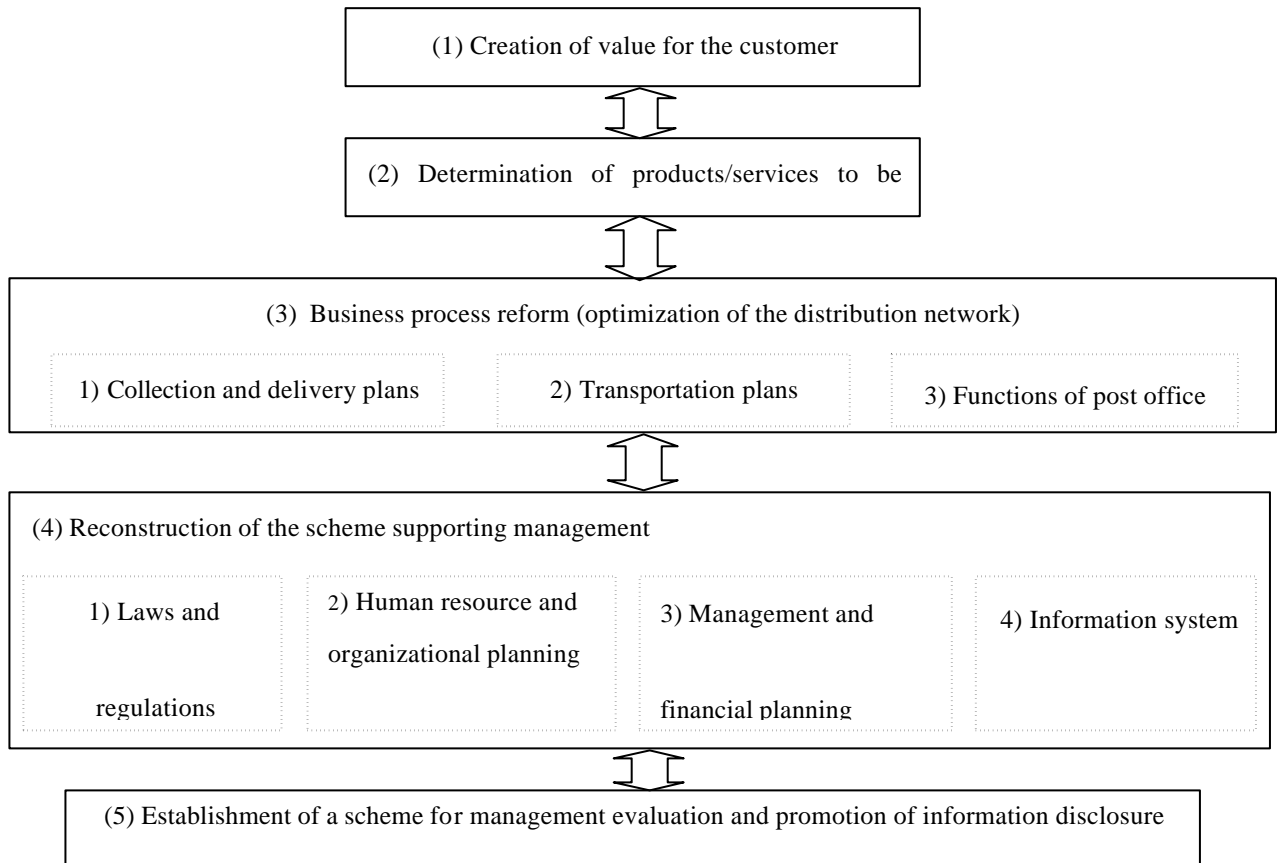


## 5. Field Survey Results

### 5.1. Perspectives on Future Plans to Better Meet Customer Needs

As shown in Figure 5-1, the operators of postal services in other countries rebuild their services with the creation of value for the customer as the foremost consideration.

**Figure. 5-1 Procedure for Reconstruction of Postal Services in Other Countries**



Source: JICA Study Team

Analysis of customer needs suggest that MPC must urgently improve reliability and speed of its services and provide various products/services based on needs of customers towards the market economy.

#### 5.1.1. Improvement of Reliability and Speed

##### (1) Reliability

Mails should not be lost, and they should be delivered within planned schedule. Procedures for coping with incidents must be put into place. Also, laws/regulations for securing secrecy of communication has to be set. Staffs' training and preparation of the related manuals are necessary in terms of customer service manners, service process, and information of service

contents.

## (2) Speed

Time to delivery must be improved, although there may be limits to this because of the limited resources of collection/delivery and transportation. A late delivery would not pose too much of a problem if the customer expects it to be slow. In this case, however, MPC must not default on the promised schedule. On the other hand, delivering earlier than the promised schedule would significantly improve MPC's service image.

Door to door delivery services to office/home as well as express mail services may also help in creating the image of speedy service. This shall be discussed in the next section.

### **5.1.2. Improvement of Services**

According to the JICA study team survey, the following four areas should be improved at MPC.

#### (1) Classification and Promotion of Postal Services

It is necessary to provide simplified and understandable mail classifications and postage system.

#### (2) Reorganizing the Postage Rate

Postage should be considered in terms of comparative advantage of the postal services to increase the mail volume.

#### (3) Classification of Post Office Services

It is necessary to classify various services currently available, so that each post office can decide on which services to be provided. This will in turn help the staffs to be more knowledgeable about the services offered, and thus improve the service provided to the customers.

#### (4) Improvement of Related Facilities

It is necessary to improve post office related facilities for customer satisfaction and better mail handling and transportation.

### **5.1.3. Establishment of Quality Management System**

While taking actions for (1) and (2), it will be necessary to plan some form of a quality management system in order to check achievements and assess areas that require further improvements.

## **5.2. New Services**

Through questionnaire and interview surveys, JICA Study team tentatively concluded that there would be the following five new services. New services will be planned in terms of business models.

### **(1) Delivery Service to Home/Office**

### **(2) Volume User Service**

Compared to individuals, companies have much higher needs for various services that MPC can offer. Strategies that target the business customers would be extremely effective in increasing the mail demand.

### **(3) EMS**

EMS is a profitable area of business, since major users are businesses that can afford the relatively high marginal fees of such express services. Currently, however, several operators such as DHL and UPS offer express services between Ulaanbaatar and foreign countries only, which create strong competition against MPC in Ulaanbaatar.

### **(4) Remittance and Payment Service**

The details will be described later in section 5.5.

### **(5) Post Office Service**

Foreign post offices provide various services. Majority of MPC customers currently visit the post office to pick up subscriptions, and not necessarily devoted to use various services. However, these people can potentially become users of MPC's other services. 78.4% of individuals, mentioned that they go to post office at least once in two months, which presents quite a large opportunity. Since needs would differ from area to area, services for these potential customers need to be carefully installed. The examples are mail order services, fax-mail (so-called LETAX), etc.

### **5.3. Collection, Delivery, and Sorting Work**

#### **5.3.1. Outline of the Findings**

The following two points can be cited as major problems in collection and delivery work.

- 1) The extremely low level of volume in absolute terms
- 2) Lack of conformance between the advisable services and allocation of post offices and personnel (need for consolidation of facilities, surplus or deficiency of facilities relative to the requisite area, and surplus or deficiency of personnel relative to the requisite number)

Although improvements must be made assuming that the mail volume will expand substantially in the future, the current volume does not pose a big problem in itself. However, it is difficult to achieve efficiency under the current low volume.

