

Chapter 4

Current Status of Postal Services

4. Current Status of Postal Services

4.1. Services Provided by the MPC

4.1.1 Services Provided as Postal Services

Table 4-1 shows the services currently provided by post offices operated by the Mongolia Post Company(MPC). The services in the category are uniformly available at all of the post offices in Ulaanbaatar and at those in the Aimag centers.

As for other (incidental) services except remittance, the decision on whether or not to provide such services is left to the discretion of the head of each post office. The other services provided at the Aimag centers include financial services (owing partly to the collapse of numerous banks in Mongolia), mail-order sales (a new service), and passenger transport (making use of the delivery vehicles).

Table 4-1 Services Provided at Post Offices

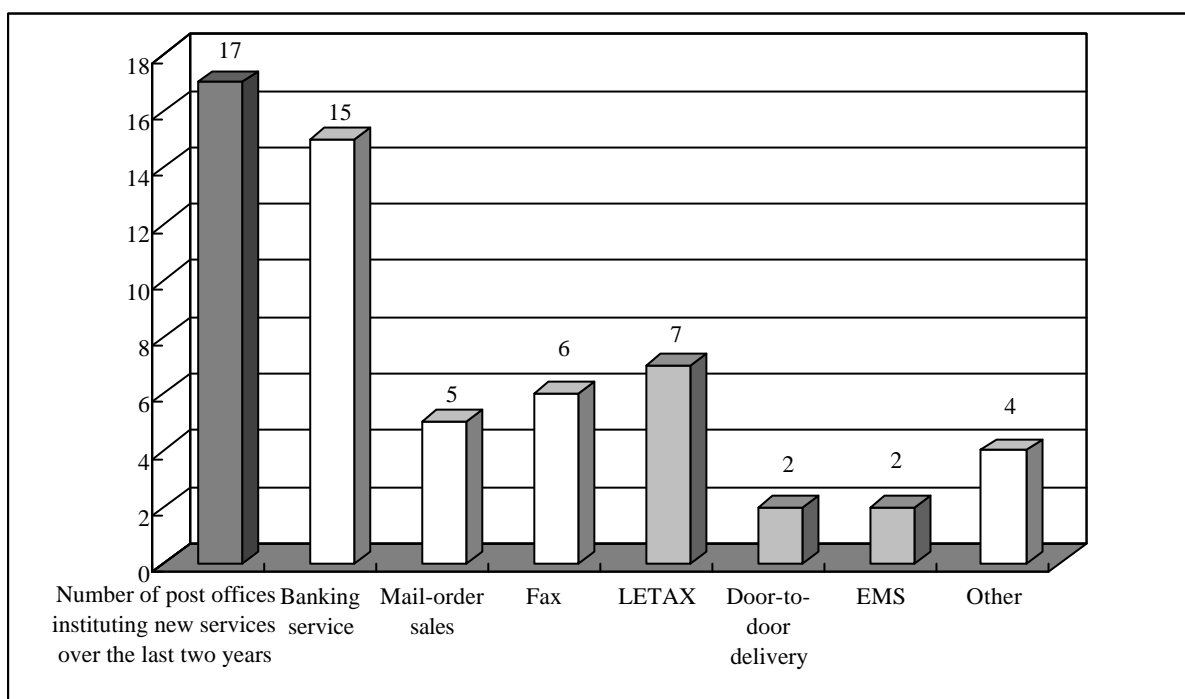
	Service	Outline	Work	Major problems	Service availability	
Postal services	Newspapers and magazines	Contracting and delivery	Subscription contracting (once only), sorting, final delivery (i.e., carrier sequence) sorting, and delivery	Newspapers and magazines cannot properly be regarded as mail unless the publishing company affixes the individual address; a different network should handle them. Express delivery charges should not be collected because there is no difference between the ordinary and express networks.		
	<u>Letters/domestic/ordinary</u>	Collection and delivery of letters for domestic delivery	Dispatch post office: acceptance and sorting; delivery post office: sorting, final delivery sorting, and delivery; in the case of registered mail, the dispatch post office also must issue the acceptance slip and fill out the prescribed form, and the delivery post office must fill out the prescribed form and receive the issued slip.	Express charges should not be collected for delivery in Mongolia because there is no difference between the ordinary and express networks.		
	<u>Letters/domestic/registered</u>					
	<u>Letters/domestic/express</u>					
	<u>Letters/international/ordinary</u>	Collection of letters to be sent to other countries and delivery of letters sent from other countries to Mongolia	Dispatch post office: acceptance and sorting; delivery post office: sorting, final delivery sorting, and delivery; in the case of EMS, the dispatch post office must also issue the acceptance slip and fill out the prescribed form, and the delivery post office must fill out the prescribed form and receive the issued slip	There is competition with private carriers in the category of international parcels, and some private firms have obtained licenses for business in the category of domestic parcels as well.		
	<u>Letters/international/registered</u>					
	<u>Letters/international/express</u>					
	Parcels/domestic Parcels/international	Collection of parcels sent to domestic or foreign addresses and delivery of parcels arriving from domestic or foreign addresses	Dispatch post office: acceptance and sorting; delivery post office: sorting, final delivery sorting, and delivery; in the case of EMS, the dispatch post office must also issue the acceptance slip and fill out the prescribed form, and the delivery post office must fill out the prescribed form and receive the issued slip	The MPC is not equipped to offer EMS tracing service, which is offered in other countries.		
	EMS/domestic EMS/international	Collection of EMS items sent to domestic or foreign addresses and delivery of EMS items arriving from domestic or foreign addresses	Sales of stamps, postcards, etc.	Sales of stamps, postcards, etc.	The MPC is not in exclusive possession of rights to sell stamps.	-
	LETAX	Mail using facsimile machines installed in post offices	Acceptance and transmission of forms at the dispatch post office, and reception and delivery at the delivery post office	Acceptance and transmission of forms at the dispatch post office, and reception and delivery at the delivery post office	-	-
Financial/exchange (money orders, etc.)	Settlement of credits and debts by means of notes, checks, and deeds	Acceptance of cash and issuance of notes and deeds	Acceptance of cash and management of passbooks; processing of deposits	The MPC should not assume the risks, and there would be no particular problem if it merely performed agency work for a handling fee; risks could be assumed by the MPC, depending on the details of contracts.	16	
Incidental services	Financial/savings	Acceptance of cash deposits, and certain loans	Acceptance of cash and management of passbooks; processing of deposits	The operation assumes risks, and there is a need for consideration of contracting with the MPB.	16	
	<u>Financial/pensions</u>	Payment of pensions	Payment of pensions to pensioners	The MPC should not assume the risks, and there would be no particular problem if it merely performed agency work for a handling fee; risks could be assumed by the MPC, depending on the details of contracts.	12	
	Financial/taxes	Collection of tax payments	Acceptance and sending of cash		10	
	Financial/remittance	Remittance of cash			○	
	Financial/insurance	Insurance agency business	Preparation of policies and acceptance of premium payments		1	
	<u>Leasing</u>	<u>Leasing of idle space in post offices</u>	<u>Leasing contracting</u>	-	5	
	Mail-order sales	Receipt of orders for merchandise, and delivery of the goods	Receipt of orders, delivery, receipt of payment	Merchandise should be ordered from suppliers only in response to orders received from customers; post offices should not order merchandise in advance and keep it in stock.	49	
	<u>Sales of miscellaneous goods</u>	<u>Sales of stationery items, medicine, etc.</u>	<u>Stocking and sales of merchandise</u>	There are risks associated with the stocking and sales.	4	
	Passenger transport	Transport of passengers between soums and the aimag center using collection and delivery vehicles	Transport service available at the times of collection from and delivery to soums, when there is space in postal vehicles	Passenger transport must not impede postal transport.	-	
	Copying and fax	Use of fax machines	Performance or supervision of copying and fax transmission	-	-	

