made, the amount of investment will be 30 million Tg.

8. Evaluation

Evaluation was made on the six programs described in the previous section, from technical, economical and social points of view. There are many problems in the current mail handling operation, and improvement of such situation as well as expansion of the market in Ulaanbaatar city is urgently necessary. Including volume user needs such as mobile phone company (to send invoices), the proposed six programs are technically feasible.

For the economic evaluation, initially, it was proposed to assess economic effect based on analysis of benefit versus cost (B/C). The MPC, while a state enterprise, is nevertheless being exposed to tough competition with private enterprises. It must maintain its profitability in order to survive as a company and continue to provide universal postal services. Therefore, the decisions on facility investment must be based on the results of economic assessments with indicators for the prospects for realizing profit and ability for reinvestment. In other words, the major determinant must be whether or not the investment will contribute to increased income and profit (and especially the latter). Six programs require investment of about 980 million Tg in amount, however, effects on improvement of reliability, demands for new services, and effectiveness of management will be totally generated.

It is essential for pushing forward the market economy that the mailing services work efficiently. In addition to the improvement of reliability and establishment of modern postal services, provision of delivery services at least to Soums minimum once a week is a base of future reinforcement of universal service in Mongolia, and taking such social benefit this master plan is efficient.

Consequently, phased implementation plan is proposed in two phases, one is the year-by-year steps until 2005, and secondly from 2006 to 2010. The phased plans were provided with careful examination of each area of new services, collection/delivery, transportation, organization, training, and finance.

9. Recommendation and Conclusion

This master plan is built consistently with plans such as improvement of services, new services, organizational setup and human resources training and financial conditions, while following the initial plan and communicating with Mongolian side.

The study team understand that the contents of this master plan has already been well understood and transferred among Mongolian side thorough series of discussions with MPC,

MOI, etc. as well as technology transfer seminar, and some of the measurements has already been initiated.

As seen in the improvement of financial conditions of MPC in the recent years, even before this master plan is provided, MPC's effort and the consequent results should be highly admired. From now, while attaching weight to financial independency, MPC especially have to improve reliability and speed of mail handling, transportation and mail collection and delivery while expanding postal market and introducing new services such as home delivery in Ulaanbaatar. Also, it is necessary for MPC to introduce new services depending on the market potential and risks by different types of services.

This master plan contains various measures which do not require much investment and are practicable in the short term within 5 years, and it is expected that MPC utilize this plan and execute such measures with its leadership. Six programs provided in the estimated operation expense will be beneficial for both short-term improvement and big jump in the long-term.

Currently, MPC deliver subscriptions and mails to Sum post offices at least once a week, and take up important mission of universal postal service in Mongolia. It is suggested that delivery to bags is within the long term issues, and never force MPC to start delivering to many bags at once, and it is necessary for the government of Mongolia and MPC to set priorities which bags to start while well examining necessary supports from the government of Mongolia. Thus, it is proposed to initiate delivery to bags gradually in good consideration of the feasibility of costs and resources, etc. of MPC. Such support from the Mongolian government, for instance, include subsidies for delivering costs, tax exemption for MPC, provision of necessary facilities for free of charge, assignment of local government personnel for delivery, etc.

