

Chapter 5

Field Survey Results

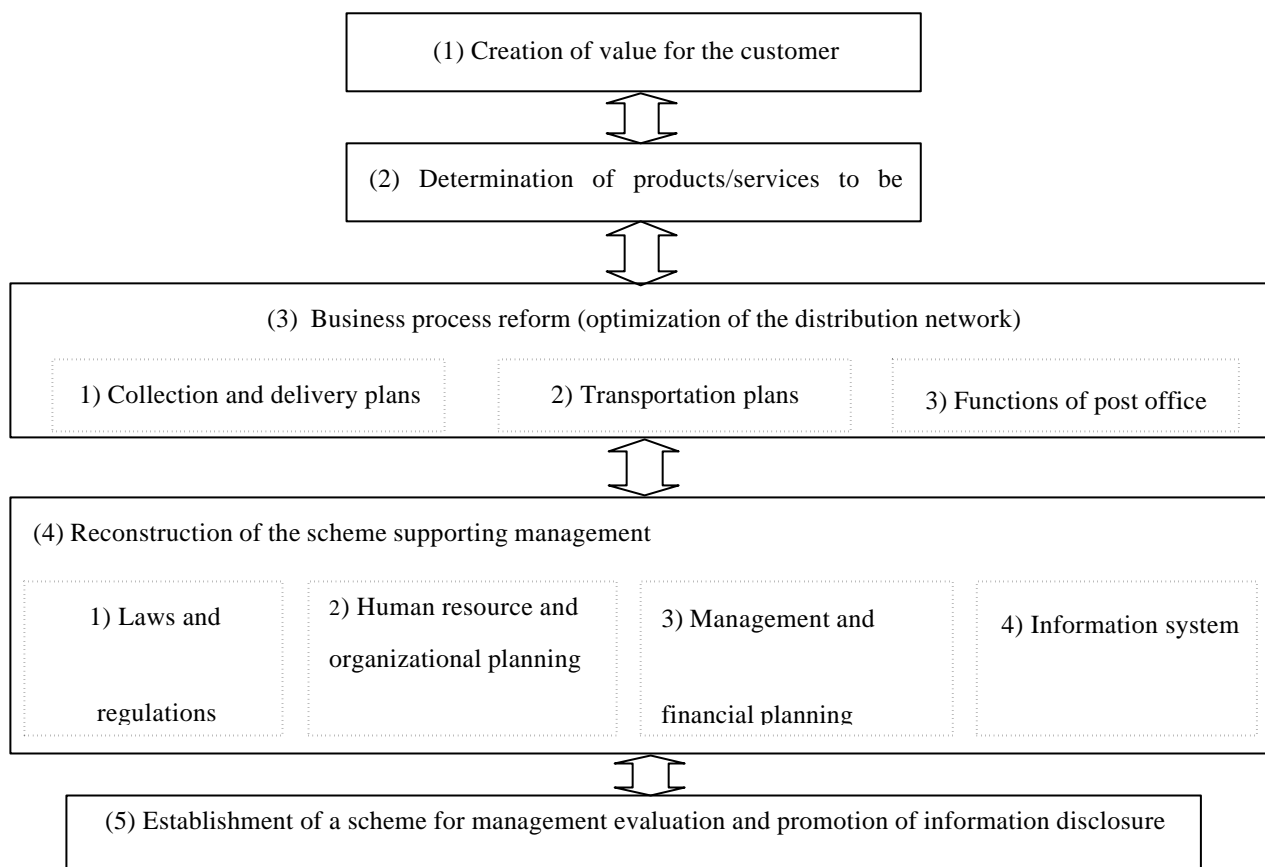
5. Field Survey Results

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.

Likewise, in preparing the master plan for postal services in Mongolia, which is now in transition to a market economy, it is important to make sure that the reconstruction of services is grounded in customer needs. This is, at the same time, in agreement with the MPC's perception; while describing a wide range of component plans, its medium-term plan emphasizes the necessity of identifying specific directions through a survey of customer needs.

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.

At the current level of service, MPC will face difficulties in attracting new business, even when the communication needs of the country is likely to increase dramatically. It is mandatory for MPC to take necessary actions for improvement in a short term (3-4 years), and continue on with further self-innovation in the medium/long term.

The following sections discuss the basic framework for providing service improvement and new services. JICA Study team shall provide a more detailed plan that would be coherent with other aspect of MPC's future development.

5.1.1. Improvement of Reliability and Speed

The following summarizes the complaints against MPC services in order to determine areas of improvement. It should be noted that there was also significant amount of praise for the current MPC services and staff efforts.

Reliability and speed were commented as follows;

- Mail was lost or not delivered
- Mail was delivered very late
- Mail was damaged (please handle with care)
- Mail was opened (Secrecy of communication is not secured)
- Staffs attitude was very bad
- Staff should be professional (poor knowledge about services)

The following sections discuss the general principle for improvements of the above points.

(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

(1) Classification and Promotion of Postal Services

Customer voices indicated that services offered by MPC were not easy to understand. Many of the services remained unknown to many customers. The postage system was pointed out to be overly complicated and expensive. In some cases, it was pointed out that the staffs at the post offices themselves were not quite sure about the various services, giving out wrong information. It is necessary to provide simplified and understandable mail classifications and postage system.

(2) Reorganizing the Postage Rate

Numerous comments were given on the expensiveness of the postage. Postage should be considered in terms of comparative advantage of the postal services. At the moment, letters are slow, unreliable, indirect and also expensive compared to telephones, especially in Ulaanbaatar. The situation is similar in the rural areas. Internationally, the advantage of mail is that it can send large amount of information in a document form that can be read at the recipients' convenience, cheaply. A letter can contain the equivalent of a 30 minutes conversation on the phone, although it may take more time. It may be better to reconsider pricing so that it would reflect these comparative advantages of mail. This should be essential in increasing the mail volume.

(3) Classification of Post Office Services

Various services are provided at the post office including postal, financial, telecom, retail, government-related services, etc. It is necessary to classify those services, so that each post office can decide on which services to be provided. Obviously, some services need to be provided at all post offices, but some services will have few demands in certain areas. In each of the services, there should be a hierarchy that would facilitate the staffs themselves. This will in turn help the staffs to be more knowledgeable about the services offered, and thus improve the service provided to the customers.

Also, flexibility of opening hours by post office, and opening new post offices or closing of existing ones need to be considered.

(4) Improvement of Related Facilities

Customers have commented on the need to renovate the post offices, improve cleanness of customer halls and improve transportation means, among others. These issues need to be considered along with the improvement of reliability/speed and service quality as well as the mail handling improvements and transportation improvements that are discussed later in 5.4. and 5.5., respectively.

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. Ex). regular customer survey, audit of business system, etc.

5.2. New Services

Customer needs were analyzed precisely with data, however, there are difficulties in understanding activated needs because of the following questions;

- whether customers really use with fees
- whether such needs were potential or actual

Also, there were many voices claiming problems in reliability of MPC services, and many people also checked “No Answer” in each question.

However, 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

Drastically increasing the mail volume in Ulaanbaatar may pose a challenge. Surveys indicate that most of the current users of postal services use it simply to receive their newspapers/magazines. However, businesses use mails for invoice, marketing materials, products, while government and international organizations use for official documents. Currently, most of these companies and organizations send their staffs to post office in order to meet their postal needs.

However, the current volume is too low to create efficiencies in the operation. A positive feedback cycle between service improvements and demand increase must be established. Various other methods of promotion need to be considered. The introduction of home/office delivery may serve as a value creating service that may induce more use of mail. Other services that target the business market can be combined with such delivery scheme.

For individuals, the use of P.O. Boxes will continue. How to increase the number of P.O. Boxes, how to increase security in its use should be considered. The introduction of home/office delivery and the better use of P.O. Box need to be considered in parallel.

(2) Volume User Service

Compared to individuals, companies have much higher needs for various services that MPC can offer. Such services include sending or receiving invoice, contract/agreement, marketing materials, products, which require much higher security and reliability than the current service. Government and international organizations also have needs of sending or receiving official documents, invoice, contract/agreement, product. In case of Japan, approximately 80% of the total mail volume is sent from various companies and organizations to numerous individuals. 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.

MPC must implement new methods to cope with this competition. One way is to improve the EMS service itself. The current EMS of MPC does not offer tracking of parcels, which is a glaring omission compared to the competitions. This should be introduced and tied in with the international EMS network.

Also, considering the fact that much of the EMS users are businesses, new services that tie in the EMS with services that are mentioned in (1) and (2) should create higher value for customers, while connection to international postal EMS services is necessary in the medium and long term.

Promotion and PR (public relations) are another issues here. Currently many customers don't know EMS. Since the need for EMS should differ domestically and internationally, it is necessary to plan EMS as new services for two models; (a) between Ulaanbaatar and foreign countries, (b) between Ulaanbaatar and Aimags.

(4) Remittance and Payment Service

The result of the customer need survey indicates that there are high expectation to sending/receiving money and payments. Other foreign countries provide remittance/payment services at post offices, including international postal orders and remittances. MPC currently provide various domestic financial services through MPB. This aspect of MPC services should be strengthened to meet customer demand, including the possibility of international remittances and international postal orders.

(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.

Mail order services are becoming popular with some post offices, often with good results. The operation is currently undertaken in cooperation with BSB and NOMIN. This is an interesting business area, but the business procedures need to be clarified or re-built. Some post

offices also confuse mail order services with goods-sale (retail) services, currently. Clear definition of services must be introduced, with proper staff training.

Fax-mail (the so-called LETAX service) is a new service that has been introduced at several post offices during the past 2 years. On a similar angle, the so-called “e-letter” that combines e-mail service with a print out & delivery services is a likely option for a new service. Fax-mail will require an individual phone call for each transaction, but e-letter system would not. Currently, all the Aimag offices are equipped with a computer system that exchanges electronic data with the head quarters twice a day. This network is expanding to Soum level, along with the introduction of financial services. It would be feasible to send all the e-mail associated with e-letter along with this exchange, which should incur very little additional communication cost, which should enable it to be a very convenient and low cost service.

Other services potentially provided at post offices include financial, telecommunications, retail, government services, 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.

Besides the above, the lack of door-to-door delivery was pointed out as a problem in the preliminary study. Nevertheless, the field surveys revealed that door-to-door delivery is actually being practiced in many areas. Most of them, however, are more or less informal practices or additional services. There is no work procedure to ensure door to door delivery, and it is not officially stated to be part of the system.

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.

When mail items for deposit are handed to the mailmen, they are taken back to the post office and undergo incoming procedures at the acceptance counter. Then, they are sent to the Central Post Office with the regular dispatch of mail for delivery; there is no mail dispatch only for collection.

As such, there is no collection work of the type in Japan's postal system.

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. (Even in the case of official agencies, which are thought to be capable of generating a considerable volume of mail, days on which not a single item is dispatched or delivered are not rare.)

Mail addressed to private homes is extremely rare. The P.O. boxes are used for regular

newspaper subscription; it is considered that nobody used PO boxes exclusively for mail.