Note: In the "service availability" column, circles indicate availability at all of the post offices in the 22 Aimag centers. Dashes indicate that the number is uncertain.

Source: Prepared by the JICA Study Team.

Over the last two years, 17 post offices in Aimag centers have begun new services. This clearly reflects MPC's efforts to expand sales and turn profits. Of the new types of service, the most popular was banking service, which was introduced in 15 Aimag offices. It was followed in order by LETAX (Fax-mail) service at seven post offices, fax service at six, and mail-order sales service at five. The more specific types include insurance agency work, leasing service, financial service, and copy service.

Fig. 4-1 Post Offices that Introduced New Services in 1998-99



Source : JICA Study Team

4.1.2. Letters

The current low volume of letters seem to reflect the economic condition of Mongolia at the moment. It is, however, way too low to sustain a postal network. Outside Ulaanbaatar, the volume and the revenue that it generates are much too low to pay for itself. It is rather difficult to conceive of a viable postal network with adequate dispatch and arrival points in Aimag centers and Soums all over the country. Almost 90 percent of the letter handling volume involves Ulaanbaatar; about 40 percent is occupied by letters sent from Ulaanbaatar to the Aimag, about 30 percent, by letters sent from the Aimag to Ulaanbaatar, and slightly over 10 percent, by letters sent within Ulaanbaatar.

Because of this low volume, Aimag-level services for letters at the moment must be considered as an auxiliary service to the delivery of periodicals, as described below. Naturally,

routes with a comparatively large mail volume (such as routes within Ulaanbaatar) can sustain twice-a-day collection and delivery.

The big issue is how to maintain unprofitable networks in the rural areas. With low demand to begin with, the introduction of new services such as express mail will not have much effect (the additional cost for a new service would probably increase the loss). Since postal companies have a mandate to provide universal postal services to support economic growth and welfare throughout the country. Therefore, efforts should be made to maintain at least one shipment of mail per week to the Soum level.

It is vital to provide low-cost, safe, and reliable postal service for letters, which can carry a high load of information. Once such service wins the trust of companies and the people, the demand may be expected to expand to a certain extent. In addition, such service will make a great contribution to the advancement of the country. In Japan, business-related correspondence accounts for about 80 percent of the demand. In Mongolia, too, the demand should increase as the economy expands.

Table.4-2 Volume of Letters and Registered Mail

Letters				Registered Mail			
		Incoming				Incoming	
		UB	Aimags			UB	Aimags
Outgoing	UB	17,413	83,497	Outgoing	UB	42,151	113,779
	Aimags	74,559	44,643		Aimags	87,720	7,820
		Incoming				Incoming	
		UB	Aimags			UB	Aimags
Outgoing	UB	7.9%	37.9%	Outgoing	UB	16.8%	45.2%
	Aimags	33.9%	20.3%		Aimags	34.9%	3.1%

Source : JICA Study Team

4.1.3. Periodicals

The Postal system in Mongolia is currently supported virtually by delivery of periodicals. The handling volume in this category amounts to about 22 million copies. Some 98 percent are published in Ulaanbaatar and sent to all over the country. Usually, in large countries such as Mongolia, a transportation network of multiple hub-and-spoke networks is usually employed. In the case of periodicals in Mongolia, however, since almost all newspapers and magazines are published in Ulaanbaatar, it is more efficient to form a mono-centric network. Since most of the delivered mail consist of periodicals, the mail delivery network itself tends to be more efficient under a mono-centric configuration.