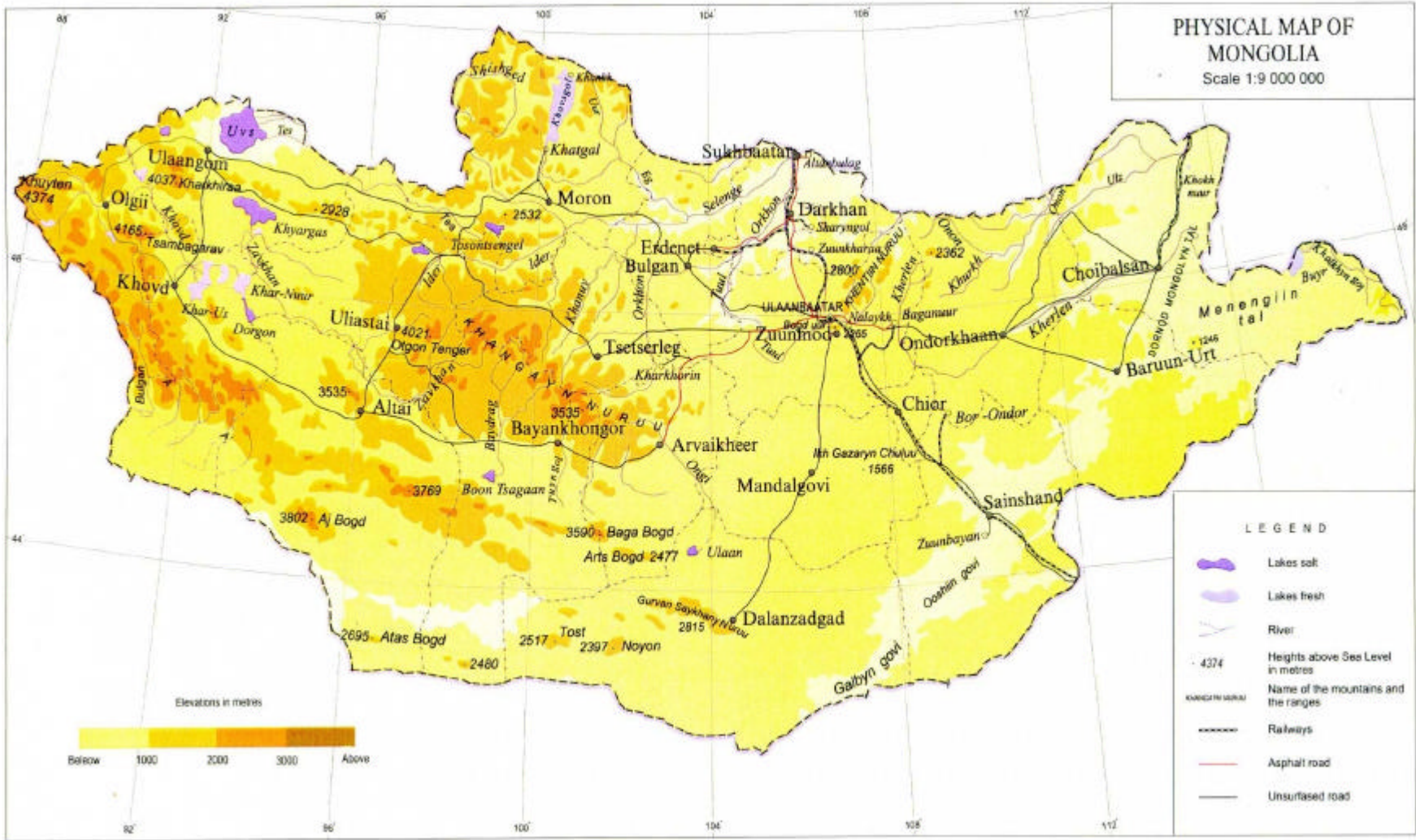
Postal services and post offices have important roles and functions for the infrastructure of Mongolia and contribute to regional development. It is important that the government of Mongolia regards MPC or postal services/post offices not only as the company organization but also as the important terminal positions for the government, and use MPC more actively in order to increase social welfare and health of Mongolian citizens.

MPS will be preparing its own business plan in response to request from Mongolian government. This master plan is provided in the timely manner for such use. MPC has already initiated various actions from customer development and delivery services, to service improvement, and to information sharing among MPC staffs about good practices within MPC, while understanding necessity of service improvement by its strong leadership and role to provide traction power towards market economy in Mongolia.









MPC provides universal postal services in Mongolia while expected to be financially independent from Mongolian government, and the study team wish that the government of Mongolia through understand MPC's business and its new plan and provide all necessary support.