#### **5.3.2. Collection Work**

In Ulaanbaatar, there are no mailboxes on the street; all mail items must be accepted at post office windows or received at the time of delivery and taken back to the post office for incoming procedures.

All of the post offices in Ulaanbaatar perform transfer work, and most also perform delivery work. There is no mail dispatch only for collection.

#### **5.3.3. Delivery Work**

Although the preliminary survey indicated that delivery was performed for a fee, it was subsequently confirmed that this fee is, strictly speaking, for delivery of newspapers as opposed to delivery of mail. Mail addressed to private homes is extremely rare.

#### **5.3.4. Current Status of Handling Work at General Post Offices (operations in Post Office 46 in Ulaanbaatar)**

The following section records the actual work at various post offices in various areas and levels. This should provide the condition of operation at MPC.

##### **(1) Indoor Operations**

The operations were the sequence of counting the items, checking them against the invoice, and post marking the date of arrival on each. In addition, the employee sorted the registered mail items by addressee and entered each in the register.

Even during these operations, the employee has to deal with a steady stream of people with PO boxes who have come to get their subscribed on their way to work. This further delays the operations.

## (2) Delivery Operations

The delivery destinations were seven buildings housing government offices or the equivalent and institutions. After entering the building, the carrier made deliveries to individual sections.

Then, registered and ordinary mails as well as newspapers are recorded in notebooks. This took considerable time.

### **5.3.5. Handling in the Ulaanbaatar Central Post Office**

Mail Bags, etc., arriving by mail vehicles are sent into the building by a belt conveyor attached to a window that faces the post office courtyard.

#### 1) Arriving mail

- International mail carried by train from Beijing; once a week; 70 - 200 mail Bags
- Air mail; three times a week (Monday, Tuesday, and Friday)
- Domestic mail carried by train from the provinces and by motor vehicle from suburban areas; twice a day
- Mail carried by motor vehicle from locations within Ulaanbaatar; twice a day

#### 2) Dispatch mail

- International mail carried by train to Beijing; once a week; 10 - 30 mail Bags
- Air mail; twice a week (Tuesday and Friday)
- Domestic mail carried by train to the provinces and by motor vehicle to suburban areas; twice a day
- Mail carried by motor vehicle to locations within Ulaanbaatar; twice a day

After being checked against the invoice, the arriving mail Bags are ordinarily transported to the postal operation room on the second floor, using the lift. The Bags of parcels are first taken to the hallway and then transported to the parcel processing room, which is located on the same (first) floor.

### **5.3.6. Handling at Post Offices in Other "Aimags"**

#### (1) Processing of Delivery Mail, etc.

Personnel sort the mail into two address categories: "Soums" and its own delivery area. In the case of mail addressed to locations in the post office's own delivery area, the mode of delivery depends on the addressee situation. If the addressee has contracted for delivery, the post office makes a delivery to the address. If the addressee has a PO box, the mail is transferred to it. For other mail, the personnel contact the addressee by phone to have him or her come to pick up the mail.

## (2) Processing of Express Mail

With the exception of those addressed to "Soums" in the post office's service area, all express mail items are sent to the Central Post Office in Ulaanbaatar as a general rule. The express mail operations are basically the same as in the Central Post Office. In the case of ordinary mail items as well, the number for each address is noted on the express mail invoice.

### **5.3.7. House Numbering System**

The introduction of door-to-door delivery is posted as one of the chief priorities in this survey, and the institution of a house numbering system was regarded as indispensable to this end. This view proceeded from the judgment that, according to the available material, there was no clear way to express the individual places of residence.

However, it was discovered on walks around Ulaanbaatar that numbers are displayed on the corners of buildings.

At several post offices as well, personnel said that mail carrying such addresses can be surely delivered, and that mail for addressees who do not have a PO box is in fact delivered by following such indications of address. As such, the current mode of addressing apparently is not a significant obstacle to delivery, at least in the districts of apartment buildings, which cover most of the urbanized sections of Ulaanbaatar.

### **5.3.8. Status of the Postal Code Number System**

#### (1) Composition of Postal Code Numbers

Mongolia employs a system of six-digit postal code numbers. The first two digits are occupied by the number "21" and indicate the country of Mongolia. As such, these would be the first two numbers on all mail addressed to locations in Mongolia. The next two digits indicate the "Aimag."

#### (2) Use of Postal Code Numbers

Although post offices have each been assigned numerical codes as noted above, the numbers are used only in place of the post office name; they are not extensively employed in sorting work in the Central Post Office.

**Figure. 5-2 Location of “Aymags” and Postal Codes**



5-8

Source (JICA study team)

### **5.3.9. Items Requiring Improvement as Determined Thus Far**

#### (1) Inspection of the Volume of Incoming and Outgoing Mail, etc.

It would be difficult to determine the day and time of occurrence in the event of loss or other trouble involving items in storage, and this situation could encourage criminal acts. Obviously, a future expansion of the mail volume may lead to an increase in the incidence of inconsistencies.

#### (2) Record of the Calculation of Ordinary Mail Items

If it is necessary to know the mail volume dispatched to each destination for statistical purposes, a different and more efficient method could be devised; a considerable amount of time and trouble could be eliminated by abolishing the current recording practice.

#### (3) Mail item damage

It would be fully possible to reduce damage by improving the handling method.

#### (4) Measures for Increased Income

Post offices with low sales from postal services are making efforts to increase this income through various "side jobs" of their own development, such as floor leasing, passenger transport, small item sales and such.

### **5.3.10. Framework for Improvement: Basic Flow of Mail**

#### (1) Acceptance work

Acceptance at windows requires prompt and accurate handling of customers.

#### (2) Indoor Work

Almost all of the work inside post offices is performed by hand. There should be no major problem in work execution for the time being, provided that plans anticipating the future can be made and implemented in a steady manner, and that appropriate investments for facilities can be made in step with the rise in the mail volume.

It should be noted, however, that far-reaching measures of improvement are necessary to ensure accuracy and reliability.

#### (3) Delivery work

Postal delivery is defined as the transfer of mail items to the location noted on the address.



In Mongolia, however, this is not done in a systematic way.

### **5.3.11. Improvement of Work - Problems and Issues**

#### (1) Provision of Convenience to Customers

- 1) Mail items are not delivered to the door.
- 2) The time required for delivery is uncertain.
- 3) The number of PO boxes need to be increased
- 4) Methods have not been established for easy deposit of mail items.
- 5) Lack of publicity.
- 6) The rate schedule is complex and rates are high

#### (2) Reliability/trust

Both customers and non-customers are doubtful about the reliability of the current postal system.

#### (3) Improvement of Efficiency

In the event of a substantial increase in the mail volume, the smooth performance of work could become impossible without thorough studies and reform.

- 1) Study of the method of handling newspapers
- 2) Reform of the system of postal code numbers
- 3) Review of post office locations and work
- 4) Review of indoor work

## **5.4. Issues in Improvement of Transportation**

### **5.4.1. Perspectives on Transportation Planning**

The transportation network should be built for mail. However, if there is not an adequate demand, it would be difficult for the MPC to operate vehicles and other transportation means by itself. For this reason, it could take the approach of consigning transportation to the MIAT(Mongolian Civil Air Transport), MTZ(Mongolian Railways), and routed bus companies.

However, once the demand for passenger transport rises and private firms enter this market, it will be extremely hard for the MPC, which transports mainly mail, to come out on top in the competition.