Although the delivery of periodicals (especially newspapers) is not considered to be a task for postal systems in many countries, its significance in Mongolia should not be underestimated. It should also be noted, however, that there are some chances of private firms coming into this field.

4.1.4. Parcels

With the entry of DHL, the market for international parcels has become extremely competitive. Other new players, such as UPS followed, and MPC no longer holds a monopoly in this field.

The volume of domestic parcels is very low, which makes it extremely difficult to construct a dedicated network. Similar to domestic letters, however, the parcel volume will probably increase in the process of Mongolia's development, and the construction of a parcel network to support this increase should be part of the MPC's mission. More specifically, the MPC must sustain and ensure safe and sure transport of parcels to support industry and life in the provinces. As a key task to this end, it must examine how to build an efficient network for this job (although maintenance and improvement of the current network are required for the time being).

Table.4-3 Exchange of Parcels and EMS

Parcel Post				EMS			
		Incoming				Incoming	
		UB	Aimags			UB	Aimags
Outgoing	UB	-	8,432	Outgoing	UB	-	1,956
	Aimags	2,460	1,001		Aimags	1,693	69
		Incoming				Incoming	
		UB	Aimags			UB	Aimags
Outgoing	UB	-	70.9%	Outgoing	UB	-	52.6%
	Aimags	20.7%	8.4%		Aimags	45.5%	1.9%

Note: - in UB is n/a.

Source : JICA Study Team

4.1.5. The Postal Network (transportation and delivery between post offices)

In Mongolia, there are two major components of the postal network; transportation from the dispatch post office to the delivery post office, and delivery from the delivery post office. Another task is collection for transportation to the dispatch post office. As described above,

the transportation between post offices consists mainly of newspapers and magazines, and the current network in this component can be termed efficient as long as there are no prospects for an increase in the demand for other items beyond that for newspapers and magazines. Under these circumstances, it is effective to handle letters and parcels together with newspapers and magazines.

As for delivery from delivery post offices, there is a limited volume of door-to-door delivery, but almost all delivery takes the form of insertion into PO boxes. It is vital to extend this to the door. Mutually different delivery schemes should be employed for articles without addressee names such as newspapers and magazines on the one hand and those with names such as letters and parcels. Newspapers should be delivered to the door on the morning of the day of publication, if possible, and there is room for improvement here. Even such delivery would begin first in Ulaanbaatar and be extended to the Aimag centers in correspondence with the demand.

4.1.6. Other Services (financing, mail-order sales, etc.)

As noted above, post offices in Mongolia are currently providing many different kinds of incidental services. Under the current arrangement and institutional setup, the main mission of the MPC is to provide safe and secure service as an infrastructure helping to drive economic activities and support the national life (although importance is also attached to high-return business because of the emphasis on profit). It must be realized that other, incidental services have a secondary status and exist to support postal services. In other words, the post office system cannot be maintained on the strength of postal services alone.

At present, the MPC is permitted to make use of post office buildings, vehicles, and other national property to provide services noted in the articles established with the SPC and MOI. Under the leadership of Aimag centers, the MPC is developing new services in areas with a comparatively large demand. (However, it is not clear whether or not the MPC has confirmed the presence of an adequate market in all of these areas.) In the field of financial services, it is performing agency work for handling fees based on contracts with the MPB, NIC, and other private firms. (It is also engaged in some extremely high-risk business involving saving deposits and loans, depending on the terms of the contract with these private firms.)

At any rate, the primary purpose of incidental services must be to support postal services as the main line. Incidental services must not be allowed to operate at a deficit or impede the performance of postal services. Steps must be taken to resolve any situations of this sort immediately. In other words, the MPC must avoid deficit, and efforts must be made to see that incidental services, which are being provided for this reason, do not fall into deficit as well. It

should be added that incidental services should be offered only in the scope of risk which can be shouldered by the MPC; the MPC must not shoulder the risks of other enterprises or organizations.

4.2. Postage for Mail Items

4.2.1. High Postage as Compared to the Cost of Living

Postage rates are apt to appear high. For the general public, this area is heavily bound up with the rise in the cost of living. Over the years 1990 - 1999, prices for food staples such as bread and meat increased by a multiplication factor of about 200, as opposed to from 40 to 50 for annual income. Obviously, this caused an expansion in the share of household income occupied by spending for foodstuffs, and forced a cut in spending for postage for letters and other such items.

Table.44 Comparison of the Cost of Goods (1tg = 100mg)

(Unit: Tg)

	before the collapse of the socialistic system 1990	At present 1999	Multiplication factor
Wages for teachers	750.00	30,000.00 ~ 40,000.00	40.00 53.33
Domestic letter postage	0.60	450.00	750.00
International letter postage	1.60	550.00	343.75
Bread	1.20	240.00	200.00
Meat	7.50	1,500.00	200.00

Source: Prepared by the JICA Study Team.

This impression of costliness is deepened because postage for letters increased by a multiplication factor of about 750 (higher than for staple foods). In addition to these factors, the demand was further reduced by the loss of confidence in the postal service due to incidence of mail item loss or damage.

4.2.2. Complex Postal Rate Schedule

Postal rates are not only high but are also complicated, because they vary with the transportation distance. As a result, post office employees may not be able to give a clear reply to inquiries about rates.