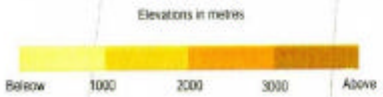
PHYSICAL MAP OF MONGOLIA

Scale 1:9 000 000



LEGEND

-  Lakes salt
-  Lakes fresh
-  River
-  4374 Heights above Sea Level in metres
-  Name of the mountains and the ranges
-  Railways
-  Asphalt road
-  Unsurfaced road



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ACRONYMS / ABBREVIATIONS

AB	Agricultural Bank
Aimag	Prefecture
APPTC	Asia-Pacific Postal Training Center, located in Bangkok
ATD	Auto Transport Department
Bag	County
BOM	The Bank of Mongolia
BSB	Name of a company, a wholesaler
EOJ	Embassy of Japan
GAAP	Generally Accepted Accounting Policy
GDP	Gross Domestic Product
Gers	Tents;also known as "Yurts"
GOLMT	GOLMT Bank
LETAX	Fax - mail
MIAT	Mongol Irgenii Agaaryn Teewer in Mongolia, or Mongolian Civil Air Transport in English
MOF	Ministry of Finance
MOI	Ministry of Infrastructure Mongolia
MOJ	Ministry of Justice
MPB	Mongol Post Bank
MPC	Mongol Post Company
MTZ	Mongolin Tomor Zam in Mongolia, or Mongolian Railways in English
NIC	National Petroleum Company
NOMIN	Name of a company, a consumer electronics wholesaler
OJT	On the Job Training
PDCA	Plan - Do - Check - Action
PTA	Telecommunications Authority of Mongolia
Soum	City
SPC	State Planning Commission
TDB	Trade & Development Bank
UB	Ulaanbaatar
Tg	Tugrik, Mongolian currency unit

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1. Backgrounds

1.1. Backgrounds

In the field of postal services, the Japanese government dispatched one expert in postal administration to Mongolia for short-term stays in each of the three years 1995, 1996, and 1997. These experts assisted human resource development, identified major problems, and noted the need for a development study of postal services.

In October 1998, the Mongolian government requested Japanese assistance with the formulation of a master plan for improvement of postal services based on the advice of these experts.

Upon receiving this request, the Japanese government sent a preliminary study mission to Mongolia in October 1999 for discussion of the S/W agreement. S/W agreement copies were signed and exchanged on 2 November, 1999. Based on the agreement the main study for the postal service improvement was conducted from March, 2000 until March, 2001.

1.2. Outline of the JICA Study

The Study Team consisted of seven members with special competence in the fields of general control/postal services, postal policy and planning, transportation planning, market surveys and planning for new services, collection and delivery planning, analysis of management and finances, and systems of human resource development and organization. Upon the collection, compilation, and analysis of available documentation as well as studies of basic policy, contents, and methodology, the Study Team prepared the inception report in late March.

The first field study was carried out in Mongolia from April to September 2000. The Study Team first examined the postal service business (including the postal service system, transportation network, market, needs for new services, and management and finances). In the survey of customer needs and degree of satisfaction, the Study Team surveyed individuals (private persons), companies, and government officials with the help of the local firm Premier International, Inc. After compiling and analyzing the results of the examination of the postal service business and the survey of customer needs and degree of satisfaction, the Study team conferred fully with the Mongolian side in studying the orientation and possibilities for the incorporation of new services.

The interim findings of the study were compiled into an interim report presenting the current status and advisable orientation for the future. The Study Team then determined basic

guidelines for further study of plans for improvement of existing services, incorporation of new services, income and services over the years 2000 - 2010, the postal information management system, human resource development, organizational setup, etc.

In December 2000, the Study Team drafted a master plan for postal services, evaluated planning proposals, made estimates of service costs, and put together financial plans and phased service plans. Based on these plans, it then prepared the draft final report presenting the assortment of specific plans for service improvement and the estimated course of improvement (costs and schedule) in accordance with these plans. The final report was prepared in March, 2001.

2. Objectives and Scope of Work

2.1.Objectives & Target Year

2.1.1. Objectives

This study has two major objectives.

- (1) To formulate a master plan for the improvement of postal service.
- (2) To pursue technology transfer to counterpart personnel in the course of the Study.

2.1.2. Target Year

The target (terminal) year of the master plan will be 2010. Mongolia is currently in the process of transition to a market economy, and it should be added that this project is being executed as a part of this transition; it is not aimed a mere improvement of physical logistics.

2.2. Contents of the Study

2.2.1. Contents of the Study

The project work will be divided into two categories, based on the location of implementation: field studies(in Mongolia) and domestic task(in Japan).