Interviews at several post offices revealed that mails addressed to a person with a PO box are usually transferred to that box. If a mail addressed to someone without a P.O.box, the person will be asked through telephone or word of mouth to pick up the item at the post office, or it will be delivered to the address. There is no extra home delivery charge for ordinary letters. The volume of mail delivered to private houses is extremely low and does not impede the routine work. It would not pose any particular problems even if it increased somewhat.

As for the situation in the rural area, there is at least one mail dispatch per week from the "Aimag" to the "Soum" level. In several of the "Soums" surveyed so far, the arriving mail items are handled in the same way as in the post offices in Ulaanbaatar. Personnel indicated that there was almost no arrival of items requiring transmission from "Soums" to "Bags." It has not yet been confirmed whether or not there are problems in this aspect.

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 second mail arrived at 1:30 PM, and consisted of 54 items of registered mail and 42 items of ordinary mail. It took a single employee about one hour to process this mail. 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.

In the first (morning) mail, a different employee (one) performs the work of sorting the types and number of newspapers for each address in accordance with a list prepared in advance. Mails for each address, if any, will be taken along with the papers. The workspace consists of a single small desk and the floor around it. Newspapers arriving with the morning mail are a mixture of various types, including weekly and quarterly papers as well as the five daily papers. Their date of publication varies. The employee will sort these papers to each subscriber (a single person usually subscribes to several papers and periodicals) according to a list, bundle them, and note the address on the top.

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.

The mailmen want to make deliveries to major addresses at least before the start of work at

9:00 AM, and come in every now and then to get some more newspapers as the bundling proceeds in order to hasten their preparations for delivery.

(2) Delivery Operations

The status of delivery operations was examined by accompanying a male carrier on delivery on 7 April. The carrier left at 8:50 AM carrying two cloth Bags filled with mail and newspapers, one in each hand. (The Bags, measured about 40 centimeters in width and 50 centimeters in length, were of the sort generally used for shopping. They held mainly newspapers.)

The delivery destinations were seven buildings housing government offices or the equivalent and institutions such as banks. After entering the building, the carrier made deliveries to individual sections, in the same way as in Japan.

Registered mail was transferred after having the person in charge at the address sign on the appropriate place of the notebook page containing the registration entry. While this is standard procedure for registered mail, the person in charge was also asked to confirm the number of each type of ordinary mail and newspapers delivered at the same time, and to sign the notebook page containing a registration entry for this number. This took considerable time; the delivery in question required about an hour and 20 minutes. (The delivery destinations were the city hall on the northern side of the post office and buildings located in a radius of only about 200 meters to the west of city hall.)

The accompanying member of the JICA study team was told that the carrier would later depart on another delivery trip to a district more distant from the post office.

The post office has two other (female) carriers, each delivering to different districts. One of them was putting mail into a Bag of the same kind as that carried by the male carrier, but the other was using a large shopping cart.

(3) Collection Operations

The carriers also perform acceptance (collection) work during delivery. They accept any mail for deposit at the time of delivery and, upon their return to the post office, pass it to the counter personnel for formal acceptance processing. One place visited during delivery that day was a section for collection and management of official documents and mail, but it had no mail for deposit at that time. It was reported that carriers are ordinarily given almost no mail during the morning delivery; any mail is usually passed to carriers during the afternoon delivery.)

It might be assumed that mail is prepared and dispatched once the day's work is over, and that documents processed the day before are deposited at the time of the morning delivery. In reality, however, the general practice is to set a deadline for preparing documents based on the

collection time and to get mail items ready for dispatch by the time of the completion of the morning's work.

5.3.5. Handling in the Ulaanbaatar Central Post Office

(1) Acceptance of Mail Bags, etc.

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 and is about 1.5 meters wide.

The workspace (the room for dispatch and arrival operations) measures about 55 square meters (10 meters by 5.5 meters). It is dim, because it is illuminated by only four fluorescent lamps (each with two 40-watt bulbs) built into the ceiling. The place where the lift is installed is at the end of a corridor about two meters wide and eight meters long leading to the building hallway. The conveyor takes up over half of the width of this corridor, which is lit by a single bare bulb hanging from the ceiling.

The equipment installed for operations in this space consists of two belt conveyors (for mail Bags, one 5 meters long and the other 8 meters long) and one lift (for mail Bags, with a capacity of 100 kilograms).

Normally, two employees perform this work in two shifts, one from 7:00 AM to 2:00 PM and the other from 2:00 PM to 9:00 PM.

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.

(2) Processing of Letter-Post Items

1) Outline of the Postal Operation Room

The postal operation room on the second floor is divided into three rooms adjacent to each other in a row.

- Room for processing arriving domestic mail
 - Area: about 16 square meters (5.5 X 3)
 - Number of employees: two
 - Work hours: 9:00 AM - 6:00 PM
 - Equipment: one belt conveyor (25 centimeters wide) and two cancelling machines (one of which was out of order)
- Room for processing arriving international mail
 - Area: about 22 square meters (5.5 X 4)
 - Number of employees: two
 - Work hours: 9:00 AM - 6:00 PM
- Dispatch operation room
 - Area: about 88 square meters (5.5 X 16)
 - Number of employees: seven
 - Work hours: 9:00 AM - 6:00 PM
 - Equipment: one computer, two scales (one for mail Bags and one for foreign mail), and one bundling machine

These three rooms are linked by a single belt conveyor.

2) Operations in the Room for Processing Arriving Domestic Mail and Room for Processing Arriving International Mail

The sequence of operations is as follows.

- Confirmation that the mail Bag has been properly sealed, and opening of the mail Bag
- Check of the mail items contained against the invoice
 - Registered mail: registration number, address, type (public/private)
 - Ordinary mail: number in each category of address (Aimag/foreign country)
- Post marking of the arrival (routing) date on the mail items
- Sorting of the registered and ordinary mail items based on three address classes (within Ulaanbaatar, "Aimags," and PO boxes), and transmission of the items in the first two classes to the dispatch operation room via the belt conveyor.

3) Operations in the Dispatch Operation Room

In this room, the mail items transmitted from the aforementioned two rooms are immediately sorted for dispatch. The sorting operation applies three address categories: "Aimags," within Ulaanbaatar, and other countries.

For mail addressed to points within Ulaanbaatar, two mail Bags are prepared at around 12:00 noon and at the end of the working day, in correspondence with the dispatch mail departures twice a day. For mail in the other address categories, mail Bags are prepared once every two or three days, in correspondence with the dispatch mail departures.

The registered mail items that have already been sorted are noted on the invoice when the sorting is finished, but are left in the sorting case along with the completed invoice until the time of dispatch arrives. Items sorted afterward are added to the invoice, which is finally closed at the time of dispatch.

The room is equipped with a single computer used for input of the address numbers, etc., of registered mail based on the completed dispatch bills. According to the personnel, the computer was originally installed for response in the event of reports of non-arrival, and is now used only for records of registered mail because the machine is broken.

5.3.6. Handling at Post Offices in Other "Aimags"

(1) Processing of Delivery Mail, etc.

After opening the mail Bags transmitted from the Central Post Office in Ulaanbaatar, 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, entrust it to a party traveling in the vicinity of the addressee for delivery, or make a delivery themselves.

(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.

Districts of "gers" (tents; also known as "yurts") are reportedly not clearly divided into blocks. Information on the situation in such districts was obtained from the No. 30 Post Office, whose service area is a community of "gers" in Yarmag, on the outskirts of Ulaanbaatar. Personnel said that the district has a population of about 20,000 with approximately 5,000 households, and is divided into five blocks. They also said that the roads in the district were all named and numbered which were displayed at entrances. A walk along a street lined with "gers" revealed that there were indeed series of numbers displayed at entrances, which were located at intervals of 10 - 20 meters (although some of the numbers were fading). Inside, the area was partitioned into blocks measuring 200 - 300 square meters, each containing from one to three "gers" or buildings. In some cases, the blocks afford access from both the front and the rear. The system could be considered much more orderly than that of the lot numbers in housing tracts resulting from haphazard development projects in Japan, and is by no means impeding the implementation of door-to-door delivery.

This view was also confirmed by a post office personnel. They stated that mail could be delivered if it bore an indication of the block name, street name, and entrance number. It was also mentioned that, if there is at least a clear indication of the block, the addressee could be determined by asking. They actually use this method to identify the addressee and transfer the mail when items with incomplete addresses arrive. Similar views were expressed by several other personnel in various post offices.

According to a managerial staff of MPC, city halls, police, hospitals, post offices, and other institutions collaborated in a study for introducing a house numbering system in 1997, but no action has been taken. The current situation does not pose any particular problems in the apartment building districts. In the "ger" districts, names are affixed to the streets, and numbers, to blocks at appropriate intervals. However, the blocks can be entered or exited from the front

or the rear, and people can partition yard space as they like to put up additional 'gers.' The numbering system is consequently disrupted and ceasing to match the actual situation.

Through the counterpart, the JICA study team is trying to make contact with city officials to learn about the particulars of the approach to introduction of a house numbering system, but has not yet been given the opportunity for an interview.

Nevertheless, in light of the above situation and the current mail volume, a delay in introducing a house numbering system for the time being would probably not constitute a significant obstacle to the promotion of policy for overall door-to-door delivery. The mail volume is not likely to increase rapidly for the foreseeable future, and the number of addressees will presumably increase gradually, along with the mail volume. Post office personnel therefore could cope with the increase by gradually accumulating delivery information based on the arriving items. In Japan as well, many people take up residence in new areas without notifying the post office. When mail addressed to them arrives, the post office attempts delivery based on the address and confirms that the addressee is in fact residing there. This amounts to accumulation of delivery information by the same method.

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."

- There are eight numbers for the districts of Ulaanbaatar: from "01" to "07," and "11" (one for each district).
- There are 21 codes for other "Aimags:" from "20" to "40."

In the case of Ulaanbaatar, the last two digits are affixed at random to post offices (for about 30 percent of the numbers, the corresponding post offices have closed down); there is no particular correspondence with the districts in which the addresses are located.

In the case of destinations in other "Aimags," there is generally one number for each "Bag."

(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, for example.

More specifically, the array of numbers on the two rows of pigeonholes, which are the

major part of the sorting case for large-sized postal items, is as follows.

34 21 31 30 32 02 28 27 29 40 04
24 20 22 26 38 37 39 36 23 25 35

Similarly, the array of numbers on the sorting case for small-sized postal items is as follows.

37	33	32	38	39	20
36		30	26	24	22
34	02	31	28	25	21
33	35	29	04	27	23

These arrays exhibit neither order nor conformance. At present, there is also apparently no correlation with the "Aimag" locations.