4.2.3. Newspapers and Magazines - Private Demand

As noted above, it could be said that the existing postal network rests on delivery of newspapers and magazines. These items have by far the largest share of the handling volume and also generate high income. However, under the present setup for consignment, the newspaper and magazine companies send their publications to the post offices in a batch. The publications then are apportioned out by address (including PO boxes) based on the data maintained at the post offices and transferred to carriers for delivery. Although notation of addresses on mail items is, properly speaking, the job of the sender, in Mongolia, it is the post office that addresses newspapers and magazines, thereby turning them into mail items. In Japan and other countries, some newspapers and magazines are addressed and sent through the mail, but newspaper delivery is thought of as something separate from mail delivery. Basically, the carrier is given a list of subscribers and corresponding number of newspaper and magazine copies in a batch, and then delivers these copies in the right quantities by following the list. This method would greatly improve the delivery-related work inside the post office. However, delivery by this method would be different from mail delivery. While it would be very beneficial as far as efficiency is concerned, such service would have to be positioned not as postal service but as a new service in newspaper and magazine delivery. In the same way, the delivery network would have to be separate from that for mail.

4.3. The Situation at Post Offices

4.3.1. Post Offices

The 22 post office buildings surveyed in the Aimag centers have floor areas that average 256 square meters and range from 541 square meters at Hovd to 100 square meters at Hentii. Of the 20 post offices that replied to the JICA Study Team questionnaire on this point (the situation being uncertain at two), seven were occupying a single whole building; the other 13 were using only a part of a building.

The number of Soum post offices under the jurisdiction of the Aimag center post office averaged 15 overall and ranged from 25 in Hovsgol to none in Orhon and Baganuur. Three of the Aimag centers have two post offices under their jurisdiction, 14 have one, and four have

none.

A total of 108 vehicles are owned by post offices for transportation between Aimag centers and Soums. Of this total, 102 are in operation. The breakdown by type (with the number of operable vehicles in parentheses) is as follows: 49 Russian minibuses (46), 23 Russian (23), 16 small Russian trucks (14), 5 full-size Russian trucks (5), 2 motorcycles (2), and 13 "unclear" (12). The number of individual vehicles at a single Aimag center averages five overall, with four being operable. The Aimag centers with the most individual vehicles are as follows: Hovsgol, 8 (6); Gobi-Altai, 7 (7); Zavhan, 7 (7), and Hovd, 7 (7).

4.3.2. Counter Facilities and Equipment

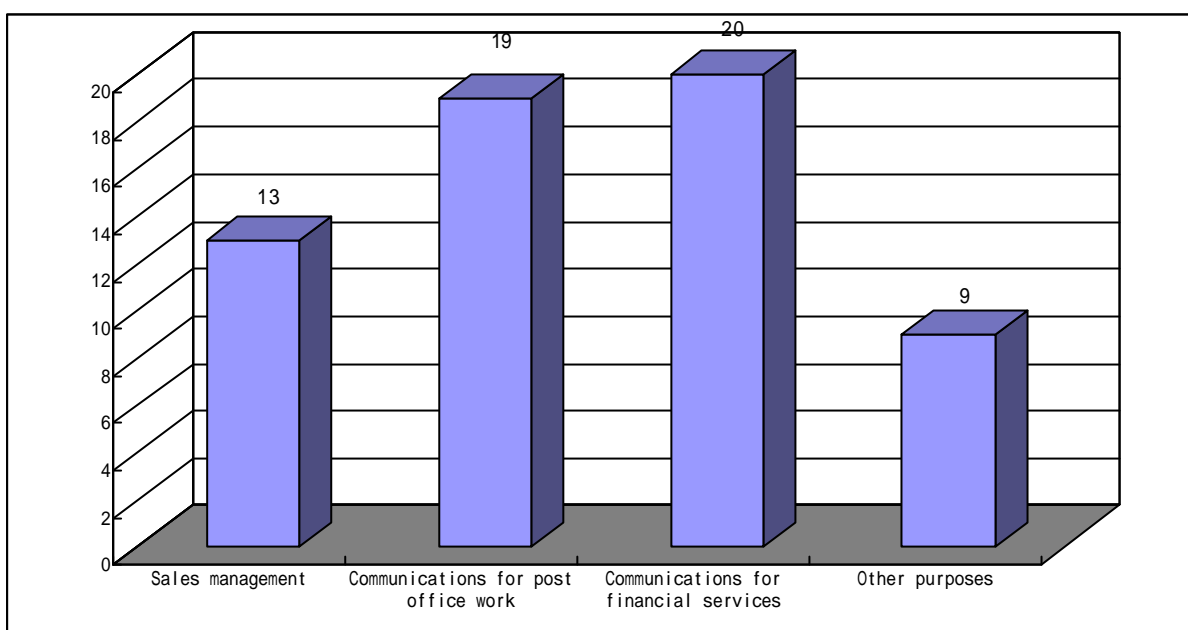
As things now stand, the main delivery destinations for mail in Mongolia are PO boxes. The Aimags have a total of 7,745 PO boxes, of which total 5,868 are under contract (although some responses on this point have not yet been received). Customers waiting for PO box contracts number 1,752 and were found in 17 Aimags. In other Aimags, on the other hand, there are PO boxes that are waiting to be contracted. The overall balance between PO box supply and demand is consequently not good.

There is also great variation in the type of PO boxes. In some cases, they are actual boxes to which the customer holds the key. In others, they are simply spots on a shelf, and the post office employees hand any mail to customers who have come to pick it up. The latter type could not properly be called a PO box given its problems in the aspect of safety and convenience.

With a few exceptions, the assortment of equipment at post offices in Aimag centers includes mail Bags, scales, stamps for canceling, plastic boxes for mail, safes, telephones, fax machines, and personal computers. However, almost all of this equipment is fairly old. Post offices have a lot of mail Bags, but many of them are ripped or otherwise badly worn.

Of the 22 Aimag center post offices surveyed, 17 were installed with personal computers capable of sending e-mail. The most common type of use of personal computers was for communications related to financial services. This was followed in order by communications for post office work and by sales management.