In Mongolia, the parties in question include not only the supplier of postal services, i.e., the Mongol Post Company(MPC), but also the governmental agencies supervising and guiding the MPC and all segments of Mongolian society in the broad sense of the term. The JICA Study Team has analyzed various data provided by the MPC and other related parties.

2.2.2. On- site Measures

- (1) Transportation and lodging
- (2) Safety measures
- (3) Undertaking of the Mongolian Side

2.2.3. Set- up for Operation

- (1) Set- up for domestic operation
- (2) Set- up for on-site operation

The energies of the steering committee will be efficiently used for control of the pace of overall progress, detailing of the interstep work, adjustment of the schedules, and over all communication among all concerned parties.

2.2.4. Methodology

The team members have analyzed the existing statistical and operational data that were prepared by MPC and other parties. Furthermore, a detailed market survey was made using questionnaire surveys and focus group interviews. With the cooperation of the Ministry of Infrastructure (MOI) and the MPC, the Study Team also obtained documentation on laws, scope of business, licenses, and contracts.

2.2.5. Field Surveys: Postal Facilities Visited

- (1) Ulaanbaatar
- (2) Aimags

2.2.6. List of Various Surveys

- Survey on the Work load and operational procedures, conducted with all post offices in Aimag centers and Soum centers
- Questionnaire survey with individuals, companies, and government.

2.2.7. Basic Philosophy Behind the Team's Study

- (1) To assure the postal network as an information-communications infrastructure supporting the future economic advancement of Mongolia
- (2) To improve the Level of "Universal Service"
- (3) To improve the position of the MPC in the national context and legislative conditioning
- (4) Basic consideration in operating the MPC

The following five points can be cited as basic perspectives on operation.

- 1) The postal services must have the trust of the public.
- 2) The services must meet the national needs.
- 3) The services must be operated under a customer-first policy.
- 4) The financial foundation must be solidified to enable operation into the future.
- 5) The operation must be efficient.

(5) To introduce new service

(6) To improve the policy on issuance of stamps

3. Environment of Mongolia

3.1. Geographic Conditions

3.1.1. Terrain

Mongolia is a large country with a total area of about 1.56 million square kilometers. In terms of terrain, it can be divided into three major zones of terrain: 1) the tableland zone in the central and western regions, 2) the desert zone in the southern and southwestern regions, and 3) the mountainous zone in the western region.

3.1.2. Climate

Mongolia has a continental climate, and there is a great difference in temperature between winter and summer. The temperature gap between January and July averages 38 degrees (centigrade) and reaches 51 degrees at the maximum. Temperatures fall to minus 40 degrees in the coldest part of winter and climb above 30 degrees in the hottest part of summer.

3.2. Demographics and Infrastructure

3.2.1. Sparse Population Distribution

The centers of population are scattered here and there over Mongolia's vast land. This presents great difficulties in the construction of networks, not only for postal services, but also for transportation, electricity, and telephone service.

Table. 3-1 Administrative of Aimags & City

Aimags & city	Number of soums and districts	Number of bags and horoos	Territory thous. km ²	Population density Pop./km ²
Total	343	1,681	1,564.2	1.55
Arhangai	19	99	55.3	1.89
Bayan-Olgii	14	81	45.7	2.19
Bayanhongor	20	98	116.0	0.80
Bulgan	16	69	48.7	1.38
Gobi-Altai	18	83	141.4	0.52
Dornogovi	14	57	109.5	0.46
Dornod	14	58	123.6	0.68
Dundgovi	16	73	74.7	0.73
Zavhan	24	113	82.5	1.26
Ovorhangai	19	109	62.9	1.88
Omnogovi	15	54	165.4	0.28
Suhbaatar	13	63	82.3	0.73
Selenge	17	51	41.2	2.63
Tov	27	111	74.0	1.51
Uvs	20	95	69.6	1.41
Hovd	17	84	76.1	0.85
Hovsgol	23	125	100.6	1.24
Hentii	19	90	80.3	0.98
Darhan-Uul	4	24	3.3	29.21
Ulaanbaatar	9	117	4.7	147.02
Orhon	2	17	0.8	88.45
Govisumber	3	10	5.5	2.40

Source: Mongolian Statistical Yearbook 1999

3.2.2. Transportation Infrastructure

The major means of transportation in Mongolia are railways, automobiles, and airplanes. There is also some water transport. Freight transport is increasing in terms of ton-kilometers but remains on the same level in terms of tons only. Similarly, passenger transport is increasing in terms of passenger-kilometers but has leveled off in terms of the number of passengers only. The preferred means are trains and airplanes for long distances and automobiles (trucks and buses) for short distances.