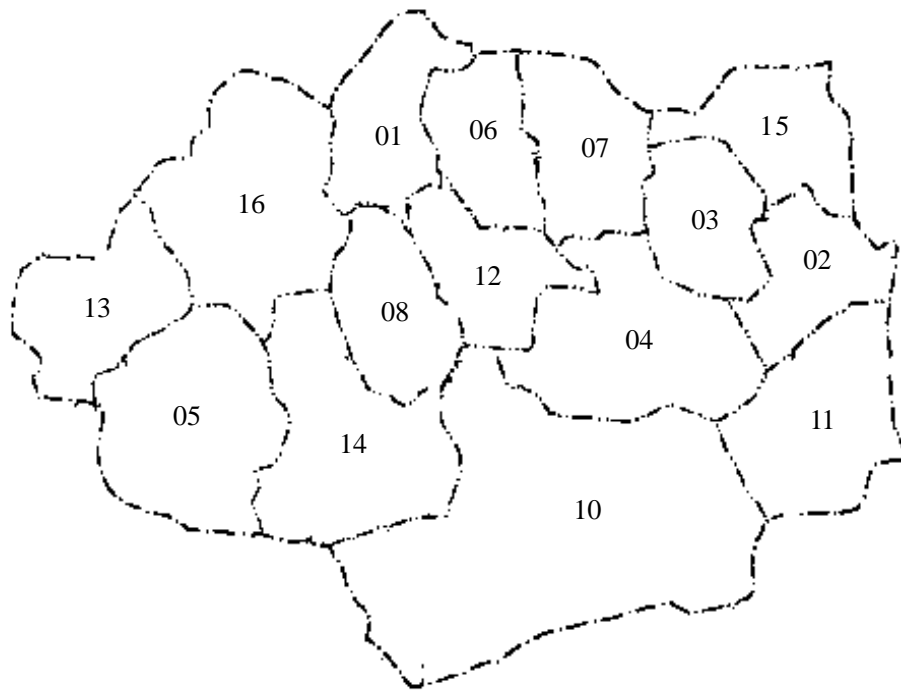
Figure. 5-2 Location of “Aymags” and Postal Codes



Source (JICA study team)

The assignment of codes to the "Soums" in "Aimags" also appears to be completely random and lacking any correlation with the area, direction, or roads.

Figure. 5-3 Location of "Bags" and Postal Code Numbers in Dundgovi



Source (JICA study team)

While past studies referred to the low rate of affixation of postal code numbers to mail items, it must be noted that almost all mail items bear the numbers of PO boxes of addressees. As such, it might be more proper to regard these as postal code numbers necessarily used in place of the name of the post office in which the PO box is located (in Ulaanbaatar, however, this number is also the name of the post office).

5.3.9. Items Requiring Improvement as Determined Thus Far

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

In the Ulaanbaatar Central Post Office, outgoing international mail and dispatch mail

addressed to other "Aimags" are generally sent out as dispatch mail once every two or three days. Many of them are therefore held overnight. The registered items brought into the dispatch sorting room are immediately sorted into the dispatch sorting case and later entered into the transmission record, when work has run its course. However, there is no system for counting the items stored at the end of the day's work or for totaling the entire handling volume for each day and checking it against the number of incoming items, outgoing items, and stored items.

In the handling of registered mail, one of the ironclad rules in the event of inconsistency (i.e., lack of correspondence between records and items) is prompt investigation of the cause; successful resolution may hinge on how quickly investigations are launched after the discovery. At present, handling is premised on the view that there could be no loss of items because all are noted on the transmission record.

Under this method of handling, 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, which may require adequate countermeasures.

(2) Record of the Calculation of Ordinary Mail Items

At present, a calculation is made of the volume of all ordinary mail items handled in each address category each day, and the result is entered in the transmission record. An invoice noticed by chance in the dispatch operation room on 1 May contained the prescribed entries for four items of registered mail. However, the box for ordinary mail on the same page also contained entries for address and number of items (which was one or two per address category). There were about 20 boxes of entry completed in all.

Although a record of the number of ordinary mail items in each address category is not entirely devoid of meaning as far as statistics are concerned, it is presumably not of much practical use in actual operations. Nevertheless, the recording process requires substantial amount of time.

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

Complaints about the handling of mail items cover a wide area. One of the major ones is damage. It would be fully possible to reduce damage by improving the handling method.

The places where mail items are damaged can be divided into two major categories: inside post offices and in transit.

The major causes of damage in indoor work are presumably the disrepair or deterioration of conveyor facilities in the UB Central Post Office and the structure of post office buildings in Ulaanbaatar. The major causes of damage in transit are thought to be numerous problems in loading and unloading work at airports, stations, and bus terminals as well as in transportation facilities.

(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.

Judging from the current status of postal service use, to increase income from postal services, the most immediate effects could be derived by targeting foreign tourists (and other visitors) who regularly use these services. Some prospective steps are the establishment of provisional post office branches in places that attract tourists and encouragement of sales of stamps by the proprietors of tourist lodging facilities. Although such steps may seem small, they could provide crucial driving force for expansion of sales channels for the future.

5.3.10. Framework for Improvement: Basic Flow of Mail

At the core of postal services is the delivery of deposited mail items to the designated address. The related handling work may be divided into four major categories. The following three types are performed exclusively by post offices.

- (1) Acceptance (collection) work
- (2) Indoor handling work
- (3) Delivery work

Transport (the fourth type) links these steps. The following sections outline the major problems faced by the MPC in handling work in these three categories.

(1) Acceptance work

Acceptance work falls into two general categories: 1) acceptance of mail items at post office windows, and 2) collection and filing of mail items deposited in mail boxes on the street.

Acceptance at windows requires prompt and accurate handling of customers. This requirement can be met through thorough instruction and training of the personnel in charge.

Work in the latter category is not done in Mongolia at present.

(2) Indoor Work

Almost all of the work inside post offices is performed by hand. Although there is some wasteful work, the processing is thought to be basically appropriate at the current handling volume.

In the future as well, there will be no margin for mechanization without a big jump in the handling volume. 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

This category has the most problems. Properly speaking, 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.

At present, use of postal services is almost synonymous to getting a PO box in the desired post office. Mail items are received through the PO box.

For home delivery of mail items, a separate delivery agreement is required, which is not very popular.

One of the objectives of this study is the realization of home delivery for all mail items. This requires reconfiguring of the delivery infrastructure from an entirely new standpoint. Delivery work requires daily and direct contact with the general public, and has many aspects in which difficulties cannot be resolved by post offices alone. Nevertheless, post offices must take measures for improvement in many facets.

Currently, about two personnel are assigned to delivery work in each post office. Even if post offices were to begin offer door-to-door delivery for all items, there would probably not be a total switchover to it among those now using PO boxes (the volume of mail transferred to PO boxes is very low as well). There are no factors on the horizon that would induce a quick and dramatic increase in the mail volume upon the commencement of such delivery service. Any increase is therefore expected to be an extremely gradual one. As a result, it is thought that, for a fairly long time, the increase could be accommodated simply through more effective use of the existing MPC facilities.

5.3.11. Improvement of Work - Problems and Issues

(1) Provision of Convenience to Customers

For many years, people of Mongolia have relied on acquaintances to carry and deliver items to various places. This remains a general practice today, and is thought to be a big cause of the low rate of mail use.

To promote acceptance and increased use of the postal system among the general public, various points of dissatisfaction with the current system must be resolved, and its convenience must be improved.

The following may be cited as problems related to convenience as determined at the present stage.

- 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
 - There are no PO boxes nearby; lack of convenience.
 - There is an absolute shortage; applicants have to wait for an opening.
 - Locks are broken.
- 4) Methods have not been established for easy deposit of mail items.
 - There are no provisions for letter-cards, postcards, etc.
 - There are no mail boxes on the street, etc.
 - There are no special packs for packaging parcels
- 5) Lack of publicity about the following items.
 - Location of post offices
 - The service areas of each post office
 - Post offices to go to in order to receive mail
- 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. The main points are as follows.

- 1) The post offices (or system) per se are unreliable.
- 2) Mail items:
 - are not delivered to the address (or are lost)
 - are delivered late (no idea of how long it will take for delivery)

- are damaged (or it appears that they will be damaged, judging from the way they are handled in the post office)

3) Appropriate action is not taken in response to inquiries and complaints.

In almost all post offices in Ulaanbaatar, special personnel are employed for delivery to addressees on the basis of contracts. These personnel are dressed exactly like ordinary people and carry the same kind of gear. There is nothing about them to suggest that they are carefully handling mail items, and this detracts from trust. Certain post offices, however, have begun issuing uniforms to personnel.

(3) Improvement of Efficiency

At present, post office work amounts to the handling of a very small volume of mail on a large distribution network basically for newspapers. In the event of a substantial increase in the mail volume, the smooth performance of work could become impossible without thorough studies and reform, as follows.

- 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

Properly speaking, 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, MTZ, and routed bus companies.

At present, mail is transported between Aimag centers and Soums and other routes with low mail demand by MPC vehicles. These vehicles are also used for transportation of passengers when they have extra space or are not being used for mail. This is a very effective approach when the mail demand is low and there is also not a large demand for passenger transport. 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.

Against this background, transportation plans were studied in line with the premises noted below. MPC passenger transport is studied from the perspective that, while of value for increasing profits, it should be positioned as no more than a service that is incidental to mail transportation.

- On routes with a fairly large demand that are served by other transportation services, the MPC will make use of these services (it is important to study the type of contracting for this purpose).
- On routes that are not served by other transportation services, the MPC will provide the transportation itself (consideration of other approaches if the mail demand is too low).
- Even on routes where the MPC provides the transportation itself, if a different enterprise starts to provide service as a result of an expansion of the demand for passenger transportation, etc., the MPC will consider discontinuation of its own transportation and consignment to this new enterprise.

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. Mail is transported on all flights from Ulaanbaatar to various other places in Mongolia.

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. It would

therefore also be hard to increase the number of mail transportation runs as long as only the regular flights are used.

The following are prospective approaches to increasing the number of mail transportation runs by air through the use of non-scheduled flights.

- Operation of chartered flights using airplanes owned by the MIAT or other airline companies
- Ownership and operation of airplanes by the MPC
- Transportation of mail using airplanes of national institutions owning airplanes in Mongolia (e.g., the military)

As exemplified by the practice in certain parts of the country even today, mail can be transported to some areas not only by air but also by road (bus) on days when there is no regular flight service. This approach must be considered if an increase in the mail volume creates a need for more transportation runs.

However, the remoteness of points served mainly by air transport ranges from 300 to more than 1,600 kilometers, and the time required for transport by bus would be much longer.

Similarly, for areas where there is only about one flight a week, one option is intermodal transport, i.e., transportation of mail by air up to the nearest area with a higher number of flights and by bus to the final destination. In many areas, however, it would be difficult to use public transportation means. In such cases, the MPC would have to perform the transportation by itself, and it would presumably be difficult to operate vehicles.

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. In addition, each flight is permitted to carry no more than 250 kilograms in the summer and 300 kilograms in the winter.

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 rail lines on the regularly scheduled trains of the Mongolian Railways (MTZ).

At present, not all of the trains operated by the MTZ are used for mail.

On some lines, there is daily train service and it would be possible to increase the number of mail transportation runs.

Among the areas in which mail is now transported by train, three trains leave Ulaanbaatar for Darhan each day (morning, afternoon, and night). The morning and evening trains pass

through Darhan and travel up to Sukhbaatar every day. There is also daily service in the direction of Erdenet.