Figure.4-2 Purposes of Personal Computer Use



Source : JICA Study Team

4.3.3. Organization and Staffing - increasing delegation of authority

In the MPC organization, the MPC head office has the main power of decision, but much authority is basically delegated to the heads of the post offices. More specifically, decisions on the posting of all personnel, except for the post office head and the accountant, at the Aimag center and the Soum post offices under its jurisdiction are left to the head of the Aimag center post office. Similarly, although the service assortment is determined in line with instructions from the MPC head office, decisions about whether or not actually to offer incidental services are left largely to the post office head and other personnel on the Aimag side; the MPC head office merely rules on whether or not certain services are allowed.

The personnel working in the Aimag center post offices generally have a high level of skill and education. Many have graduated from universities.

Table 4-5 shows the staffing of Aimag center post offices in each service category. The offices at Orhon and Selenge have financial service staffs of nine and eight, respectively. The Orhon office is also committing seven employees to work in sorting.

**Table.4-5 Number of post office employees in each service category
(in the case of Aimag center post offices)**

	Postal services				Financial services	Sales of goods, etc.
	Counter work	Sorting	Delivery	Remittance		
Arhangai	2	2	0	0	6	0
Bayan-Olgii	1	2	0	2	5	0
Bayanhongor	2	2	5	2	6	2
Bulgan	2	1	6	0	1	1
Gobi-Altai	2	1	6	0	2	0
Govisumber	2	2	2	1	2	0
Dornogovi	2	1	6	2	2	0
Dornod	3	2	6	0	4	0
Dundgovi	1	2	0	0	2	0
Zavhan	2	1	1	0	2	0
Ovorhangai	2	2	1	0	4	0
Omnogovi	2	2	1	1	2	0
Suhbaatar	2	1	0	1	2	0
Selenge	2	2	3	1	8	0
Darhan-Uul	3	2	2	0	3	0
Tov	2	2	1	0	6	2
Uvs	2	2	6	0	2	0
Hovd	2	1	1	1	4	1
Hovsgol	2	1	1	1	1	0
Hentii	2	1	6	0	2	0
Orhon	2	7	2	0	9	1
Baganuur	2	1	2	0	5	0

Note:1. Figures indicate the number of employees committed to each type of work. Zeroes indicate that the service in question is not offered. Dashes indicate the absence of replies.

2. In the Bulgan post office, the same person works the counter and sells goods.

Source : JICA Study Team

According to the results of the questionnaire survey conducted with post offices in Aimag centers, 16 of the 21 post offices had personnel who were specially qualified for work in financial services (remittance, etc.).

Besides the training furnished by the MPC head office, there is training carried out by the Aimag center post offices themselves. Such training was being provided at five of the 20 Aimag center post offices which replied to this question. Generally, the training programs are staged once a year, for two or three days, for employees of Soum-level post offices. There are also seminars held at irregular intervals, depending on the nature of the services. Some Aimag center post offices start classes in April and test employees in May. At the same time, some employees want to receive more in-depth training in certain specialized areas.

The survey also found that, of the 22 responding post offices, 20 were applying clear

categories in post office work. In addition, 21 indicated that they made accurate ratings of the degree of employee contribution to the services and of the business result, and 20, that the ratings were reflected in wages. The findings for the stipulation of job categories and rating systems have a fairly high reliability. It must be borne in mind, however, that the survey was implemented in the name of the MPC.

4.4. Institutional Issues on Postal Services and the MPC

MPC is a unique entity in the sense that it is a 100% state owned company. It has similarities to a normal commercial entity, yet, it is under the strong auspices of MOI and SPC for various aspects of its operation. It also provides services that are somewhat similar to commercial firms (such as sales of securities and providing transportation services) and yet it has a goal of providing a public service, namely mail. Its recent function as a banking service provider is also somewhat commercial and somewhat public, in the sense that in many area, Post office is the only place around to provide financial service.

Therefore, it is important to understand the legal constraint and the scope of activity within the current system that MPC faces. Also important are non-legal regulations and its position among other entities is also important. This section clarifies such institutional issues concerning the postal system in general and the MPC.

4.4.1. Positioning of Postal Services and the MPC

In effect, the MPC virtually monopolizes postal services in Mongolia. However, no monopoly status has been granted by any legislation. On the contrary, the legislation already provides room for competition in the field of postal. Moreover, DHL and other delivery companies have obtained licenses for participation in the high-return portions of the postal business.

The MPC provides postal services in accordance with an agreement with the Ministry of the Infrastructure (MOI). It is governed by the State Property Law, the Mongolian Corporate Law, and the Telecommunications Law. As an organization, it is a company that is fully owned by the State Property Committee (SPC). The SPC organizes a "five-person committee" together with the Ministry of Finance (MOF) and other agencies, which controls almost all facets of the MPC operation. In its daily operations, the MPC is under the supervision of the MOI, which supervises all forms telecommunications. MOI regulates licensing, investment and buildings of MPC. Within the MOI, the Strategic Planning & Integrated Policy and Communication Regulatory Commission have great authority over matters such as the

determination of overall policy.

The MPC therefore must coordinate things with numerous institutions in all kinds of areas. This makes it difficult for the MPC to make any decisions concerning management, and prevents them from acting quickly.

4.4.2. Competition and the MPC

In Mongolia, postal services are governed by the Telecommunications Law, Article 16, which concerns the postal network. The Article defines postal items as items which are postmarked by a post office and sent through the postal system. However, the term "postal system" does not refer exclusively to the MPC network; as described below, there are already other enterprises that engage in business in a postal network.

The enterprises that offers postal services must obtain a license from the MOI, as stipulated by the Telecommunications Law. Article 16 states that activities on a postal network is under restrictions from the Mongolian government, and to have shipment schedules which are in conformance with international agreements as well as national and local regulations.