### **5.4.2. Trunk Line Transportation (between Ulaanbaatar and Aimags)**

#### (1) Transportation by plane

At present, mail is transported by airplane from Ulaanbaatar to remote areas. This transportation makes use of the flights of Mongolian Civil Air Transport (MIAT), which operates regular flights between Ulaanbaatar and various other parts of the country. It would be difficult for MIAT to increase its flights beyond the current schedule, owing to factors such as the small number of planes owned and the problem of deterioration.

The MPC and MIAT have closed a contract for transportation by air. In this contract, the weight is limited to no more than 40 kilograms per Bag as a general rule. These load limitations do not present any particular problems at the current transportation volume. If the volume increases, however, they would make it impossible to carry all the mail. Measures must be studied to cope with this possibility.

#### (2) Transportation by Rail

Mail is currently transported to cities along one major rail line on the regularly scheduled trains of the Mongolian Railways (MTZ). It would not be difficult to increase the number of mail runs by train in the event of an increase in the mail volume.

#### (3) Transportation by Road

##### 1) Transportation by Bus

At present, the MPC is not making use of all buses from Ulaanbaatar to various parts of the country. As for areas with a large demand, there is bus service almost everyday. It should be possible to increase the mail transportation frequency by making use of buses in these areas, as necessary. The MPC would have to use the private vehicles of other businesses or to operate its own where the demand is small.

## 2) Transportation by regularly scheduled trucks

At present, there are no routes with regularly scheduled truck service in Mongolia. Although there are no particular limitations to such service, it is not being offered because of the lack of cargo volumes that would make it commercially viable.

### **5.4.3. Transportation from Aimag Centers**

#### (1) Within Ulaanbaatar

There are currently two transportation runs of mail, one in the morning and one in the afternoon, from the Ulaanbaatar Central Post Office to the other post offices in the city. Although there are seven routes, it would be impossible to increase the number of routes with the current number of vehicles. Therefore, the advisable course would be to increase the number of vehicles in correspondence with the number of routes.

#### (2) Within Aimags

Runs of mail from the Aimag centers to the Soums currently number anywhere from one to three per week. They are made mainly by the MPC vehicles operated by the Aimag center post offices.

In many areas, there are no means of public transportation other than this operation by the MPC. An increase in the number of runs could be affected by improving the method of operation within the MPC, but there must first be full studies as to whether or not the mail transportation volume requires more runs.

Another point requiring study is the relationship between the frequency of transportation from Ulaanbaatar to Aimag centers and that from Aimag centers to Soums. The regional disparity is even greater in the transportation from Soums to Bags.

### **5.4.4. Reduction of Transportation Costs**

#### (1) Public Transportation Means

The MPC has closed contracts with the MIAT, MTZ, and ATD, and set transportation fares and terms. Because each of these contracting transport companies has no competitors, it is difficult to tell whether or not the fares and terms are appropriate.

(2) Transport by the MPC

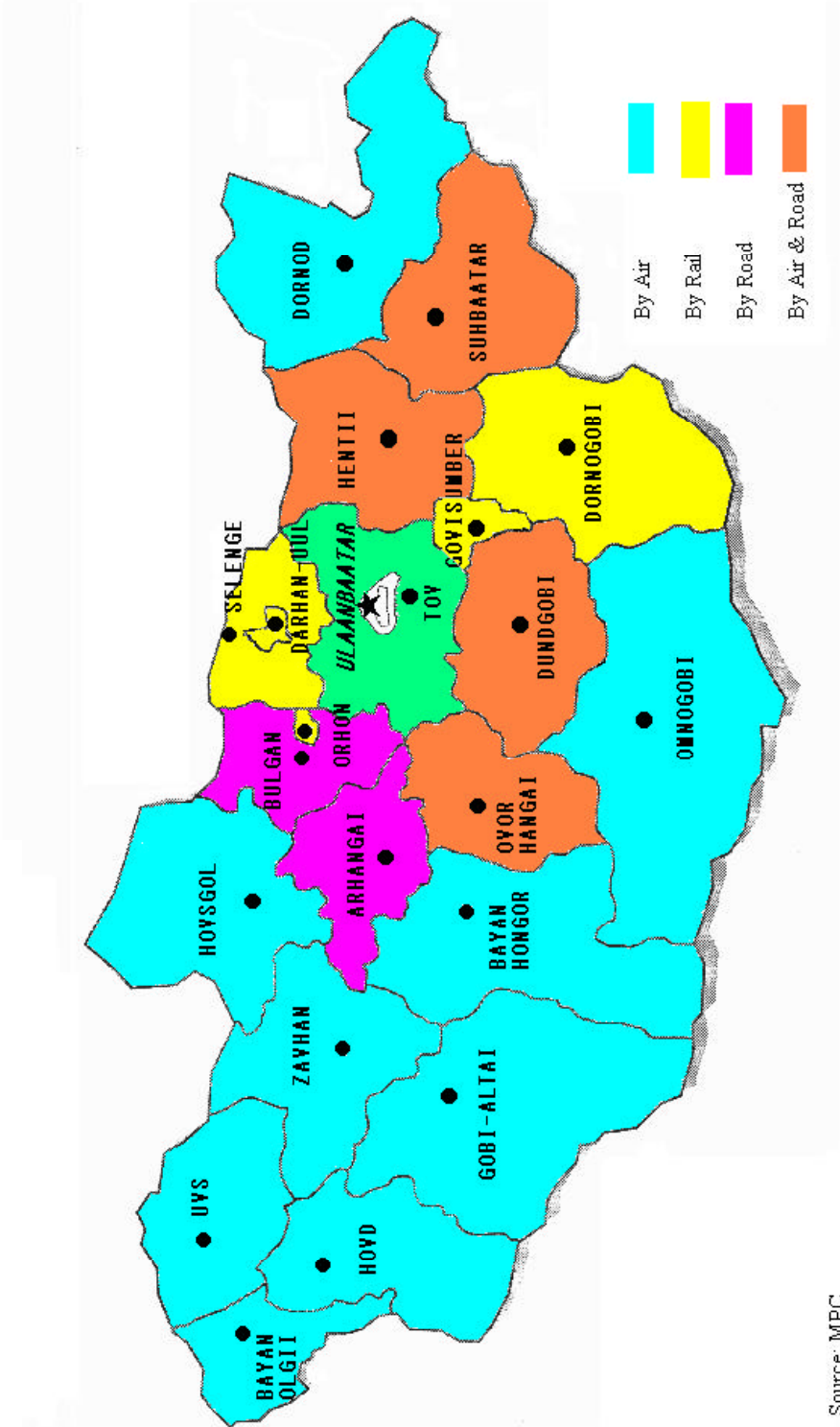
At the current transportation volume, the cost per mail item is thought to be fairly high. It would probably be difficult to lower the cost level even if the volume multiplies a few times.

**5.4.5. Handling in Transportation**

(1) Improvement of Handling Quality

Confidence in postal services is hurt by damage to and loss of mail items during transportation. The MPC should consider an increase in this number and purchase of motorized conveyance equipments.

Figure. 5-3 Transport Mode by Each Aimag



Source: MPC

## **5.5. Remittances and Payments**

In 1997-98, there has been a test program in Hovd Aimag to determine whether it would be feasible for MPC to provide financial services on its own. The result was not encouraging. As a result, all financial services are provided through collaboration with the Mongol Post Bank (MPB).

### **5.5.1. Scope of Cooperation Between MPC and MPB**

The final agreement between MPC and MPB was closed in 1999.

Except for its operations at Head Quarters in Ulaanbaatar, MPB provides service through the post office, using MPC's network. All of MPB's branches and sub-branches are located within MPC's post offices using MPC's staff.