The country's expansive size increases the amount of spending required for the transportation infrastructure, and construction (improvement and expansion) is lagging as a result. One of the key questions is how to make the most effective use of this limited transportation network in building the postal network.

3.2.3. Ulaanbaatar

In 1999, Mongolia had a population of 2.417 million. Of this total, some 691,000, or 28.6 percent, lived in Ulaanbaatar, the national capital. Ulaanbaatar's share of the national population has been rising, and this indicates a continuing gravitation into it.

3.2.4. Rural Areas

All Aimags, with some exceptions, have a population density of less than three persons per square kilometer. They therefore have only a scant potential as markets.

3.2.5. Methods of Communication

In Mongolia, use of means of communication applying the latest technology, such as cellular telephones and the Internet, is spreading, especially in Ulaanbaatar. It does not recognize any market potential in other areas.

Table. 3-2 Number of Telephones

Aimags and capital city	1990	1995	1996	1997	1998	1999
Total	66,357	75,481	82,121	86,754	93,801	104,101
Ulaanbaatar	31,890	45,100	49,846	51,147	56,412	65,103
Darhan-Uul	3,425	3,840	3,869	4,270	4,585	5,022
Orhon	2,396	2,338	2,535	3,500	4,421	5,160
another Aimags	28,646	24,203	25,871	27,837	28,383	28,816

Source : Mongolian Statistical Yearbook 1999

Table 3-3 Number of Telephones (Thous. POP.)

Aimags and capital city	1990	1995	1996	1997	1998	1999
Total	31.5	32.6	35.0	36.5	38.9	43.1
Ulaanbaatar	57.4	73.1	79.2	79.2	84.3	94.2
Darhan-Uul	41.7	43.0	42.6	46.2	48.7	52.4
Orhon	47.9	36.2	37.7	49.4	61.0	69.4
another Aimags	20.2	15.7	16.6	17.7	18.0	18.5

Source : Mongolian Statistical Yearbook 1999

3.2.6. Motorization

Mongolia is rapidly becoming more motorized; the total number of vehicles on the road is increasing.

3.3. Industry and the Economy

3.3.1. The Transition to a Market Economy

Since 1990, the Mongolian Economy had suffered significantly during its transition to a market economy. The situation since then improved somewhat, and the Mongolian economy finally showed some growth starting from 1994. The Mongolian government expects this expansion to continue, and is predicting real GDP growth in the range of 2.9 - 4.1 percent even after 2000.