Daily service from Ulaanbaatar to Sainshand in the south consists of one train in the morning and two trains in the afternoon. The afternoon trains proceed from Sainshand to as far as Zamyn Uud.

In this way, it would not be difficult to increase the number of mail runs by train in the event of an increase in the mail volume.

As described above in connection with airplanes, it would be possible to use bus routes as an alternative form of transportation. Considering the volume and reliability of operation (e.g., accompaniment of the mail transport by post office personnel), this could involve many problems. Nevertheless, buses must be studied as a supplementary means of transportation along with a future increase in the transportation 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 seven days a week to Bayanhongor and Choibalsan, to Arvaiheer six days a week, and to Altai five days a week. There is also bus service on some other routes two or three days a week. It should be possible to increase the mail transportation frequency by making use of buses in these areas, as necessary.

In areas where there are no usable buses, the MPC would have no choice for an increase in mail runs but to use the private vehicles of other businesses or to operate its own. The use of private vehicles would be saddled with problems of reliability and is not recommended at the present time.

The operation of MPC vehicles is limited to mail as a rule, and the licensing by transportation authorities (obtained through bidding, etc.) is required for transport of passengers. The MPC is licensed for passenger transport five times a week between Ulaanbaatar and Nalajh and between Ulaanbaatar and Terelj two days a week.

Over other routes, a license must be obtained for transportation of passengers along with mail, as described above.

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.

The expansion of the cargo transport volume should naturally lead to an increase in the demand for regular truck service. Many private enterprises will probably go into this business

at that point.

Once this happens, the MPC should consider use of regular truck service for transportation of mail.

Even today, it would be possible for the MPC to charter trucks for transportation instead of operating vehicles themselves, but the mail volume is not sufficient to justify transportation of this type on a regular basis. A sufficient volume could possibly be acquired by having vehicles stop at post offices along the way, but this would not be efficient in terms of travel time, etc.

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. In general, there are seven routes (one of which covers the railway station post office and bus terminal post office).

A contraction of the transportation time between post offices requires an increase in the number of routes and reduction of the number of post offices on a single route. At present, the six routes other than that to the railway station and bus terminal post offices each cover from six to eight post offices. A decrease in this number would help to reduce the travel time between post offices.

A contraction of the time taken for transportation from Aimags to Ulaanbaatar demands a prompt transfer of mail items arriving at post offices at the airport, railway station, and bus terminal to the Central Post Office. The requirement to this end is an increase in the number of runs between these other post offices and the Central Post Office.

Because it would be impossible to increase the number of routes with the current number of vehicles, the advisable course would be to increase the number of vehicles in correspondence with the number of routes. For these vehicles as well, studies should be based on operation on paved roads within Ulaanbaatar (unlike for vehicles operated in the Aimags).

(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 (such that the MPC vehicles also carry passengers and so function as means of public transportation). An increase in the number of runs could be effected 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. Even where there are currently three runs a week to the Aimag center, there may be only one run a week from the center to the Soums. The situation in such areas must be promptly studied.

The regional disparity is even greater in the transportation from Soums to Bags. In certain areas, vehicles stop at Bags en route to Soums. Some parties are of the opinion that there is no need for delivery down to the Bag level.

One reason for this view is that, in an increasing number of areas, Bags are becoming more or less undefined as communities. Another is that, in many cases, even if a household belongs to a specific Bag, some of its members part of the family members live in the Soum (such that some people regularly travel to the Bag).

In respect of vehicle use, there is some regional disparity, but there is not thought to be a shortage in all areas. In some areas, it would apparently be possible to make more runs with the existing number of vehicles. In all areas, however, the owned vehicles are in decrepit condition and the operating rate seems to be declining.

Considering the condition of roads in Aimags, vehicles must have the durability to complete runs over bad roads, and a higher frequency of replacement of parts due to wear is fully conceivable.

In some areas, there is a perceived necessity for vehicles capable of transporting passengers. In areas with a relatively heavy passenger transport demand, non-MPC vehicles are providing transportation service, and there was a consensus that vehicles preferred by passengers were needed to compete in them.

In some areas, studies also must be made of prospects including use of larger and newer vehicles while taking full account of factors such as the passenger transportation volume and condition of roads.

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.

It is unclear to what extent national policy is reflected in these contracts.

In air transport, fare normally varies depending on the distance and weight. In rail transport, on the other hand, the same section of seats is blocked off, and the MPC therefore

pays a flat fare regardless of the load of mail. Similarly, in bus transport, the fare is based solely on distance (number of kilometers), and the charge is the same up to the load limit.

The rail and bus transport fare schemes are thought to hold advantage to the MPC. It must be confirmed that these schemes will be applied without modification into the future.

(2) Transport by the MPC

The Study Team was told that the vehicles operated by the MPC were originally furnished through subsidies from the national government. There were no reports of vehicles being furnished in 2000.

The government has reportedly set (distance-based) standards for the parts of these vehicles that are subject to wear, and the MPC is asked to pay the cost for replacement of any parts below the standard lines. These standards are reportedly the same for all areas and parts, and the cost of replacement acts to drive up postal service costs as a whole.

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.

Other factors working against a cost decrease are the limited range of options due to the limited circle of available transportation means, and the lack of sufficient competition among these means.

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. It is easy to see how such incidents occur merely from the way mail Bags are handled in transportation. In advance of shipment, the mail items destined for each post office are put into mail Bags for handling. Due to the lack of simple gear, the Bags may be dragged around by hand. The loading and unloading work is also performed mainly manually.

In handling in train stations, lift-type equipment is used for loading and unloading. In transportation from rail cars to trucks, it would be difficult to reduce the required time with the current number of handcarts. The MPC should consider an increase in this number and purchase of motorized conveyance equipment.

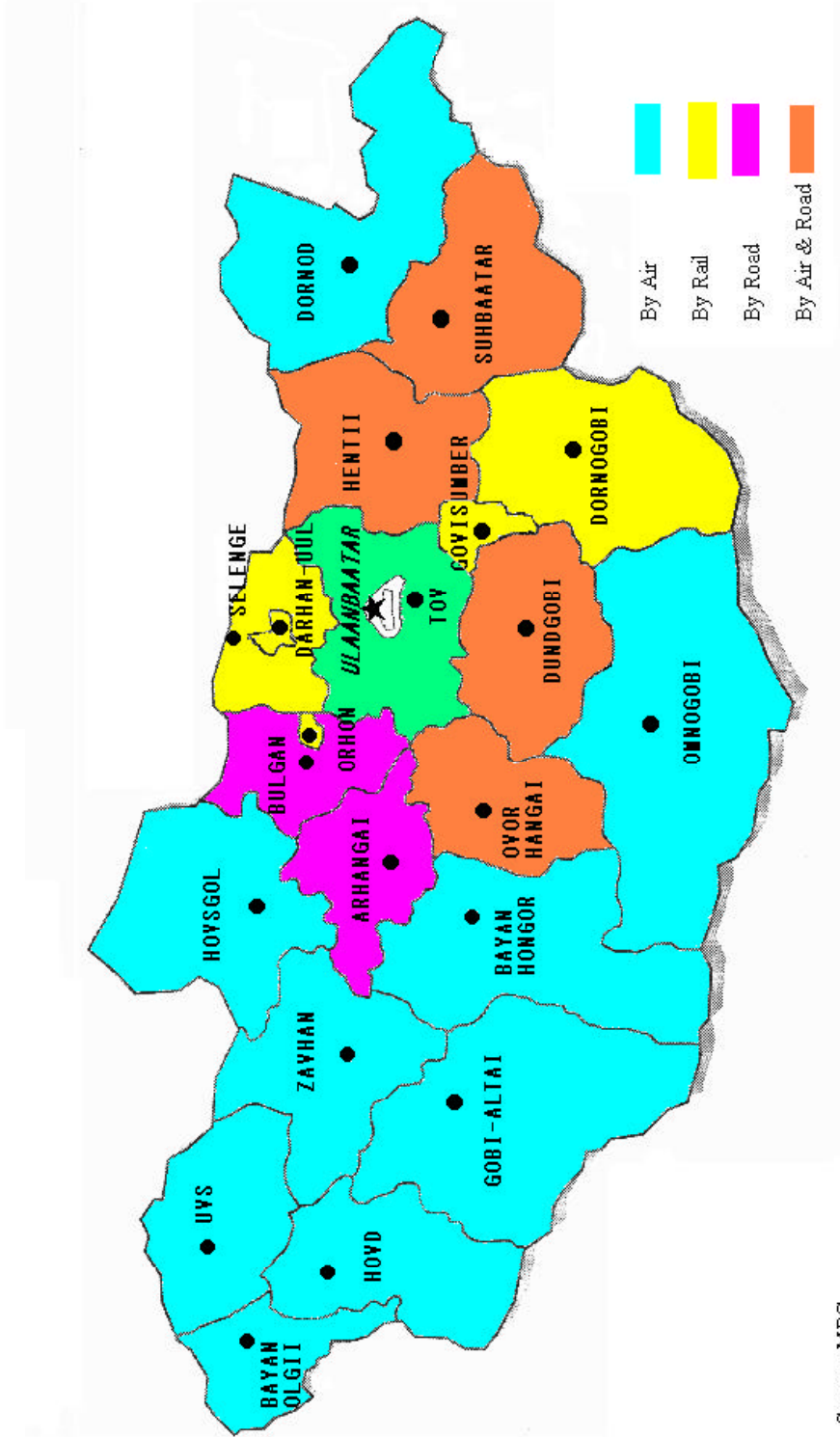
Simple pushcarts would also be effective for improving this situation.

As long as mail Bags are manually loaded and unloaded as at present, mail items are apt to be damaged and it will also be difficult to make the work more efficient. One prospective measure for improvement would be to load mail Bags onto roll box pallets (each carrying many mail Bags) and transport them in these pallets. This would presumably prevent damage and reduce the time requirement.

With the use of roll box pallets, personnel at each point (e.g., the Central Post Office, station post office, and bus terminal post office) would load mail Bags ready for shipment onto the pallets in advance and load entire pallets onto the vehicles when it is time for shipment.