### **5.5.2. The Agreement Between MPB and MPC**

There are two agreements between Mongol Post bank and MPC. One is the general agreement between MPC and MPB, and the other is an agreement among 3 parties, namely MPB, MPC and NIC ( National Petroleum Company ) . MPC will provide various bank services at the post office on behalf of MPB. The 3 party agreement is, in essence, a bulk discount on remittance fee for the largest user.

### **5.5.3. The Status of Remittance and Payments**

The Remittance and Payment Service in 1999 made profits in the Aimags of Arkhangai, Dorunogobi, Dundgobi, Omnogobi, Uburkhangai and Khuvsgul. In the Aimags of Bayan Olgil, GoviAltai, Dornod, Orkhon and Hovd, the operation created losses. Analysis of the Aimags that showed losses reveal that in many cases, over-aggressive hirings were made that were not in line with the scale of business.

### **5.5.4. Issues of Remittances and Payments**

In terms of sales, fee income from these remittances and payment contributes significantly. However, in many Aimags, these operations are not profitable, due to the large human resources that are required.

Since the preparation for bank operation incurs huge additional cost for MPC, it should avoid over-aggressive expansion into rural areas. Detailed negotiations with MPB are extremely important to maintain a sound business.

**Table. 5-1 Current Status and Future Plans of Financial Service of Aimags and Soums**

Post Office	Available Services	Condition	Future Plans
Ovorkhangai	<ul style="list-style-type: none"> <li>• Deposit: no</li> <li>• Pension:~2000/07</li> <li>• Remit.: 175</li> <li>• Pst. Order: Yes</li> <li>• Paymnts: Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Turned a profit in 1999 and 1Q2000.</li> <li>• Hired accountants and staff with financial, economic background for services.</li> <li>• Bank services: 9% of sales.</li> <li>• 67 firms use remittance and postal order</li> </ul>	<ul style="list-style-type: none"> <li>• Added 4 staff, total staff of 9</li> <li>• Got permit to deliver pension payments ~7/2000</li> <li>• Will judge which Soums to extend the service based on profitability</li> <li>• Only competition is AB. Further expansion of service is feasible.</li> </ul>
Kharkhorin	<ul style="list-style-type: none"> <li>• Deposits:no</li> <li>• Pension:600 recipients</li> <li>• Remit.:yes</li> <li>• Pst. Order:yes</li> </ul>	<ul style="list-style-type: none"> <li>• Added staffs with banking experience.</li> <li>• Postal order:50 incoming, 5 outgoing. Only the outgoing provides revenue. Shows loss. Mostly NIC accounts.</li> <li>• Transaction records sent by disk.</li> </ul>	<ul style="list-style-type: none"> <li>• Plans for deposits ~2000.</li> <li>• Software for operation provided by MPB.</li> <li>• More security required (more than just a safe, needs security guard)</li> </ul>
Khujirt Somus	<ul style="list-style-type: none"> <li>• Pst. Order:5</li> </ul>	<ul style="list-style-type: none"> <li>• 5 firms &amp; 3 individuals use bank services</li> </ul>	<ul style="list-style-type: none"> <li>• Competes with AB</li> </ul>
Sukhbaatar Cent. Office	<ul style="list-style-type: none"> <li>• Deposits: 11</li> <li>• Pension: 1000</li> <li>• Remit:40</li> </ul>	<ul style="list-style-type: none"> <li>• Total deposits: 4 mill Tg</li> <li>• Revenue 4.45 mill Tg(1999)</li> <li>• NIC fee: 2.95 mill Tg</li> <li>• Break even in 1999, 0.9mill Tg profit in 1Q2000</li> </ul>	<ul style="list-style-type: none"> <li>• AG main competition, MPB holds 70% share</li> <li>• Hire 2 bank staff (total 4) in 2000</li> </ul>
Hentii Cent. Office	<ul style="list-style-type: none"> <li>• Deposit: 6</li> <li>• Remit: 78</li> <li>• Pst.Order:yes</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue 1.68 mill Tg, 0.2 mill loss (1999). 0.13 mill loss in 1Q2000.</li> <li>• Losses due to 3 additional banking staff.</li> <li>• 1,185 remittances/month, of which NIC 25</li> <li>• 81 business customers of bank service</li> </ul>	<ul style="list-style-type: none"> <li>• 40% share, competition with Savings Bank and AB</li> </ul>
Dornod Coibalsan Cent. Office	<ul style="list-style-type: none"> <li>• Deposits:No</li> <li>• Pension:1000</li> <li>• Pst.Order:yes</li> </ul>	<ul style="list-style-type: none"> <li>• Loss in 1999, 0.28 mill Tg profit in 1Q2000.</li> <li>• 26% of remittance is NIC.</li> <li>• 2 staff increase in 1Q, total of 4.</li> </ul>	<ul style="list-style-type: none"> <li>• Abandon pension handling, due to lack of work space.</li> </ul>

Source: JICA Study team, based on field surveys in 5-6/2000 and MPC data.

## **5.6. Financial Condition of MPC**

### **5.6.1. Condition of the Financial Statements**

The Financial Statement and the financial system of MPC is still undergoing a transition from the Socialist Accounting system to the GAAP (Generally Accepted Accounting Policy). The transition began in late 1997, and the first statement to come out under GAAP is the 1998 Financial Statement. Therefore, at the point of the study, there has been only full 2 years amount of GAAP style financial statements. MPC does not have any complicated financial structures.

With such widely changed background and environment, financial information from under those conditions only hold historical value, which would not provide much insight for the future operation of MPC. Therefore, at this point, the team did not attempt to retabulate the Socialist style statements into a GAAP style statement.

### **5.6.2. Income Statement**

This section looks at the major items in the income statement.

- Telecommunication Services

Telecommunication services represent handling charges form phone connection services that are provided by the post offices. This is mostly done in Aimags and sums where maintaining separate staffs for telephone services would be too costly for the Telecom company.

From 1998 to 1999, this figure shows a decline. This is because of the Telecom Company's current policy to separate its operation from the post office. Therefore, this figure is expected to keep declining for some time. Since this item is less than 1% of the total revenue, this decrease will not cause much damage for MPC's finances.

- Business Letter and Parcels (under 3kg), Parcels (over 3 kg), Mails

These three are usually considered to be mail. They all demonstrate a significant increase between 1998 and 1999. "Mail" shows a 40% increase, "Parcels" show 30% increase, "business mail" shows 10% increase.

According to MPC, most of the volume in these categories is foreign mail. If the majority of this volume is foreign, however, MPC may be able to induce domestic use by significantly lowering postal charges.

- Express Mail (EMS)

EMS is showing rapid growth, and its revenue has more than doubled from 1998 to 1999. The rapid growth is attributable to the fact that this service was introduced very



recently. Therefore, it is likely to demonstrate strong growth for several years.

- Sales of Stamps and other Services

This item alone accounts for 63% of the total revenue, which makes the revenue.

- Non-Operating Revenues

This item reflects sales from the MPC farm, such as meat and dairy products. It remains almost constant, and is unlikely to change.

- Other

Various financial services has been introduced in 1999 through an alliance with Mongol Post Bank (MPB), and this service has been expanded into various Aimags in 2000. It has a significant impact on the finances of the local post offices, causing a large increase in sales. The new services, however, had significant influence on the expenses of these post offices. Its overall effect is explained in Chapter 6.

- Expenses for Wages and Salaries, etc.