Table 3-4 Main Economic and Social Development Indicators

Indicators	1993	1994	1995	1996	1997	1998	1999*	2000	2001	2002	2003	2004
Economic Development Targets												
GDP growth	-3	2.3	6.3	2.4	4.0	3.5	2.5	4.2	4.4	5.1	5.9	5.4
industry	-6.4	1.7	17.4	-2.0	4.4	3.2	1.0	2.1	3.4	4.4	5.3	4.4
agriculture	-2.7	2.7	9.5	4.7	4.8	3.1	3.4	3.5	3.0	3.2	3.7	4.0
GDP growth per capita /constant price/ As % of GDP	-5.1	0.8	4.7	0.8	2.6	2.1	2.1	2.5	2.9	3.3	4.1	3.9
Consumption	87.6	88.7	78.2	80.1	77.8	78.1	74.7	76.2	76.0	74.1	73.1	72.3
Private	61.0	60.4	63.0	63.7	60.6	60.4	59.0	60.2	61.7	61.1	60.8	60.0
Public/Government	26.6	28.3	15.1	16.4	17.2	17.8	15.8	16.0	14.3	13.0	12.3	12.3
Investment	25.7	22.0	21.3	23.1	23.8	24.0	24.2	24.0	24.1	23.9	24.9	25.0
CPI	183.0	66.2	53.3	44.6	20.5	6.0	9.7	13.6	7.5	5.5	5.0	5.0
CPI average			56.9	46.9	36.4	9.5	7.6	13.6	9.1	5.8	5.3	5.1
Net International Reserves	25.23	37.18	70.65	56.8	90.0	80.3	96.7	95	106	110	115.5	125
equivalent of weeks imports				5.8	9.3	7.6	9.7	9.1	10	10.1	10.4	11.2
Unemployment rate	8.5	8.7	5.4	6.5	7.5	5.8	5.3	5	5.1	5.1	5.1	5.1
Policy indicators												
Budget (as % of GDP)												
Total revenues and Grants	34.7	31.0	33.7	27.8	29.3	27.4	26.4	27.8	24.1	22.2	23.0	23.5
Current revenues	32.9	29.6	31.6	26.6	27.1	24.8	24.2	26.2	22.8	21.0	22.0	22.5
Tax Revenues	31.7	24.4	24.6	20.6	21.6	17.6	18.6	20.4	17.9	16.4	17.3	17.8
Capital revenues												
Total expenditures and Net Lending	52.5	44.2	40.4	36.0	37.9	39.1	38.7	36.8	36.6	29.9	28.2	27.7
Current expenditures	27.0	26.4	23.7	22.1	25.4	25.4	23.9	24.2	21.6	19.6	18.3	18.3
Capital expenditures and Net Lending	25.5	17.9	16.7	13.9	12.5	13.7	14.8	12.6	14.9	10.3	9.9	9.4
Current balance	5.9	3.2	8.0	4.5	1.8	-0.6	0.3	1.9	1.2	1.4	3.7	4.2
Overall balance	-17.7	-13.3	-6.7	-8.2	-8.6	-11.7	-12.3	-9.1	-12.5	-7.7	-5.2	-4.2
Financing	17.7	13.3	6.7	8.2	8.6	11.7	12.3	9.1	12.5	7.7	5.2	4.2
Foreign (net)	13.4	8.5	5.6	6.0	12.2	7.8	12.2	7.9	10.9	6.4	7.1	5.5
Domestic (net)	4.3	4.8	1.1	2.2	-3.6	3.8	0.1	1.1	1.5	1.3	-1.9	-1.3
Money (in comparison to previous year)												
Cash in circulation	272.4	102.2	36.5	54.9	23.3	8.7	27.2	14.5	13.5	12.0	15.0	10.0
M1	142.8	77.2	29.7	50.8	18.4	8.5	10.3	15.0	13.5	12.0	15.0	10.0
M2	227.6	79.5	32.9	25.8	32.5	-1.7	10.9	15.1	13.5	12.0	15.0	10.0
Change in Domestic Net Assets	69.6	91.6	18.1	1.9	-41.6	117.4	25.4	25.7	13.2	5.0	22.1	0.0
Change in Domestic Loan	53.1	100.8	-7.5	98.2	-24.9	101.0	26.6	18.7	11.1	6.6	17.2	0.0
Change in Manufacturing Loan	65.4	67.7	18.3	12.1	-22.8	74.2	25.1	27.2	17.7	11.3	23.6	0.0
Velocity	3.9	3.7	4.2	4.6	4.5	5.2	5.5	5.4	5.3	5.3	5.2	5.2
growth / change. %	7.6	-5.0	14.1	8.6	-2.4	17.3	4.3	-0.5	-2.4	0.0	-2.5	0.7
Exchange rate /\$1/		4.4	14.4	46.4	17.3	10.9	19.7	5.6	-1.4	4.0	2.6	5.0
Balance of Payment, million US\$												
Trade balance	-8.7	-7.9	48.5	-35.0	53.4	-88.6	-45.0	-35.7	-24.0	-18.1	-15.3	-12.5
Exports	365.8	367.0	537.4	475.8	556.5	462.4	475.0	504.3	528.0	547.9	563.7	567.5
growth. %			46.4	-11.5	17.0	-16.9	2.7	6.2	4.7	3.8	2.9	0.7
Imports	-374.5	-374.9	-488.9	-510.8	-503.1	-551.0	-520.0	-540.0	-552.0	-566.0	-579.0	-580.0