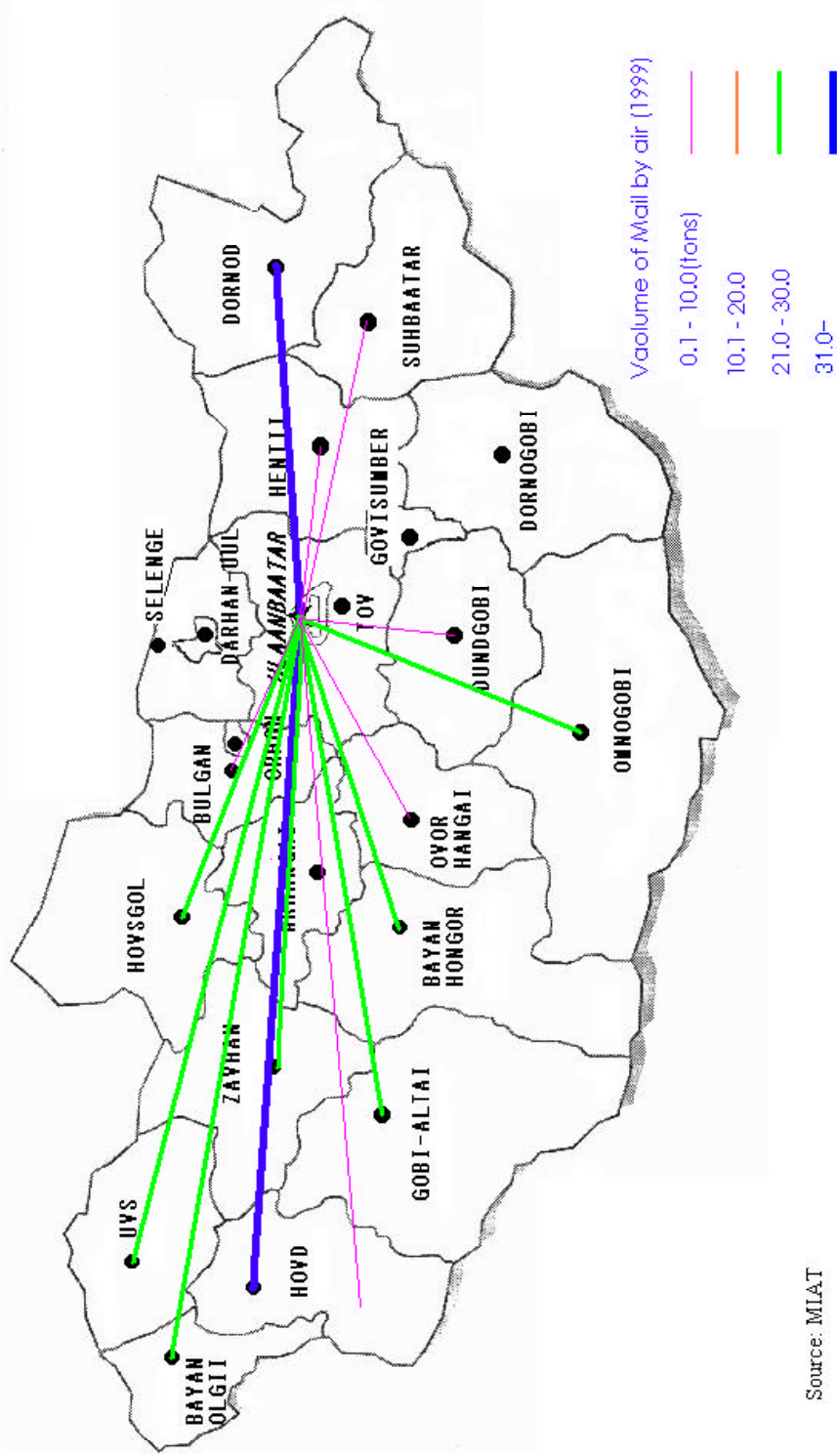
It should be added that use of roll box pallets or other such equipment would require devices such as tailgate lifts on the shipment vehicles and space to store the pallets at the loading and unloading locations.

Figure. 5-4 Transport Mode by Each Aimag



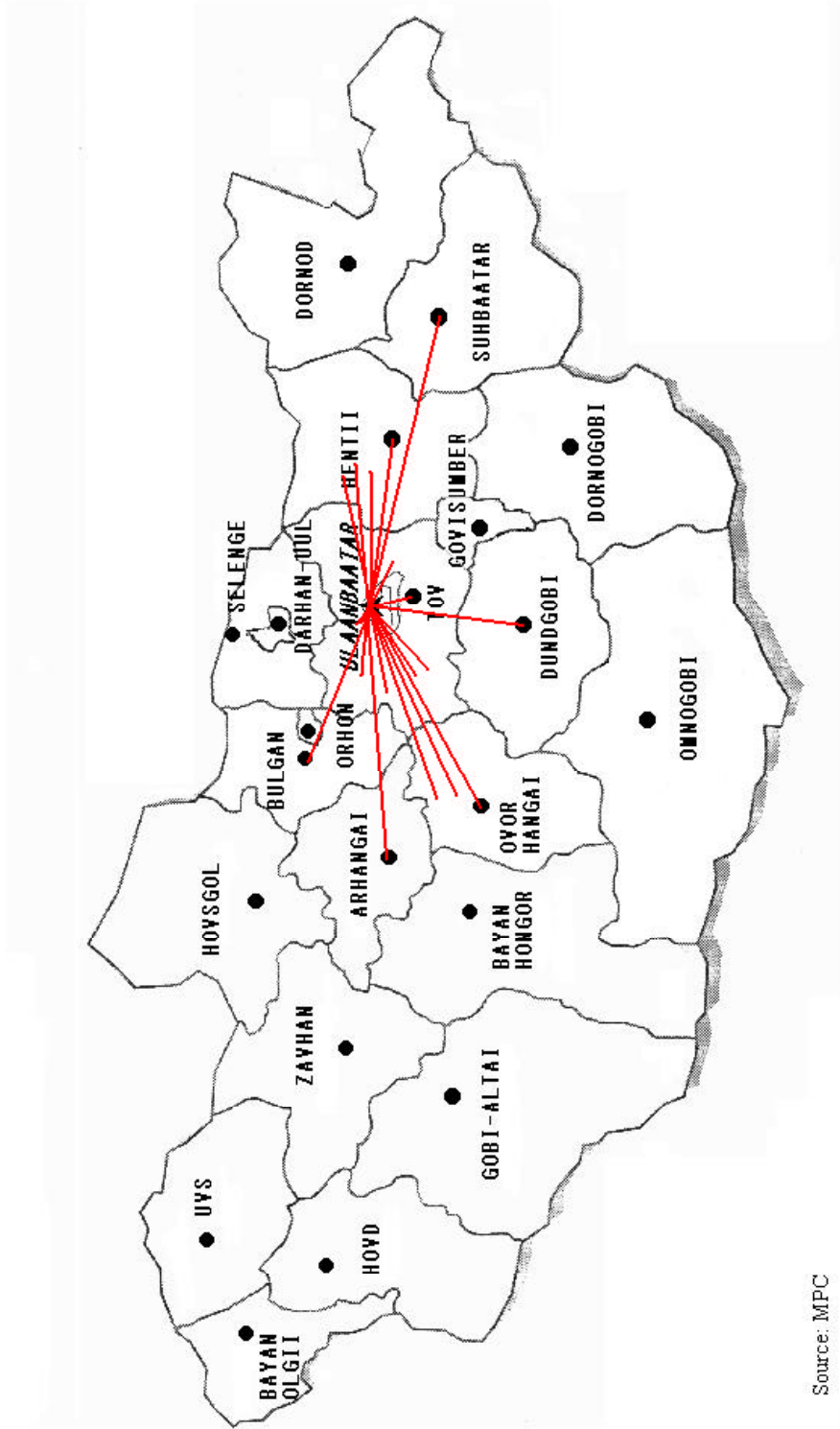
Source: MPC

Figure. 5-5 Volume of Post Transportation by Air



Source: MIAT

Figure. 5-6 Transportation by Road



Source: MPC

5.5. Remittances and Payments

Based on the current business plan and scope of work that are approved by MOI, MPC can theoretically provide any type of financial service by itself. In Mongolia, however, all financial business are under the control of the Ministry of Finance (MOF), which does not allow MPC to provide various financial services on its own. In Mongolia, money orders and remittances that are often treated as a part of the postal service fall under “financial services.” Therefore, under the current system, postal orders and remittance services cannot be provided by MPC alone.

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

Mongol Post Bank was established in 1993. Due to various problems, however, it did not come into operation for several years. 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. So far, MPB branches are located in all the post offices at the Aimag centers, and some selected Soums center post offices. The location is decided through negotiations between MPB and MPC. The post office will handle all the teller service and collects a fee from MPB. MPC provides the space, staff and the computer network. It is also claimed that MPB foots all the cost incurred for the financial services, although MPC claims that it is not billing MPB for the full cost since the relation is still in its early stages.

All the staff handling the teller service and accounting service belong to MPC. Performing these services does not increase the staff’s salary. However, if the new financial services prove to be profitable, it would lead to a bonus. There have been discussions about creating separate pays for bank related work. Also in many post offices, new staffs have been hired to cope with the new work requirement. Usually, an accountant, a person experienced with cash handling, and a security guard is hired. Because of the recent failure of many banks, it is not difficult to find such labor skills among former bank workers.

In most branches, services that are offered are postal orders and remittances. A few branches provide savings deposit services, but they are limited.

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) .

The agreement between MPB and MPC is quite straightforward. MPC will provide various bank services at the post office on behalf of MPB. Of the total after tax profit of each MPB branch, 30% will go to that local post office. 35% will go to MPB head quarters and 35% will go to MPC head quarters. In case of a loss, MPB and MPC headquarters will each bear 50%.

In case of a delay in remittances, (i.e. when MPC or MPB defaults, the responsible staff must pay 0.03% penalty. This agreement was closed in May, 1999. It will be automatically renewed every 5 years.

The 3 party agreement is, in essence, a bulk discount on remittance fee for the largest user. NIC and it's gas stations hold 52% of the national sales of gas. Since their gas stations are located all over the country, they need to send everyday sales to the Head Quarters from all over the country. NIC have relied on AgroBank, but their service was plagued with delays and cash shortages, which made them switch to Mongol Post Bank.

According to this contract, MPC staff will pick up the daily proceedings from each of NIC's branch, and then send the proceedings to the headquarters using a "Postal Express Check" (a special postal order) or cash. The bank receives 0.4% of the amount sent. If the remittance is made by cash, 0.75% will be the handling charge.

This agreement was closed on 2000, and will automatically roll over every year.

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 Olgii, GoviAltai, Dornod, Orkhon and Hovd, the operation created losses. A major factor for the profitable Aimags were bank failures in the first half of 1999. This caused business to use MPB extensively. Also in Omnogovi, border trade with China creates high demand for cash transaction and postal orders. Remittance service in Ovorkhangai is profitable because of the high level of transaction with NIC. Ovorkhangai serves as the fueling station for vehicles to and from the West, which creates high amount of business for NIC.

In 1st quarter of 2000 (Jan-March), the total sales of remittance and payments were 37,892 thousand Tg, which is 15.9% of the total sales of MPC. In December 1999, the sales from bank services were 94,752 thousand Tg, which was 4.7% of total sales. Clearly, the significance of bank services has increased. However, 9 Aimags recorded a loss for remittance and payment

services in 1Q2000. These Aimags included Selenge (-5,030 thousand Tg), Govi Altai (-1083 thousand Tg) and Orkhon (-901 thousand Tg). 9 Aimags recorded a profit. These Aimags included Hovd (3,365 thousand Tg), Sukhbaatar (892 thousand Tg), Dornogovi (827 thousand Tg) and Dornod (286 thousand Tg). As a whole, the banking service has created a -2,087 thousand Tg loss for MPC in 1Q2000.