The MPC is a company that was licensed by the MOI, to provide postal services. No. 28 special license extended to the MPC by the MOI (properly speaking, by the aforementioned Commission) concerning postal business and services, Paragraph 1, Article 4, states the rights and obligations of the licensee, and explicitly provides for MPC monopolization of the following two items as long as MPC is not fully privatized.

- Use of the basic postal network
- Printing of stamps and deeds, and sales of the same in domestic and foreign markets

Nevertheless, in the same agreement, Section of Paragraph 2, Article 3 (on the obligations of the coordinating committee) makes certain provisions for the postal field, including a sound environment of fair competition, limitation of monopolistic powers, and resolution of problems among institutions and companies concluding agreements. On the basis of this section, the MOI has already granted licenses for postal services to certain enterprises other than the MPC, as follows.

- **The Selenge Group: services in international express mail within Ulaanbaatar**
- **Mongolian Air Trans: services in express mail throughout Mongolia**
- **DHL: services in international express mail within Mongolia**

These enterprises are basically engaged in "cream-skimming," i.e., doing business in only

the profitable portions of postal services. For the MPC, which must provide service in areas with poor profitability, this is a big problem.

Table.4-6 Licensed Service Scope and Postal Business of DHL, the Selenge Group, and Mongolian Air Trans

Company	Licensed service scope	Outline
The Selenge Group	International express mail service within Ulaanbaatar	The licensee may provide the following services using the postal network (Section 1, Paragraph 1, Article 4) -- Acceptance of subscriptions/reservations for and delivery of foreign and domestic newspapers, magazines, and books -- Provision of international express mail service within Ulaanbaatar -- In commencing such service, the licensee shall conclude a written agreement (contract) with the MPC and users, and submit a report on the service implementation (Section 4, Paragraph 1, Article 4). - License term: from 18 November 1999 to 18 November 2000
Mongolian Air Trans	Express mail service throughout Mongolia	- Provision of express mail service throughout Mongolia using the postal network (Section 1, Paragraph 1, Article 4) - License term: from 10 April 1999 to 10 April 2000
DHL	International express mail service within Mongolia	- The type of service is the same as for the other companies; the company has obtained a confirmation certificate for delivery within Ulaanbaatar, but not in the Aimags (according to the company). - License term: from 15 October 1997 to 15 October 2002

Note: Prepared by the JICA Study Team based on the company contracts.

4.4.3. Outline of the MPC's Business

This section outlines the following two items: 1) the postal service licensing agreement concluded by the MPC with the MOI, and 2) the MPC business articles submitted to and approved by the SPC.

(1) Postal service licensing agreement concluded by the MPC with the MOI

The MPC has concluded an agreement for postal business and services in the form of a special license issued by the MOI. The rights and obligations of the party obtaining the license can be summarized as follows: "as a licensee specified in Section 1, Paragraph 1, Article 4 of the special license, the MPC is authorized to expand the basic postal network in Mongolia and the conventional postal services, as well as to promote technical advancement and develop new services." The types of service involved are as follows.

A. Conventional services

- Acceptance, transmission, and delivery of letters, parcels, etc.
- Design and printing of stamps and stocks, and sales of the same in domestic and foreign markets
- PO box service for individuals
- Express mail
- International and domestic telephone service based on contracts with telecommunications companies
- Transport of mail, cargo, and passengers on the Aimag and Soum levels in accordance with agreements with concerned authorities
- Transmission and sales of products in response to orders from consumers
- Printing and sales of parcel containers, stamp albums, letter stationery, slips, and notebooks

B. New services

- Personal savings, remittance, and insurance based on approval of the concerned authorities
- Door-to-door delivery of pensions and allowances, and acceptance of payments of personal taxes and collection of handling fees for the same
- Provision of information on items such as the addresses of national institutions and companies, business hours, service assortment, and tax schedules
- E-mail service

It can be seen that the stated scope of services is extremely broad.

(2) MPC business articles submitted to the SPC

In connection with the SPC, the MPC determined articles for its business, which is defined as consisting of the following items.

- All services related to the acceptance, sorting, and delivery of official letters and parcels
- Construction of e-mail networks for public use, and provision of services in e-mail, facsimile transmission, and other such communications
- Provision of order-based services for, and performance of related business mediation among, consumers, manufacturers, and suppliers
- Ordering and sales of periodical newspapers and magazines, both domestic and foreign
- Savings and payout services for individuals and companies, delivery of pensions and allowances to private homes, acceptance of tax payments and collection of handling fees for the same, and performance of other administrative services
- Transport of passengers within the scope of mail runs and capacity of vehicles owned by the company
- Commencement of pager service, and repair of radio and telephone equipment, in the Aimags

It is clear from the above that the MPC is already permitted to engage in an extremely wide range of services.

4.5. MPC Related Legislation

The main pieces of legislation related to the MPC are the Telecommunications Law and the Property Law. There is no "Postal Services Law" or other such ad-hoc legislation dealing only with postal services. Originally, the same institution was in charge of both posts and telecommunications, and it made sense for both to be regulated under a single Telecommunications Law. Subsequently, however, the telecommunications corporation (Mongolia Telecom) was detached from the MPC and set up as a separate joint-stock company. Therefore, the legislative arrangement could not be regarded as matching the current situation, and some unclear areas have surfaced.

4.5.1. The Telecommunications Law

As noted above, postal services are defined in the context of the Telecommunications Law, and licenses for them are issued in accordance with the stipulations of this law. Nevertheless, the concept of postal services has become extremely difficult to understand because of this handling in the context of telecommunications. This is exemplified by the following terms for cases in which postal service licenses are to be issued.