These various labor costs occupied 38% of the total cost in 1999. In 1998, it occupied 35% which shows some increase. The actual labor costs showed 33% increase, while revenue showed 30% growth. It can be observed that the labor cost is increasing, both in the absolute amount and proportion. If this trend continues, it will bring pressure to MPC's financial conditions.

- Transportation Related Expenses

This occupies 15% of the total expenses, and went up by 30% from 1998 to 1999.

- Tax

Although MPC is fully owned by the government, it has no special status regarding income tax. The marginal tax rate for MPC is 40%, but because of this method, the tax rate is about 50% of the book profit.

- Profit

The profit margin (before tax) also increased from 3.2% to 8.8%. If costs are contained and no serious mismanagement occurs, MPC seems to be capable of continuing this profitable condition.

**Table. 5-2 Income Statement of MPC, 1998-1999**

	1998	1999
<b>Sales:</b>		
Telecommunication services	21,320.5	14,845.7
Business letter and parcels (under 3kg)	159,015.7	165,156.2
Parcels (over 3kg)	54,937.9	70,421.0
Express mail	29,023.2	64,331.6
Mail	269,185.4	361,943.3
Sales of postal stamps and other services	1,004,519.1	1,285,569.7
Non-operating revenue	29,018.7	29,731.8
Amounts to be deducted from VAT	(273,641.5)	
<b>Total sale</b>	<b>1,539,678.9</b>	<b>1,991,999.3</b>
Operating expenses		
Expenses for wages and salary	457,539.9	592,590.6
Discounts offered for employees	2,592.4	17,787.0
Social insurance contribution	46,842.3	60,985.6
Expenses for the Council of Seniors and other bonus	13,023.3	23,198.2
Expenses for security guards and fire-prevention services	384.7	6,328.7
Value of basic materials for sale	174,247.8	54,827.0
Rental expenses	42,041.2	103,421.5
Product sale expenses	43,280.2	162,858.9
Telephone and communication expenses	22,128.5	66,730.7
Utilities	47,526.3	55,561.1
Expenses for fuel and lubricants	85,006.0	124,682.3
Expenses for spare parts	51,159.2	47,811.2
Maintenance and repair expenses	35,505.1	24,618.7
Transportation cost	104,425.1	132,634.5
Services sub-contracted by other entities	5,235.5	4,580.6
Depreciation of fixed assets	104,498.0	108,049.5
Expenses for processing information	5,278.1	4,245.3
Publicity and advertising expenses	3,141.8	5,114.3
Periodicals and newspaper subscription	34,055.4	40,366.3
Expenses for postal service delivery	43,299.7	44,269.9
Insurance premium	4,528.2	3,617.8
Expenses for using banking services	3,015.3	5,265.5
Business trips expenses	31,642.6	29,218.1
Celebration and reception expenses	10,075.5	12,783.1
Foreign consultant and training expenses	10,541.5	6,282.0
Transport and tax expenses	85,461.2	57,478.1
Expenses for subsidiary farm	1,071.0	1,747.0
Expenses for running canteen	4,338.2	1,519.0
Other expenses	11,723.3	19,018.2
Overdue interest and penalty expenses	2,445.6	119.2
Expenses for unrecoverable receivables	371.6	97.6
Expenses for donation and grant aid	3,537.5	555.3
Total operating expenses	1,489,962.1	1,818,362.7
Operating income	49,716.8	173,636.6

Source: MPC

**Table. 5-2 Income Statement of MPC, 1998-1999 (cont'd)**

	1998		1999	
Fluctuation of exchange rate /losses & profits/		3,907.8		2,687.4
Sale of fixed assets /losses & profits/		-		-
Sales of goods and materials /losses & profits/		(0.0)		-
Total non-operating revenue		3,907.8		2,687.4
Before tax revenue	56,395.5	53,624.6	84,836.6	176,324.0
Income tax expenses	22,558.2	29,201.1	33,934.6	92,345.7
Net income		24,423.5		83,978.3

Source: MPC

### 5.6.3. Balance Sheet

- Cash

Since MPC does not engage in major investments at this point, and since it does not have any long term liability, all profits almost directly translates into increased cash flow and increased cash holding. The total amount of cash has been steadily increasing, and the proportion within the total assets is also increasing.

- Receivables

Receivables decreased from 383 million TG to 337 million TG caused by the Bank's lack of cash.

- Fixed Assets

The figure shows 10% increase.

- Long Term Liability

The striking feature of the MPC balance sheet is that it does not have any long term liability. Legally speaking, MPC can take out a loan like any other commercial entity. However, MPC has been operating under loss for a while, and its prospects were unclear, which made it rather unsuitable as a borrower. Probably also for this reason, the government, 100% owner and regulator of MPC disapproves of MPC's such activity. At the moment, MPC has no plans for taking out any loan.

**Table. 5-3 Balance Sheet of MPC, 1998-1999**

	1998		1999	
	At end			
<b>Assets</b>	Total	Grand total		
Cash assets	6,526.2		1,558.4	
Income account cash	104.3			
Current account cash	292,771.0		530,454.7	
Cash under inter-branch settlement	12,787.1		-	
<b>Total assets</b>		312,188.5		532,013.1
Receivables from buyers	42,971.7		44,100.8	
Internal accounting receivable	97,857.3		-	
Receivables from newspaper subscription	47,628.2		75,461.6	
Other receivables	33,519.9		28,854.0	
Advances for employees	13,116.3		9,125.0	
Receivables from employees	8,715.7		12,918.8	
Advances paid for providers	108,434.9		156,158.2	
Tax receivables	5,113.6		-	
Value-added-tax (VAT) receivables	25,686.1		(1,050.3)	
Other Recievables			12,123.1	
<b>Total receivables</b>		383,043.7		337,691.0
Inventory (raw material)	37,343.0		35,940.9	
Stamp stocks held by treasurer	504,257.5		461,090.6	
Securities held by treasurer	73,550.6		70,997.4	
Provision materials	41,107.2		49,037.1	
Spare parts	25,130.8		19,336.1	
Fuel and lubricants	3,901.3		6,165.0	
Livestock	7,325.4		10,984.5	
Construction materials	-		19.3	
Materials under transportation	676.6		1,154.2	
Periodicals held by storekeeper	34,521.8		55,408.0	
			112.7	
<b>Total inventory</b>		727,814.4		710,245.6
Prepaid expenses	-			20,612.5
<b>Total working capital</b>		1,423,046.7		1,600,562.3
Fixed assets				
Total fixed assets	1,327,526.7		1,476,564.7	
Accumulated depreciation	(239,520.2)		(346,604.6)	
Net balance of fixed assets		1,088,006.4		1,129,960.2
Investment				
Total investment		19,955.3		15,459.6
Total assets		2,531,008.5		2,745,982.1

**Table. 5-3 Balance Sheet of MPC, 1998-1999(cont'd)**

Equity and liability	1998		1999	
	Total	At end	Total	At end
Short-term liability				
Payables for providers	196,191.9		281,585.0	
Payables for Investors			12,198.0	
Payable wages and salary	1,696.3		107.7	
Internal accounting payables	-		-	
Payables for subscription	391,787.4		366,645.8	
Other payables	3,632.5		14,829.4	
Social insurance contribution	26,501.7		9,933.6	
Payables for employees	11,858.8		10,115.0	
Payable income tax	32,336.9		7,490.8	
Payable value-added-tax (VAT)	44,621.0		62,556.0	
Pre-paid income	93,142.2		244,058.2	
<b>Total short-term payables</b>		<b>801,798.7</b>		<b>1,009,519.5</b>
Long-term payables				
Long-term liability				
Shareholders' capital				
Paid in capital	883,477.8		892,727.5	
Accumulated profit	181,553.4		119,992.1	
Profits during the period under review	24,423.5		83,978.3	
Changes after revaluation	66,142.0		66,142.0	
Stamp adjustment	573,613.0		573,612.9	
Shareholder's total capital		<b>1,729,209.8</b>		<b>1,736,452.7</b>
Total assets and liability		<b>2,531,008.5</b>		<b>2,745,982.1</b>

Source: MPC

#### **5.6.4. Statement of Cash Transaction**

Since MPC does not have any long term liabilities, and it doesn't make any investments, their cash flow statement is rather plain. It can be observed that the largest source of cash for MPC is the "Increase in Accounts Payable" in 1999.