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. These Aimags hired an additional accountant, additional cash handler and an additional security guard, even in the smallest Soums offices, which exceeded the financial needs of the area.

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

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

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

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.

In areas where existing banks (such as AB, TDB, GOLMT, etc.) are strong, MPB faces heavy competition and operations are not profitable. In other Aimags such as Sukhbaatar and Selenge, over-aggressive expansion has led to huge losses, even under low competition. Rural areas tend to have small business opportunities due to low population and business activities in general. 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.

Under the current contract, 50% of the losses incurred by the bank related services shall be borne by MPC. Currently, this is not a significant risk, since much of the operation in the rural area is remittance and payments only, with very small deposits. If, however, MPB starts to offer loans in these areas, the risk will grow significantly, and MPC may end up paying for losses that they have no responsibility for. MPC should reconsider the terms of the agreement, so that it can focus on business on a purely fee basis.

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.

The statements for 1998 still contain several items that are used for transition from the Socialist system. The 1999 statement has many of these items cleared, which indicates that the transition is more or less complete.

MPC does not have any complicated financial structures. It does not have any long term liabilities, foreign exchange issues are minimal. Fixed assets are limited, and not much new investments have been made over the years. It's structure is straight forward, with their Income statement closely resembling their cash flow statement.

The only issue that may complicate their financial reporting is inflation. Inflation in Mongolia was extremely high in mid 1990, which would have required a constant cost accounting under GAAP. However, inflation has been brought under control in the past several years to a manageable level, and it's impact now is minimal. Therefore, this is not a concern at the current moment.

Because of the straightforwardness of MPC's finances, it should be relatively easy to convert the financial statements from the Socialist period to GAAP style statements. It should be noted, however, that the economic condition and the business environment of MPC has changed significantly over the past several years. The transition to a market economy changed the basic rule of the game, and the nation's economic condition deteriorated to a level that is hard to compare with the socialist era.

The operation of MPC itself has also changed significantly during the years. The separation of the telecom company and the merger of the Stamp Company has changed the basic premise of MPC. Also, not only MPC but the Mongolian Postal system itself had experienced severe difficulty with the huge decline in the mail volume. It can be safely argued that MPC has rebuilt its business almost from scratch during the past few years under completely different conditions.

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. Financial statements since 1989 has been obtained in order to facilitate future analysis, but for the most part, the financial statements that

were compiled during the pre-survey should prove sufficient.

5.6.2. Income Statement

This section looks at the items in the income statement.

- **Telecommunication Services:**

Telecommunication services represent handling charges from 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)**

- **Mail**

These 3 revenue items are what is 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, there has been no increase in postal fees and charges during the period. Therefore, all of the increase in revenues reflect increase in the mail volume. According to MPC, most of the volume in these categories is foreign mail. Accurate tabulation with the actual mail volume has not been performed by the study team at this time. If the majority of this volume is foreign, however, MPC may be able to induce domestic use by significantly lowering postal charges, without much financial damage.

- **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, especially with the expansion of the service area and more publicity. Currently, EMS accounts for 3% of the total revenue, but it is likely to occupy a much higher portion.

- **Sales of Stamps and other Services**

Numerous items are included here, such as sales of stamps (both domestic and foreign),

transportation fees, property leasing, newspaper delivery fees, mail order services. This item alone accounts for 63% of the total revenue, which makes the revenue structure of MPC rather difficult to comprehend. It will be necessary to provide an itemized break down of this item, since domestic stamp sales reflect the mail volume.

This item has increased 28% from 1998 to 1999. According to MPC, this reflects the increase in mail volume (mostly foreign), and the new mail order service that was introduced in 1999. This needs to be confirmed.

- 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. It's 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.

Also, with the introduction of financial services, many Aimags are hiring new staff for the handling of cash, accounting and security guards. In some Aimags, this has become a heavy burden. This is explained in Chapter 6.

- Transportation Related Expenses

Items that should be considered as transportation related expenses would be "Fuel and Lubricants," "Transportation Costs." ("Transport and Tax expenses" are tax and insurance charges, which should not be included). This occupies 15% of the total expenses, and went up by 30% from 1998 to 1999. The rate of increase corresponds with the increase in revenues and mail volume.

- Other Items

Other Expense items are small as a proportion to the total expense. Some items that showed significant increase are rental expenses and product sales expenses. Rental expenses increased because of increase in property rents and new leases of delivery minivans from MOI. Product sales expenses more than tripled. This cost included the purchase of the mail order products.

Since very little new purchase of assets was made, depreciation remained constant.

- Tax

Although MPC is fully owned by the government, it has no special status regarding income tax. It pays income tax at the same rate as any other commercial entity. Interestingly, the Mongolian income tax is charged not against the profits shown on the income statement. They use something similar to cash flow, subtracting non-cash items from the expense. The marginal tax rate for MPC is 40%, but because of this method, the tax rate is about 50% of the book profit.

- Profit

Prior to 1997, MPC was operating at a serious loss. However, efforts to contain costs and introduce new services paid off. In 1998, MPC reported 22.4 million TG after tax profits, and in 1999, this amount increased to 84.0 million TG. The profit margin (before tax) also increased from 3.2% to 8.8%, which shows that the increase in profit is a combination of increased business and operational efforts. There seems to be nothing unusual about the past 2 years financial situation. Therefore, 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
Sales:		
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)	
Total sale	1,539,678.9	1,991,999.3
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

“Cash”, “Income Account Cash” and “Current Account Cash” are normal accounts. In 1999, “Cash” and “Income Account Cash” was integrated into a single item.

The item “Cash under Interbranch Settlement” represents the malfunctioning banking sector within Mongolia. Because of the cash shortage of Banks (especially AgroBank), cash that has been deposited in rural areas failed to reach the MPC Head Quarters. MPC no longer uses AgroBank, and this problem has disappeared,

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. This is also caused by the banking situation in Mongolia. In 1998, MPC had 97.8 million TG of “Internal Accounting Receivable”, which represented the amount of cash that was still going through the transfer process due to the Bank’s lack of cash.

Disregarding this portion, the amount of receivables increased by about 10%. With the increase in the gross revenue, this is natural or better.

- Inventories

Inventories remained stable. One of the confusing items in this area is “Securities”. This is actually the stationaries that are sold in post offices, such as post cards, envelopes, diary books, memorandum books. The reason for the name “securities” is rather historical,

and it is not important for the current study.

- Fixed Assets

MPC's fixed assets consist of some buildings including a garage, delivery minivans and some machines (sorters, computers, etc.) The figure shows 10% increase, which represents some improvements in several post offices and some new delivery vehicle. The level of increase is modest and not out of line.

- Short Term Liability

Short Term Liability has virtually remained constant. The figure itself has increased from 801 million TG to 1,009 TG, but this is mostly due to the increase in "Prepaid Income." Other items remain more or less stable.

- 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.

- Shareholder's Capital

Items in the Shareholder Capital are rather strange. "Paid-in Capital" is the amount of equity paid in by the government when MPC first originated. There has been no change in the actual amount that has been paid-in. However, this item seems to be used as an adjustment account, and this fluctuates from time to time. There has been no clear explanation as to what sort of adjustment takes place, although some investments that are done by the government seems to be financed partly from this account. From 1998 to 1999, this amount showed a 10 million TG increase.

"Accumulated profit" and "Profits during the period in review" show slight decrease. This is partly due to the dividend that MPC paid out from the Accumulated Profit in 1999. This shall be explained in the "Statement of Cash Transaction".

The next 2 items, "Changes after the Revaluation" and "Stamp Revaluation" are adjustment items from the socialist period. During the socialist period, all assets were given an unrealistically low valuation. With the transition to the new system, assets were revaluated and the difference was reflected here. "Stamp Revaluation" also reflects such

transitional values. These 2 items remain constant,

The D:E changed from 32:68 to 37:63, which indicates that MPC moved slightly heavier toward debt. However, since MPC does not have any long term liability, the significance of this ratio is limited.

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

	1998		1999	
	At end			
Assets	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		-	
Total assets		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	
Total receivables		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	
Total inventory		727,814.4		710,245.6
Prepaid expenses	-			20,612.5
Total working capital		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

Source: MPC

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

Equity and liability	1998		1999	
		At end		At end
	Total	Grand Total	Total	Grand Total
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	
Total short-term payables		801,798.7		1,009,519.5
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		1,729,209.8		1,736,452.7
Total assets and liability		2,531,008.5		2,745,982.1

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.

According to MPC, since MPC was operating at a loss till 1996, it was unrealistic to pay out any dividend. Even in 1997 and 1998, there was a danger that MPC's profit was a temporary situation, which discouraged MOI to collect dividends. From now on, however, if MPC reports a profit, this dividend payment is likely to occur.

- **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.

One method that MPC resorted to was to sell off old assets and use the proceedings to purchase new assets. This was allowed by the SPC and was utilized to some extent in 1998 and 1999. Purchase of fixed assets increased, in the form of building renovation and improvements. Although all the land and building belong to MOI/SPC, the improvements belong to MPC, and since the renovation by MOI/SPC is usually extremely time consuming, it is often better to take up the tab for the improvements by themselves. Another factor is the rental payment. If MOI/SPC undertakes the improvement, it will significantly increase the property's book value, and there by pushing up the rent. Doing the improvements themselves are often more economical.

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 MPC. Because of the continuing profits, this scenario is not unlikely. If this is allowed, we may observe more active investment from SPC.

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

Basic operating cash transactions	1998		1999	
Net revenue	26,828.7			83,978.3
Changes in accumulated profit (increase)	313.7			
Net profit		27,142.4		
Non-cash income /losses & profits/				
Growth:				
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
Decline:				
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
Initial balance of capital assets		170,744.2		312,188.6
Final balance of capital assets		312,188.6		532,013.2

Source: MPC

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.

These investments consisted of delivery vehicles. 7 to 8 vehicles were leased to MPC annually during the past 2 years. Since they remain as MOI property, they do not show up in the assets. They are reflected in the rental payments in the P/L statement.

The government, however, has decided to discontinue this practice. Although MPC is requesting for the continuation of these measures, there has been no new vehicles from the government in 2000 so far.

(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.

On the other hand, as mentioned, MPC is required to pay dividends starting from 1999, now that it is turning a profit. Also, there have been talks about the government extracting 80% of MPC's operational profits systematically every year. This would make it impossible for MPC to create any internal reserves for investment purposed. This has significant implications for both MPC's finances and its operations.

5.6.6. Discrepancies Among Regions

The conditions differ significantly between Ulaanbaatar City and other regions.

Ulaanbaatar City area occupies an overwhelming share of MPC's business activities. Of the total assets of MPC, Ulaanbaatar City boasts a 70% share. MPC had a total sales of 1.99 billion Tg in 1999, and Ulaanbaatar's share was 62%. In terms of profit, the total profit of MPC in 1999 was 83.9 million Tg. Profit from Ulaanbaatar City was 282.1million Tg. Obviously, the profit from Ulaanbaatar City is cross-subsidizing the losses in the rural areas.