growth. %			30.4	4.5	-1.5	9.5	-5.6	3.8	2.2	2.5	2.3	0.2
Foreign Transfers	71.1	74.6	76.3	64.2	63.0	50.9	42.5	31.5	30.5	27.0	27.0	27.0
Official	71.0	77.6	79.1	64.8	58.8	48.4	40.0	29.0	28.5	25.0	25.0	25.0
Individual	0.1	-3	-2.8	-0.6	4.2	2.5	2.5	2.5	2.0	2.0	2.0	2.0
Current trade balance/excluding official transfers/	-39.9	-40.3	-11.0	-43.2	-37.0	-95.3	-53.7	-48.3	-40.6	-32.2	-30.4	-16.2
Capital and financial accounts balance			19.0	41.2	52.5	109.4	94.5	85.3	88.5	102.5	75.9	80.9
Population and labor force												
Population average(thous.person)	2,224.8	2,259.0	2,293.7	2,329.9	2,363.3	2,396.3	2,430.5	2,466.4	2,503.8	2,543.1	2,583.8	2,625.1
growth. %	2.2	1.5	1.5	1.6	1.4	1.4	1.4	1.5	1.5	1.6	1.6	1.6
Labor force	1,037.9	1,050.4	1,084.4	1,120.4	1,213.0	1,253.9	1,293.0	1,334.3	1,379.6	1,426.5	1,476.4	1,529.5
Economically active population	844.7	861.4	839.8	847.2	852.0	859.3	915.3	944.1	973.2	997.4	1,022.1	1,047.4
Employees	772.8	786.6	794.7	791.8	788.3	809.5	866.5	896.6	923.1	946.2	970.0	994.2
Unemployed	71.9	74.8	45.1	55.4	63.7	49.8	48.8	47.5	50.1	51.2	52.1	53.2
Basic indicators												
GDP, in current price / billion tugs /	166.2	283.3	429.2	586.5	758.9	875.9	1,012.8	1,160.1	1,285.1	1,439.1	1,614.3	1,788.3
GDP per capita /thousand tugs/	75.0	125.0	187.0	252.0	321.0	366.0	417.0	470.0	513.0	566.0	625.0	681.0
GDP per capita (constant price)	75.0	75.0	79.0	79.0	81.0	83.0	85.0	87.0	90.0	93.0	96.0	100.0
GDP deflator growth	262.3	66.6	42.5	33.5	24.4	11.5	11.7	10.1	6.1	6.7	6.1	5.0
Interest payments, as % of GDP		4.6	5.3	4.4	3.1	1.6	3.6	2.4	2.5	2.6	2.5	2.6
Foreign Debt (million US\$)		423.5	493.7	525.4	590.9	673.1	790.2	888.2	1,021.6	1,095.4	1,130.5	1,170.0
Foreign debt/GDP, %		61.3	51.7	50.0	61.8	64.8	80.4	84.7	90.1	87.3	81.4	79.5
GDP (million US\$)		691.0	954.3	1,051.4	956.1	1,038.0	983.0	1,048.7	1,134.2	1,254.1	1,388.7	1,471.9

Source : Ministry of Finance

3.3.2. Industrial Agglomeration in Ulaanbaatar

Ulaanbaatar account for 46.2 percent of Mongolia's entire industrial output. Ulaanbaatar's share of industrial production is therefore even higher than its share of population. The Ulaanbaatar area is expected to continue functioning as the engine of the Mongolian economy. The disparity between it and Aimags will probably widen. In some cases, banks and other such enterprises have closed offices outside Ulaanbaatar. The future course of provincial economies and the postal market is consequently an issue of extreme importance.

3.3.3. Rural Area: High Unemployment

Like population, employment is concentrated in Ulaanbaatar; it had the lion's share of the total number of employed at 25.3 percent in 1999.

3.3.4. Need for Safe and Reliable Mode of Communication

The economic recovery since the mid 1990s has caused increased needs for postal services. In interviews, companies pointed out a problem with tardiness in retrieval of payments for telephone, heat, and light bills. Postal services should assume increasing importance as part of the social infrastructure supporting economic activities in Mongolia, and are expected to function as low-cost yet safe means of communication.