- **Dividend Payable to Shareholder**

Starting from fiscal 1999, MPC has started to pay out dividend to its shareholders. Since MOI is the only shareholder, this amount is paid out to MOI. The amount is calculated as 15% of the after tax profit.

There is no clearly defined rule for this 15% figure of dividend. Therefore, this may change in the future.

- **Fixed Assets**

MPC's ability to purchase fixed asset is very limited. Their level of purchase is strictly regulated by MOI and SPC. Their financial condition was another factor. Without much ability to borrow and cash reserves, it was difficult to make any substantial purchases.

This may change over time. MPC is requesting some freedom in making their own investment and purchase decisions within the retained earning, without acquiring the permission from the SPC. Because of the continuing profits, this scenario is not unlikely. If this is allowed, we may observe more active investment from MPC.

**Table. 5-4 Statement of Cash Transaction of MPC, 1998-1999**

	1998	1999
Basic operating cash transactions		
Net revenue	26,828.7	83,978.3
Changes in accumulated profit (increase)	313.7	
<b>Net profit</b>	27,142.4	
Non-cash income /losses & profits/ <b>Growth:</b>		
Decrease in advance and receivable	181,157.6	24,740.2
		17,568.7
Depreciation expenses	10,168.7	107,071.7
Increase in accounts payable	42,029.4	207,730.8
Total	233,355.6	357,111.4
<b>Decline:</b>		
Increase in goods and materials	38,270.4	
Total	(38,270.4)	-
Basic operating cash transactions	222,227.6	441,089.6
Investment cash transactions		
Sold fixed assets	152,115.7	55,243.0
Withdrawn investment	5,100.0	4,724.9
Purchased fixed assets	152,368.8	204,268.4
Acquired investment	4,265.3	229.2
Net investment cash transactions	581.6	(144,529.7)
Financing cash transactions		
Increase in paid in capital	49,399.2	9,249.6
Reduction in paid in capital	130,764.1	
		0.2
		68,051.6
		9,395.9
		8,537.4
Net financing cash transactions	(81,364.8)	(76,735.4)
Total changes in capital assets	141,444.4	219,824.6
Source: MPC		
Initial balance of capital assets	170,744.2	312,188.6
Final balance of capital assets	312,188.6	532,013.2

### **5.6.5. Other Issues**

#### **(1) Investment**

MPC has not engaged in any major investment activities during the past several years. This was due to the fact that MPC has not turned any profit until 1998, and hence, had no capacity for making any investment on their own. Therefore, all new necessary investments were made by MOI, and were leased to MPC.

The government, however, has decided to discontinue this practice.

#### **(2) Subsidy**

MPC does not receive direct subsidy from the government. It does, however receive indirect support from the government, as is apparent from the treatment of new investment. MOI has been practically subsidizing MPC's investment.

Another area of assistance is in the rents for government property. Most post offices are housed inside government owned buildings, and MPC pays rental charges based on occupancy. The level of rent, however, is set significantly lower than the market rate.

### **5.6.6. Discrepancies Among Regions**

Ulaanbaatar City area occupies a 70% share of MPC's business activities.

Looking at each Aimags, there are only 6 Aimags among 23 that recorded a profit in 1999 though the level of loss has declined in many Aimags between 1998 and 1999.

In many Aimags, however, the largest sales item is often passenger transportation, which is not exactly a postal service. Many Aimags rely heavily on "side businesses," so to say, to keep afloat.



**Table. 5-5 Profit by Aimag**

(Unit:1000Tg)

Aimag	1998	1999	Increase
Arkhangai	-8,841	-1,593	7,248
Bayan Olgii	-9,036	-16,270	-7,234
Bayankhongor	1,213	4,636	3,423
Bulgan	-4,757	-6,570	-1,813
Govi Altai	-3,021	-8,025	-5,004
Dornogovi	-5,352	-3,775	1,577
Dornod	-4,190	-4,077	113
Dundgovi	-5,936	-574	5,362
Zavkhan	-9,938	-9,856	82
Ovorkhangai	-5,857	6,797	12,654
Omnogovi	-6,639	-585	6,054
Sukhbaatar	-4,647	-1,626	3,021
Selenge	-218	642	860
Tov	4,692	-1,617	-6,309
Uvs	-5,485	-7,954	-2,469
Hovd	-19,242	-11,412	7,830
Hovsgol	-10,769	-8,404	2,365
Erdnet	4,418	3,306	-1,112
Hentii	-820	-7,811	-6,991
Ulaanbaatar	179,966	282,181	102,215
Baganuur	517	-1,496	-2,013
Govi Sumber	-730	638	1,368

Source:MPC

Note:Because of the overhead charge, the sum of the above figures will not match MPC's consolidated profit.

**5.6.7. Observation**

The financial condition of MPC is showing improvement. New services, such as EMS and mail order merchandize are growing rapidly, while costs are contained, which led to a higher profit margin. This situation is likely to continue for at least another several years.

Much of the rural areas still operate at a loss. Although some Aimags have achieved remarkable improvements and the overall conditions are showing improvement, weaknesses in economic and population base of each region poses a limit on the level of operation in many cases.

**5.6.8. Issues****(1) Need for a sound financial foundation**

Although it's financial conditions are improving, it should further continue its current efforts so that enough earnings can be achieved to enable a sustained level of investment and

maintenance. Further introduction of new profitable services would be necessary, as well as streamlining existing ones.

(2) Higher level of maintenance and investment

Obviously, overinvestment and borrowing may damage the financial health of MPC. These should be introduced in carefully planned stages, with proper auditing. Well designed balance between financial freedom and control should be established.

(3) A Sound System for Retaining Earnings

Starting from 1999, 15% of MPC's profit will go to MOI as dividend. Also, there are plans to extract 80% of MPC's profit to the government, thereby leaving MPC with no room to expand or improve. Such measures are also demoralizing, since efforts for improvement will not bring in any benefits to the working environment. There will be no incentive for the MPC staff to make any profit, if most of the profits will be reaped by the government. Under such conditions, MPC may easily slide back into a money losing position again.

(4) Beneficial treatments to ensure universal service

### **5.6.9. Information System**

Currently, the information system of MPC is undersupplied and underutilized. Within the MPC Head Quarters, an Ethernet LAN exists, with 30 computers altogether. Each Aimag Post office has a computer, and they can connect to the head quarters LAN over regular phone line using a modem. At the Soum level nothing is computerized.

The use of these computers are very limited. The only use of these computers are exchanging bank transactions, and some messaging. MPC Head Quarter spends a week to process and re-input all these data from Aimags. Neither are they used for sales management or in any other useful way.

MPB is also deploying personal computers to various post offices in order to create an information system that suits the needs of their banking operation. They are currently outsourcing the development of the software for this operation.