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.

Looking at each Aimags, there are only 6 Aimags among 23 that recorded a profit in 1999, namely Bayankhongor, Ovorkhangai, Erdenet, Ulaanbaatar City, Govi Sumber, and Selenge. The remaining Aimags show losses. In 1998, the number of Aimags that showed profit was 5, so the condition in 1999 does show a slight improvement, although majority of the Aimags still remain in a tough position.

It should also be noted that the level of loss has declined in many Aimags between 1998 and 1999. Even remote Aimags such as Dornogovi, Dornod, Dundgovi, Zavkhan, Ovorkhangai, Omnogovi, Sukhbaatar, Hovd and Hovsgol are showing improvement. The Study team has observed that in many Aimags, extremely enthusiastic managers have brought in numerous improvements in various operation of the post office operation, which contributed to a significant improvement.

The situation in Ovorkhangai, which succeeded in the astonishing feat of turning itself from a huge money loser to an extremely profitable position in a single year, is rather telling.

Table. 5-6 Sales of Ovorkhangai Aimag

	(Unit: Tg)		
	1998	1999	Increase
Fax service revenue	20,880.00	103,800.00	82,920.00
Sales - Registered domestic mail	31,580.00	46,560.00	14,980.00
Sales - Registered international mail	10,800.00	4,990.00	-5,810.00
Sales - Official documents sent / posted on credit	4,650,395.00	4,236,575.00	-413,820.00
Sales - Domestic parcel (over 3kg) delivery service	82,185.00	180,895.00	98,710.00
Sales - Overseas parcel (over 3kg) delivery service	42,536.00	150,686.00	108,150.00
Sales - Domestic prepaid mail	299,234.00	680,990.00	381,756.00
Sales - Domestic parcels (under 3kg)	2,000.00	5,100.00	3,100.00
Sales - PO box (mailbox)	403,150.00	558,724.00	155,574.00
Sales - Contractual delivery service		284,610.00	284,610.00
Sales - Parcel handover service		624,780.00	624,780.00
Sales - Banking services		10,790,396.50	10,790,396.50
Sales - Newspapers, post cards etc.,		1,642,392.00	1,642,392.00
Sales - Passenger transportation	6,843,009.00	7,365,387.00	522,378.00
Sales - Postal stamps	1,176,921.00	2,404,783.00	1,227,862.00
Sales - Business operation / activities	503,177.00	1,490,345.00	987,168.00
Sales - Securities	1,476,423.00	3,701,008.00	2,224,585.00
Sales - Other additional services	391,738.00	713,212.00	321,474.00
Sales - Periodical subscription	6,937,478.00	12,760,820.93	5,823,342.93
Total Sales	22,871,506.00	47,746,054.43	24,874,548.43

Source: MPC

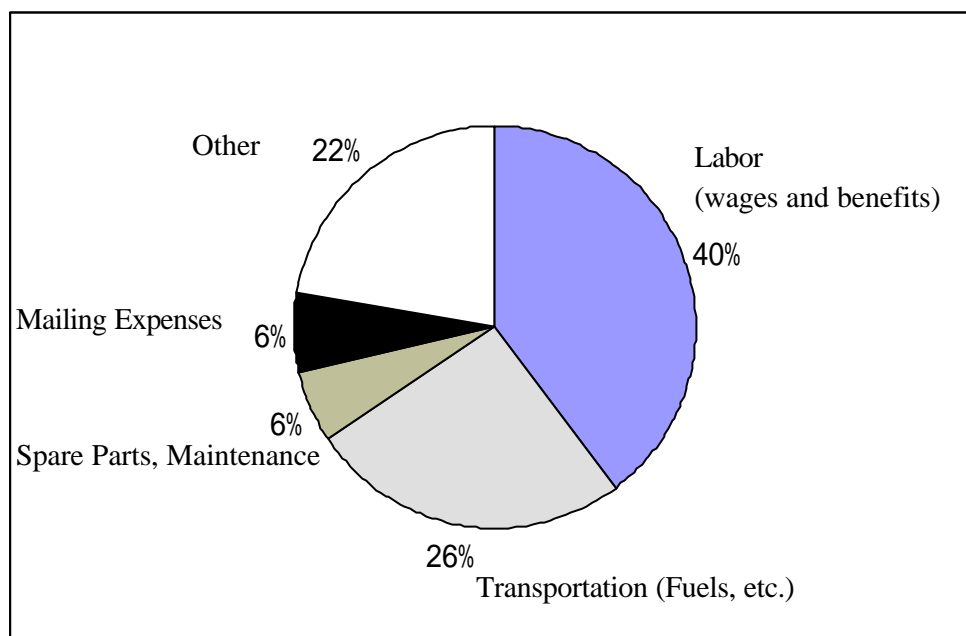
The sales more than doubled between 1998 and 1999. Huge growth are observed in the areas of Increase of periodical subscription, Securities (stationaries) sale, stamp sales and such, demonstrating outstanding effort.

The largest contributor to the sales increase, however, is the introduction of banking services. Banking services are responsible for more than 40% of the sales increase. This is a trend that also shows in other Aimags as well. However, as discussed in Chapter 6, the introduction of financial services implies additional expenses (especially labor), which had led to a net loss in several Aimags. Since financial services are in their early stages of introduction, it is still too early to draw any definitive conclusions, but there are undoubtedly, discrepancies among Aimags in terms of financial needs, which would affect the bottom line.

Although not as drastic as that of Ovorkhangai, other Aimags do show some improvement. 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.

Looking at costs, labor and transportation occupy a large share. On average, labor and transportation occupy about 1/3 of the total expenses for each Aimag, although there are significant discrepancies. The figure below shows the cost structure for Govi Altai in 1999.

Figure. 5-7 Cost Structure of Govi Altai, 1999



Source: MPC

Depending on geographical conditions, the transportation costs occupy much larger shares. The staff of each post office is more or less fixed, and a certain level of delivery is obligatory, so labor cost and transportation expenses are more or less fixed. On the other hand, in some Aimags, low population and lack of industry create very little need for postal and financial services, which severely limits the level of sales. These Aimags also find it difficult to sustain themselves through side business, since low population will naturally limit the need for passenger transportation and mail order sales.

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. The cash at hand is increasing, even with the dividend payment in 1999. Financial services are also contributing to this trend. Discussions concerning the financial services should refer to the prior section of 5.5. in this chapter.

It has been pointed out that these improvements may be due to payments of receivables

from China and Russia. However, this did not take place in 1998 or 1999¹. These figures actually reflect the business improvement of MPC.

This, of course, has its price. MPC has not been engaged in any significant investment, and in order to contain costs, the maintenance level seems to be unsustainably low. Delivery vehicle breakdowns are reported and a large number of the vehicles are in an un-usable condition. This situation cannot continue, and MPC (or whoever is in charge) must shell out significant level of maintenance and repair cost, along with substantial new investment. This should affect the MPC's finance adversely, but is absolutely necessary, and should be carefully planned.

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

Although the finances of MPC has shown improvement, the current situation is far from stable or sustainable. As shown in chapters 4 and 5, the facilities for mail handling and transportation is inadequate. In order to maintain a steady and reliable level of service, while successfully standing up to the competition, MPC has the following issues in terms of its finances;

(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

¹ The situation pointed out there occurred in 1996. MPC had accumulated a huge receivable account from China and Russia during 1991-95. In 1996, China and Russia both paid over 200 thousand US\$ amount of these receivables, which significantly improved MPC's cash position for this year. MPC's financial figure for 1996 also did not properly reflect MPC's payables, which also contributed to its apparent improvement of the financial figures.

New investments are necessary, as well as increased expenses for maintenance. The necessary funds are unlikely to come from the government anymore. MPC will need to finance these investments internally. MPC should be allowed to make such investment decisions by themselves, as long as the responsibility and accountability for such decisions are made clear. Initially, the level of investment should be limited within the level of earnings. After MPC has demonstrated its ability to maintain a steady level of profit, however, long term debt financing may be considered.

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. This basically ties MPC's hands, leaving it with no resource to make any improvements. Since it will break the link between business improvement and improved services, MPC's business will likely stagnate under such scheme. 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.

It must also be pointed out that this is inconsistent with the policy of not providing MPC with necessary vehicles. If the policy is to promote the independence of MPC, than MPC should be given freedom to carry out what is good for them using their own resources. If giving MPC full liberty seems unsound at the moment, it could be done gradually.

(4) Beneficial treatments to ensure universal service

Rural services operate at a loss, and given the cost, business and economic condition of these regions, it is expected to stay that way. If MPC were a for-profit only firm, it would be more rational to stop services for unprofitable areas. Postal service, however, is not simply a business to be judged by profitability alone. It has the aspect of a public service, which could not be abandoned on the basis of profitability alone. It is a basic infrastructure for any region, and without this service, that region will necessarily suffer the downward spiral of low service, inconvenience, decline of population and business, which would eliminate any hopes of development. This is probably not a desirable condition in terms of national development.

This is a matter of national policy. However, if some level of universal service in postal

service is considered to be essential, and if MPC is expected to provide such service even at a loss, then it should be fair to expect some level of special treatment in terms of tax and other area. For example, in many countries, public entities are exempt from income taxes.

(5) Miscellaneous

For its mail ordering service, MPC purchases all the merchandise using their own account, and then re-sell them to the original issuer of the order. This is likely to lead to unwanted inventory in cases of cancellation and miscommunication. This is risky, especially since the mail order service now deals with high priced items such as television and other electronic appliances. MPC should focus on the logistics only, and should not bear the inventory risk.

Each Aimags send in financial data using a paper format, which the Head Quarter retabulates by hand, using a full week. Since all Aimags already has a computer, and many of them are already keeping their books using spreadsheets, the current practice is wasteful. It should be much easier, faster and accurate to electronically exchange the data through a network or using a floppy disk, and this will hardly require any additional resource.

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. These data are exchanged twice every day. Other than that, these computers remain idle. Financial and operational data from each Aimag post office is reported once every month, but this is done by sending hand-written documents. MPC Head Quarter spends a week to process all these data. Neither are they used for sales management or in any other useful way.

MPC is currently considering an improved IT system, especially among the Ulaanbaatar post offices in order to provide better tracking of express mails. However, this plan is still not finalized and with the change of MPC's President, the direction of such a plan is unclear.

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.

Interestingly, it has been revealed during the visit to various Aimag post offices that many of the local post offices has successfully been utilizing their computers to process financial and operational data independently. In order to meet the reporting requirement to the Head Quarters,

they print out the files and send the papers to the Head Office, which the HQ staff laboriously re-input into their computer system.

5.6.10. Issues for Information System

The current information system in MPC is clearly under-supplied. The few systems that has been introduced so far also suffer from underuse, and their full potential is not utilized at all.

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

MPC is a state-owned enterprise based on company law in Mongolia. SPC, the owner of MPC, appoints the president and approves the budget plan of MPC. MPC is responsible for reporting financial statement quarterly to SPC in order to clarify accountability. MPC is under the control of MOI in doing business. Business policy and strategy of MPC are under the control of Department of Strategic Planning and Integrated Policy of MOI. Postal charge and Postal license are the under the control of Communication Regulatory Commission.