- 1) the installation and operation of a core communications network;
- 2) the provision of communications to the public through a communications network set up for internal purposes;
- 3) the manufacture of technical and electrical equipment for information and communications; and
- 4) the manufacture of postal securities.

With the exception of 4), these terms may be applied without distinction between telecommunications and posts. Moreover, there are no particular stipulations regarding the type of entity to be issued the license; it apparently makes no difference whether it is a public institution or private enterprise, as follows.

Paragraph 2. If the requirements provided by legislation are satisfied, a license shall be issued to: 1) a business entity, organization, or citizen of Mongolia; or 2) a business entity with foreign investment incorporated under the laws of Mongolia.

Paragraph 3 of Article 8 also contains a provision recognizing the issuance of licenses to foreign companies. These terms provide footing for entry by domestic and foreign firms into the high-return fields, as was described in the preceding section.

4.5.2. The Property Law

- (1) Authority of the MPC

The MPC is a self-financing state-owned enterprise of the type stipulated in Paragraph 2, Article 15 of the Property Law. As an enterprise of this type, it is endowed with the authority to carry out the prescribed operations by making use of state-owned property put at its disposal, as provided for in Article 16 of the same law.

Article 15. Classification of state-owned enterprises

A self-financing enterprise is a legal person independently entering into civil circulation, based on the self-financing principle and on given state property items.

Article 16. Authority of property items of self-financing state-owned enterprises

1. A self-financing enterprise shall have the following rights and duties regarding property items:
 - 1) to own and use given immovable property in accordance with its activity Charter;
 - 2) to dispose of basic capital within the framework of authority indicated in this law;
 - 3) to keep, use, and dispose of part of manufactured production in accordance with the limits issued by an empowered body; and
 - 4) to independently sell own production.

2. The basic capital of self-financing enterprises shall be transferred, sold, or liquidated only upon the permission of the State Property Committee.

The administration of the MPC is executed by a director who is appointed by the State Property Committee (SPC) based on an agreement with the competent ministry (the MOI in the case of the MPC). In accordance with Article 19 of the Property Law, the director concludes a contract with the SPC for this administration.

Article 19. Contracting with the director of the administration of self-financing enterprises

- 1 A contract shall be concluded upon appointment of the director of a self-financing enterprise.

The contract shall reflect the following conditions:

- 1) rights and duties indicated in this law;
- 2) level of economic efficiency to be reached;
- 3) instruction on technological renewal;
- 4) measures to be taken in the fields of labor security and social policy;
- 5) management policy;
- 6) director's and government's commitments on discharge of their duties;
- 7) assets and the amount allowed to the managing enterprise by the owner;
- 8) wages, salaries, and remuneration regulated by this law;
- 9) work conditions (car, communication, etc.);
- 10) assets (property) responsibility stated in this law;
- 11) regulation for the evaluation of obligation fulfillment and the period of the same;

12) and other legitimate conditions;

2. The director may be dismissed for non-fulfillment of his duties as stated in the contract, unless there is some legitimate excuse.

Property law provides for only general authority regarding the use of state property; there are no specific stipulations on the scope of operations.

The details of operations are presumably laid down in the contract, but this area has not yet been studied.

Paragraph 1 of Article 20 (Assets rights and obligations of the director) could be interpreted as indicating that the director has the authority to determine the scope of operations. However, Paragraph 2 states that other items can be set down in the contract described in Article 19 in consideration of the "special character of activity of a particular enterprise." As such, it appears that the scope of operations and the purpose of an enterprise are determined in contracting.

Article 20. Assets rights and obligations of the director

1. The director possesses the following rights and obligations :

- 1) to represent a concerned enterprise without a proxy and grant to others;
- 2) to dispose of the assets within his terms of reference stated in the law or the contract on behalf of the enterprise;
- 3) to prepare production and financial plans for the enterprise, obtain the necessary approval of the competent authority, and provide requisite conditions for execution;
- 4) to form an administrative structure for the enterprise, appoint and dismiss officials, and fix salaries and wages in accordance with the Scheme Fund instituted by the competent authority;
- 5) to determine proprietary information pertaining to production and technology for the enterprise;
- 6) to approve and observe internal labor regulations in conformance with labor law and legislation;
- 7) to keep books and records in accordance with legal accounting rules, disclose the balance sheet and statistical information, and be responsible for their truthfulness;
- 8) to make appeals on matters in dispute before a court of law on behalf of the enterprise;
- 9) to set prices and tariffs for the goods and services except those fixed by the government;
- 10) to establish, within his competence, relevant orders and rules to be followed by the

enterprise in order to implement the legislation and government decisions; and
11) other rights and duties stated in the law.

2. In addition to the rights and obligations stated in this law, other rights and obligations assigned to the director in consideration of the specific character of activity of a particular enterprise can be stated in the contract provided for in Article 19 of this law.

However, even if special provisions are made in the contract, the MPC is essentially on the same footing as other state enterprises in terms of legal position; it could not be said to have a special character solidly established in law as an enterprise performing state work.

(2) Authority of the SPC

The SPC is an organization within the main government structure whose duties are to own and use items of state property. It has a wide range of powers set forth in Article 11.

Article 11. State Property Committee's powers

1. The State Property Committee shall have the following powers:
 - 1) to organize work on improvement of the ownership, use, storage, and protection of items of state property, and supervise implementation;
 - 2) to organize and conduct work on preliminary registration, inventory, issuance of balance reports, and supervision of the use of items of state property, and to implement measures to improve efficiency;
 - 3) to stipulate, with the concerned organizations, standards of planning, distribution of income and profit, and salary standards to be followed by legal persons with state property;
 - 4) to organize the work of privatization in accordance with the list adopted by the government and to report on fulfillment;
 - 5) to render professional and methodological assistance for management of local property;
 - 6) to appoint state property representatives to legal persons with state property and supervise their activity;
 - 7) to supply necessary items to government bodies on the order basis;
 - 8) to supervise and confirm proposals of legal persons with state property, to cut from the balance their immovable property and movable property related to basic capital, to supervise and confirm orders, and to make decisions on purchasing new items; and
 - 9) other kinds of power indicated in the law.