### **5.6.10. Issues for Information System**

In the short run, the book keeping for each post offices should be maintained using the existing system. Utilization of the information system in the daily operation should not be too difficult. This should not require any new software development or system deployment. The existing practices at some Aimag post offices could easily be transplanted to other post offices

with minimal tweaking, and should bring good results.

In the medium term, a more sophisticated service using computer networks would be possible. This, however, will rely on the level of available communication infrastructure.

## **5.7. Organization and Human Resource Development**

### **5.7.1. Current Status of the Organization**

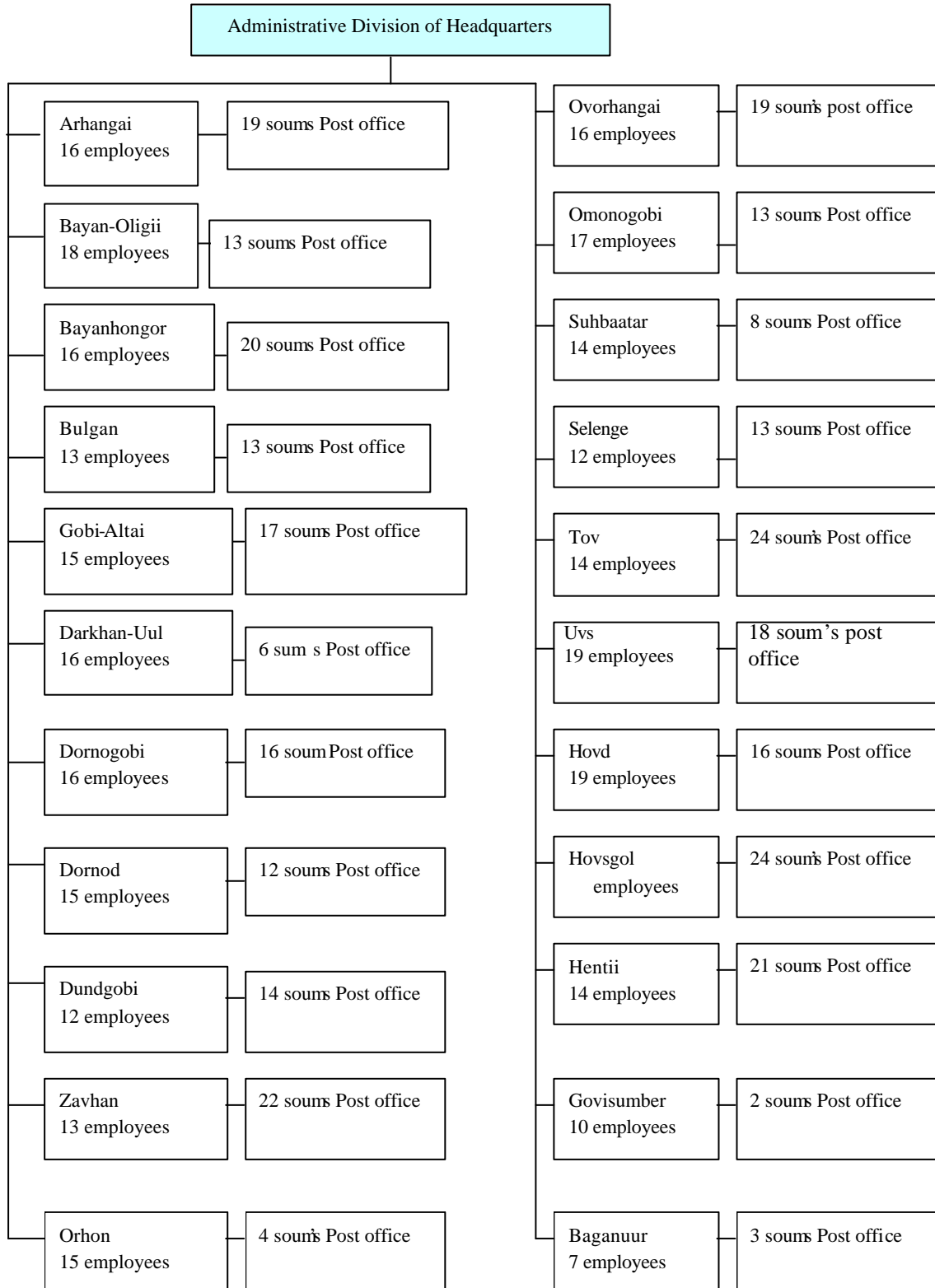
#### (1) Postal network at present of MPC

Ulaanbaatar (UB) city:	18 branch post offices and Central Post Office
Aimags:	21 post offices
Soums:	317 post offices including postal agents appointed from MPC
Bags:	0 post offices

#### (2) Trend of employees at MPC

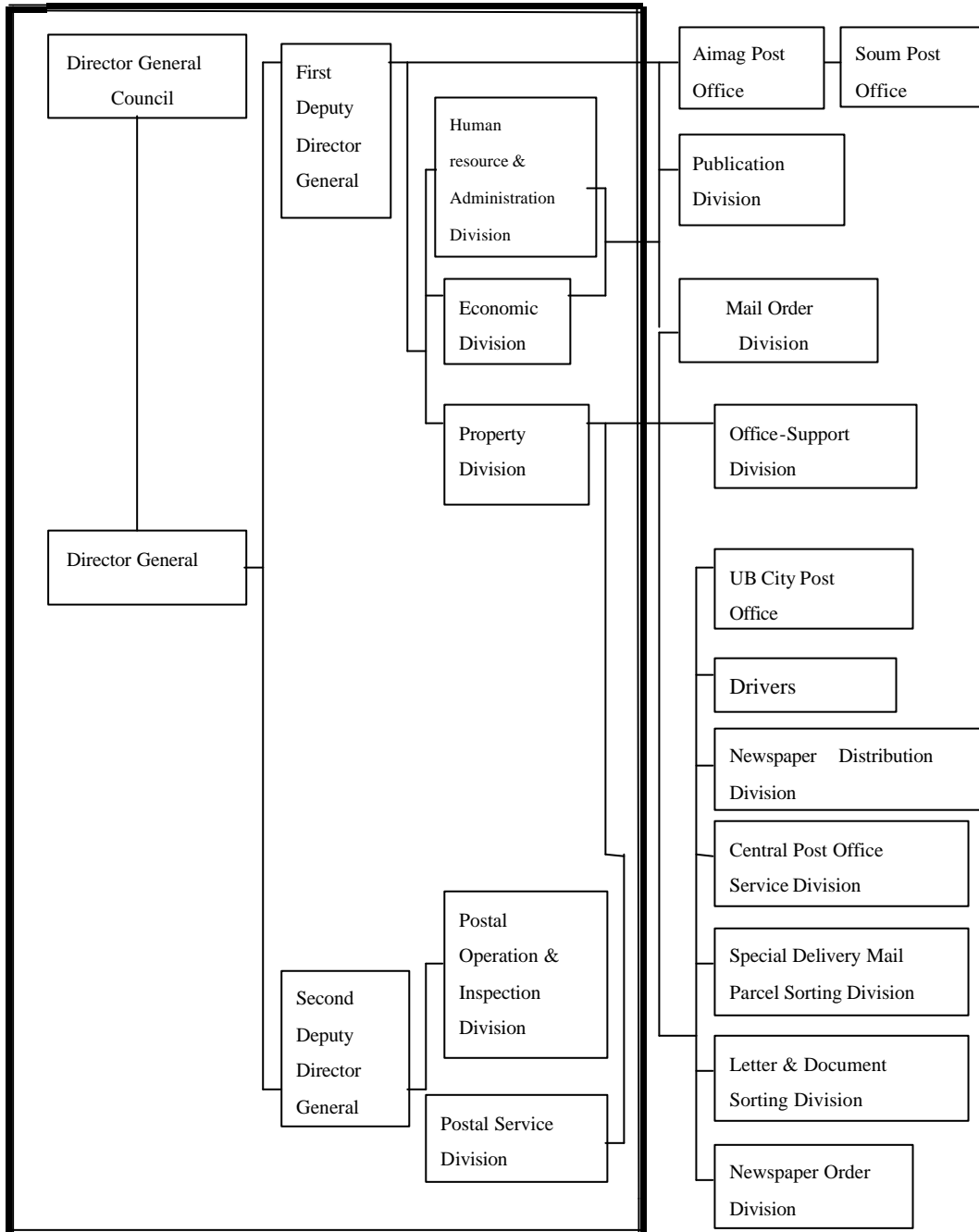
Over past few years there has been significant increase in the number of employees. The reason of high increase is mainly due to two reasons. One is that telecommunication and postal service business were divided in 1994. The other reason is that MPC started banking business from 1997 by contracting with MPB.

**Figure. 5-4 Aimag and Soum's Post Office**



Source: MPC

**Figure. 5-5 Organization Chart of MPC**



Source: MPC

### **5.7.2. Human Resource Development**

Education was provided gratis by the Mongolian government under socialism, and as a result of that system, the literacy rate was high. Three-year elementary school education and five-year secondary education as a second stage are compulsory education in Mongolia. After that, secondary education or secondary vocational education of two years' duration as a third stage is offered. After graduating from these schools, students may go to four- year university, four- year college or two- or three-year vocational education programs.

Since 1993, expenditure for education decreased relatively. Education expenditure occupied 26.5 % of government expenditure in 1992, but the rate decreased to 16 % in 1997. A new educational law was enacted in 1995, and education is provided free of charge till the second stage.

### **5.7.3. Analysis of Organizational Capacity**

#### (1) Objectives

Plans for projects in developing countries generally make proposals in the aspects of the organizational system at, and development of human resources for, the project principal.

The organizational capacity of the project principal could be defined as the ability to curtail the total business cost to a low level through measures taken in advance.

#### (2) Definition of organizational capacity

The organizational capacity could be defined as the ability to curtail the total business cost to a low level through measures taken in advance. Institutional capacity of executing agencies is defined as the ability of the agencies to reduce the amount of overall transaction costs through appropriate arrangements in advance. Determining factors of the capacity in this case are (1) Expertise, (2) Specificity (in authority and responsibility), and (3) Incentives.<sup>1</sup>

#### (3) Constituent elements of organizational capacity

These constituent elements can be divided into the following three groups: 1) expertise, i.e., the level of know-how and facilities accumulated by the principal; 2) specificity, i.e., the clearness of the division of roles with related institutions and parties; and 3) incentive, i.e., factors shaping business motivations among all involved. Incentive will take up three factors; shared values, competitive pressures, and accountability. (Accountability means that organizational capacity is also determined by the degree to which information on business and results is checked by qualified personnel, and staff performance is given effective play in

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<sup>1</sup> Ostrom, Elinored ed. (1998), *Institutional Incentives and Sustainable Development, Infrastructure Policies in Perspective*, Westview Press.

management.)

#### **5.7.4. Evaluation of Organizational Capacity**

The organizational capacity is evaluated based on the three factors described above in the definition.

#### **5.7.5. Expertise**

- (1) Presence/absence of a full complement of staff with practical ability in the technical and business aspects
  
- (2) Conditioning of the information-communications infrastructure for linkage between the work site and central organs
  
- (3) Presence/absence of a clear understanding of the attributes of the socioeconomic structure and groups of beneficiaries in the service areas
  
- (4) Expertise - current status and problems

The medium-term management plan points out the need for the MPC to become financially independent and to expand its service assortment. The question is whether the MPC has a sufficient store of knowledge and experience and as well as an information infrastructure that is well developed and effectively used to these ends. From the factors noted in the three aspects above, one could only conclude that there is still much room for an improvement of capabilities in this area. To increase earnings from postal services as the main line, it will also be important to expand the demand and raise business efficiency, but the degree of organizational expertise for use in these areas cannot be gauged from the results of the study to this point.

#### **5.7.6. Specificity**

- (1) Presence/absence of simple and clear-cut chains of instruction and command within the organization; organization of chains of command in terms of type of work
  
- (2) Procedures (routes) and time required from preparation of written reports by the person in charge on the work site to the final acceptance of these reports
  
- (3) Laws and regulations influencing procedures
  
- (4) Rules for measures in response to sudden difficulties, such as natural disasters, accidents,



and labor disputes

(5) Specificity - current status and problems

The level of organizational capacity is largely determined by the degree to which the authority and roles of all concerned parties are clearly defined in law, and there are clear and simple chains of command and instruction from above and reporting from below. The reorganization in March must be given a positive rating for its aim of speeding up the decision-making process with a view to increasing the organizational capacity. However, matters must be monitored to learn how effective the reorganization has been in reality. The lack of a well-defined division of roles (and supervisory authority) among the agencies with jurisdiction over the MPC must be swiftly corrected if progress is to be made in the subsequent reform of the MPC's business and organization. Furthermore, studies of the approach to crisis management must take account of factors such as the natural conditions in Mongolia.

**5.7.7. Incentive**

(1) Sharing of values

- Degree of understanding of the mission and significance of the principal among its executives and specific ways of conveying them to ordinary staff and concerned parties

(2) Competitive pressures

- Presence/absence of accurate evaluation of degree of contribution to the business by each department/employee and business result, and clear reflection in treatment

(3) Accountability

- Extent of the system of internal checks through auditing, etc.
- Degree of disclosure of information on the business
- Presence/absence of arrangements for feedback from concerned parties

(4) Incentive - current status and problems

The following aspects of the current arrangement can be regarded as acting to heighten the incentive of departments and staff: 1) there are internal schemes for the sharing of information, 2) there are divisions in which service efficiency can be increased through competition with private firms, and 3) the auditing system is functioning. However, it must be confirmed whether the schemes for the sharing of information are actually working on the rank-and-file level. The MPC must take additional steps in evaluation of business result/performance so that it acts more to provide employees with incentive. It also must step up publicity for services through

organized campaigns that will raise customer awareness.

#### **5.7.8. Issues**

The following is an account of the issues to be tackled by the MPC in light of the current status and problems related to its organizational capacity as described above.

- (1) The chains of instruction/command must be revised.
- (2) Studies must be made on the question of whether the system of internal auditing and checking should be directly under the president (or the board).
- (3) The MPC must actively promote information sharing.
- (4) To resolve issues, the MPC must post personnel more flexibly and quickly.

The MPC should take the following two steps in order to make the best use of its finite pool of human resources and their capabilities.

- 1) Effective use of working groups (task forces)
  - 2) More flexible posting of personnel through work manuals
- (5) The MPC must prepare a setup for customer-first provision of services.
- The tasks in this area are outlined below.
- 1) Reinforcement of the inspection setup
  - 2) Construction of a system for reflecting customer views
  - 3) Systematic development of human resources
  - 4) Active advertising and publicity
- (6) Construction of setups and schemes for competitive advantage in Ulaanbaatar
- (7) Measures to encourage a rise in the degree of target attainment
- (8) Effective use of computer networks
- (9) Contingency plan