The Property Law contains detailed regulations regarding the SPC's authority to supervise the activities of state enterprises in aspects such as staffing and finances, and also sets forth standards for accounting and auditing.

(3) Authority of Ministries

Ministries have the authority to guide and supervise the operation of state enterprises in accordance with Article 12.

Article 12. Authority of ministries and special bodies on state property

1. Ministries and other special bodies shall maintain professional management of legal persons with state property in the fields and framework concerned, and prepare and submit proposals on order, planning, investment, and other necessary matters.
2. Central administrative bodies shall be responsible for items of legal persons with state property that manufacture products for maintaining state security or for national defense, for which special legislation may be enacted.

4.6. The MPC and Related Institutions

In accordance with the stipulations of the Property Law, the MPC is under the supervision of the SPC and MOI. This section outlines this organizational relationship.

4.6.1. The State Property Committee (SPC)

The State Property Committee (SPC) has a total of 150 members. All types of state enterprises are under its supervision. There are about 30 state enterprises, some of the main ones being Erdenet, MIAT, NIC, and Mongolia Telecom. For each enterprise, a body known as a "five-person committee" is organized for discussion of major issues, with decisions subject to the approval of the SPC. Through this five-person committee, the SPC exercises powerful control over the state enterprises, not only in the aspect of managing their assets as state property, but also in those of operation, earnings, staffing, and auditing.

With the authority to determine the MPC's plans and appoint its president, the SPC is the sole owner (shareholder) of the MPC (as a state enterprise) and the supreme decision-making organ in its management hierarchy. According to Article 75 of the Corporation Law, the SPC is to make major decisions for the MPC. For this reason, a five-person committee has been

organized for the MPC for deliberation and decision on major management issues, appointment of the president, etc. This committee also examines and deliberates on all major subjects of in-house study by the MPC, such as business plans, investment plans, organization, and staffing. Its major areas of authority are as follows.

- Determination of the master plans for MPC business
- Determination and supervision of the organization, system, and yearly budget
- Determination of appointments to the post of MPC president and other high-ranking executives
- Approval of financial statements and budgets
- Inspection of the propriety of prices in the purchase and sale of assets
- Determination of dividends
- Approval of the establishment and relocation of post offices and local offices

The MPC leases postal facilities from the Post and Telecommunications Authority of Mongolia (PTA), which is under the MOI, and the final deliberation on leasing decisions is also left to this five-person committee. Similarly, MPC purchase or sale of assets such as automobiles is regarded as the purchase or sale of state property, and the power of decision therefore resides with the five-person committee in the SPC. In other words, in purchasing facilities, the MPC first makes application to the PTA, and the final decision is made by the SPC's five-person committee for the MPC.

4.6.2. Ministry of Infrastructure (MOI)

The national administrative authority for postal services is the Ministry of Infrastructure (MOI). The aforementioned five-person committee now includes two representatives of the MOI.

As a division of the MOI, the PTA holds budget for investment mainly in communications services and but also for postal services. In addition, a fairly large portion of the buildings and other postal facilities used by the MPC are owned by the PTA; officially, the MPC is leasing them. The MPC must also consult with the PTA in purchase of facilities and assets.

Because of these complications, the MPC currently has almost no management autonomy. Its highest decision-making organ is the five-person committee in the SPC, which makes all major determinations in the areas of management, staffing, funding, and inspection. And in the aspect of postal service administration, matters are decided by the MOI. As such, even if proposals were prepared in the MPC, it would take considerable time and trouble to have them

approved and executed, due to the complex procedural requirements.

4.7. Finance

4.7.1. Budget and Expenses

The MPC is state-owned but not state-run. Consequently, it does not receive budget appropriations from the national treasury; it is basically supposed to be self-financing. However, it asks the MOI to purchase various types of large-scale assets, which it then leases. This can be practically considered as a form of subsidization. Also, the rents that are charged by the MOI and Mongolia Telecom for various properties occupied by post offices are much lower than the going rates in the market, which shall be a positive advantage for MPC.

4.7.2. Taxes

The MPC receives absolutely no preferential treatment in taxation. It pays a 40-percent corporation tax as well as various fixed assets taxes and other taxes. In Mongolia, it is becoming difficult to collect taxes from ordinary companies and the public, and the country must rely on tax revenues from state-run and -owned companies for a large share of the national finances.

4.7.3. Dividends

The MPC pays dividends to the SPC as its shareholder. Also, at present, the government is considering a policy to extract substantial portion of the MPC's operating profit.

4.8. Other Topics

4.8.1. Corporatization and Privatization

At present, the MPC is a completely state-owned corporation. A 1999 amendment of the Corporation Law paved the way for its conversion into a joint-stock company. If it became a joint-stock company, the MPC would be able to sell stock to buyers in general (including foreign parties) and also to be privatized. However, there are no particular plans for privatization of the MPC at present.

4.8.2. Proposal for Partial Amendment of the Telecommunications Law

In 1997, the MOI began negotiating with the MOF, Ministry of Justice (MOJ), and other concerned agencies toward the goal of obtaining special permission for the MPC to offer services in the categories of deposits, foreign exchange, and financial payments. It is known that such negotiations took place in both 1997 and 1998.

MOJ and MOF does recognize the benefits of providing banking services at MPC, but also are concerned about the regulatory issues. It is likely that this line of discussion will continue.