(1) Postal network at present of MPC

Post Offices in Ulaanbaatar (UB) city: Central Post Office

18 branch post offices

Naraiha post office

Post Offices in the provinces (*Aimags*): Post Offices in the capitals of the Aimags –21 post offices and Baganuur districts post office.

Post Offices in the important districts (*soums*) of these Aimags: 317 post offices including postal agents appointed from MPC. Soums post offices consist of three management types: regular post offices of MPC, appointed postal agents and Mongol Telecommunications Company (MTC) staff perform the postal works in addition to the telecom works as per order of the MOI. MPC does not have to pay anything to the MTC at present for this service. (Detail of each Aimag and Soum post offices is shown figure 5-8)

Next administrative tier below the sum is the *Bag*. There are 5 to 6 Bags, on an average, in each sum. At the headquarters of each Bag (called Bag center) there is always a Mongolian Government representative. At the Bags, there are no post or telecom offices at present. The government representative at the Bag level visits the MPC/MTC office once in approximately 15 days, depending on the distance from the Bags to the Soum center, and takes all letters, newspapers and distributes them at the Bags. He also carries the mails from the Bags for their posting. In each Bag there are about 140 *Gers* (dwelling units). Gers are located far away from one another and they are, in general, moving units.

(2) Trend of employees at MPC

Over past few years there has been significant increase in the number of employees as shown below.

1995 445 employees

1996 459 employees

1997 505 employees

1998 869 employees

1999 960 employees

The reason of high increase is mainly due to two reasons. One is that telecommunication and postal service business were divided in 1994. Initially telecommunication staff also worked as MPC staff and they are not counted for MPC staff though they actually worked for post services. And then telecommunication staff gradually is transferred to the MPC. Therefore the number of MPC staff increased. The other reason is that MPC started banking business from 1997 by contracting with MPB. Therefore, banking business division staff was added to the MPC staff.

The postmaster of each Aimag has authority to employ staff of Aimag and soum post offices, as well as decide the salary of each Aimag and soum post office staff within the range decided by president of MPC.

The details of 960 employees of MPC in 1999 are as follows:

Ulaanbaatar including administrative staff : 270 employees

Aimag : 320 employees

Soums : 370 employees

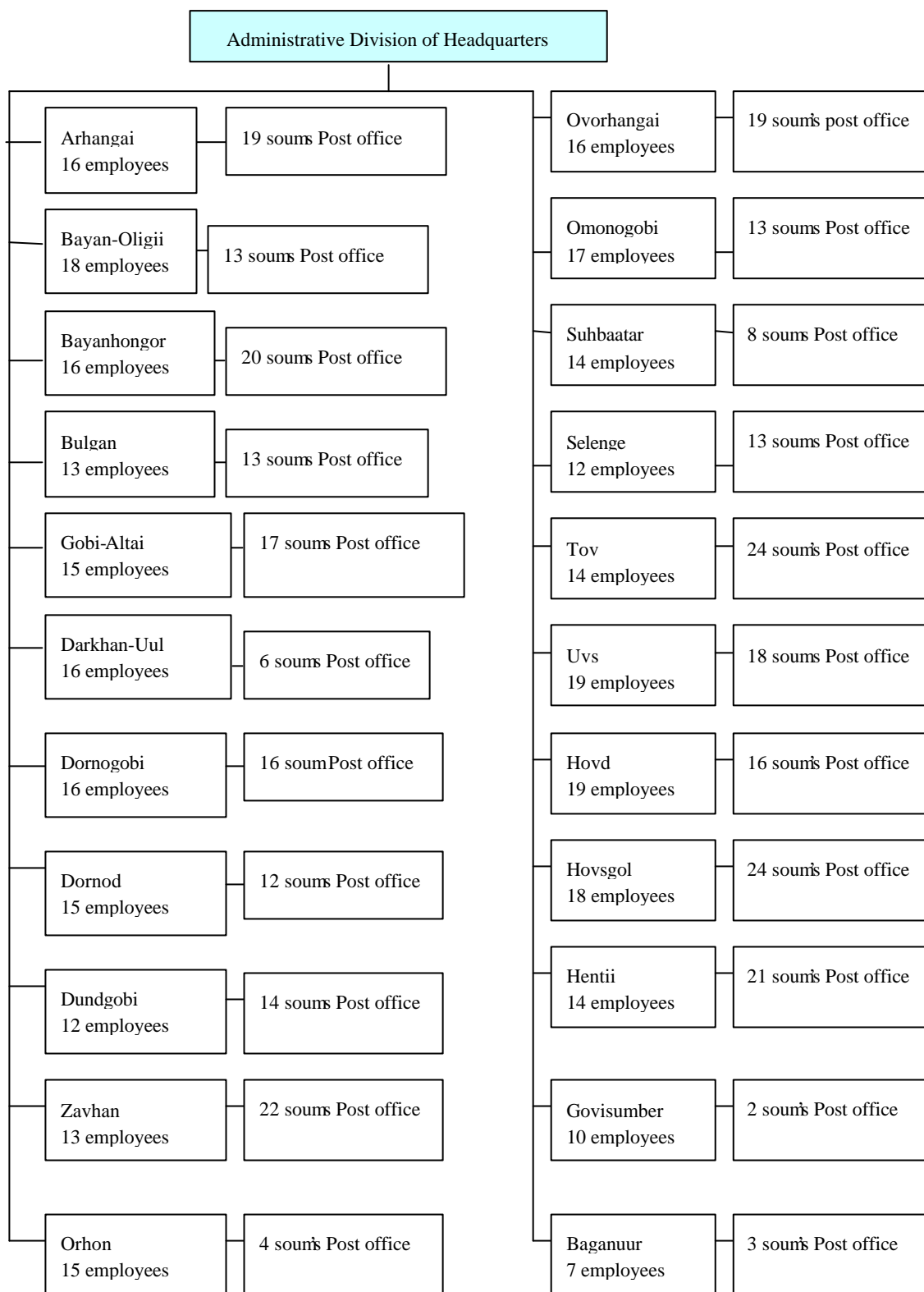
(3) Current organization chart of the MPC

The current organization chart is basically based on functions. (See figure 5-9) This was reviewed with the top managers in March 2000. The main points of revision of organization are as follows:

- Abolition of duplicated sections
- Simplification of working procedures

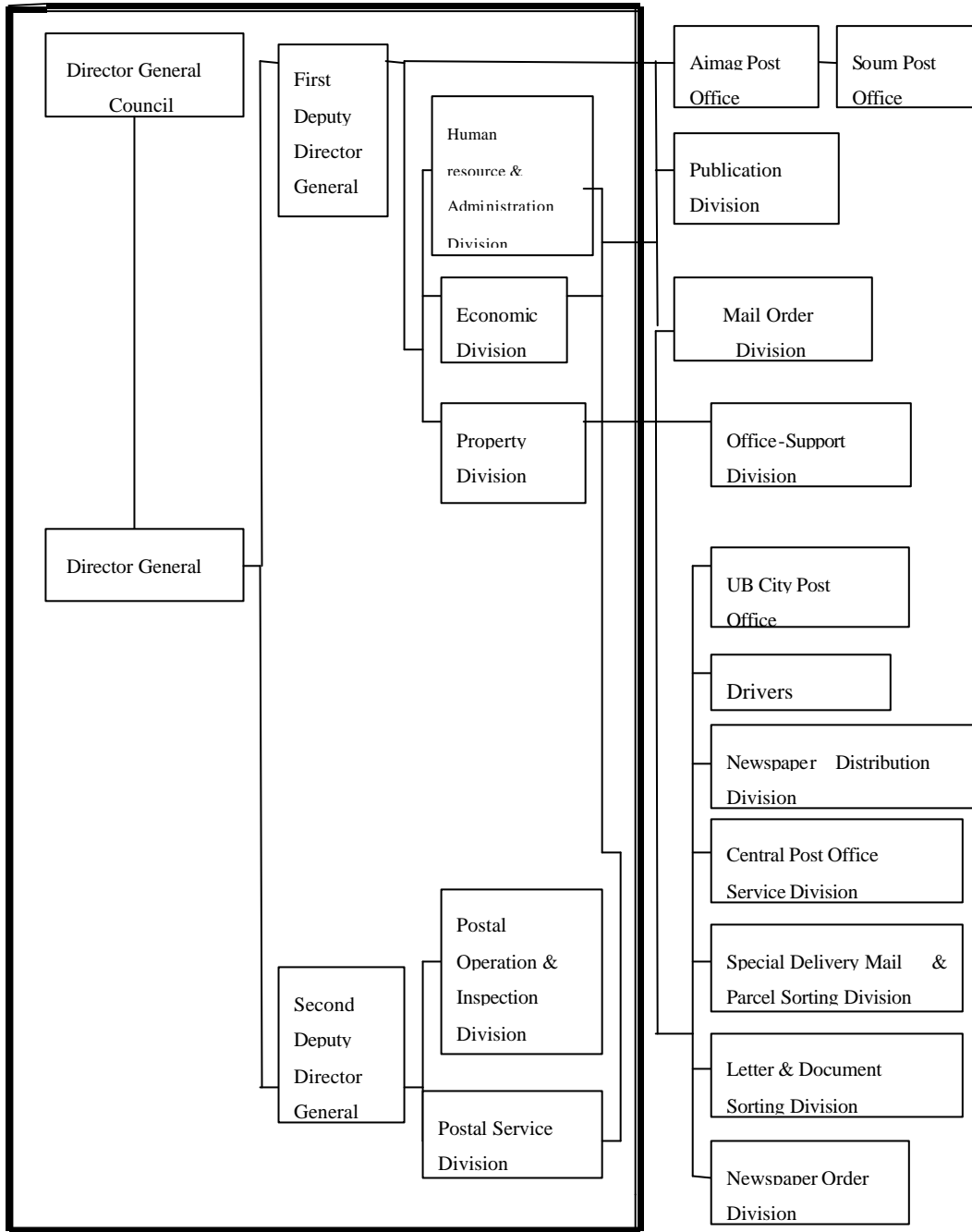
Uniformity of workload (Sections having little work were abolished or integrated, and as a result workload per employee increased.)

Figure. 5-8 Aimag and Soum's Post Office



Source: MPC

Figure. 5-9 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.

(1) Mongolian Technical University

Mongolian Technical University established two years' telecommunication and post service course based on the request of MPC in 1995. 13 students graduated from the course in 1997 and all students entered the MPC. However, this course was abolished in 1997 due to the following reasons:

- There are no positions available at MPC for graduates of this course since 1998.
- There is a shortage of instructors for the postal service.

(2) In-house training

Current in-house training is as follows:

- Education in marketing is conducted for about one week for managers every February.
- Education of financial course is conducted for approximately one week for the person in charge of finance once a year by a university instructor.
- Training is conducted for about one week for the employees in charge of banking business in local post offices.

Additionally, on the job training (OJT) for new employees is provided. However, manuals and programming for this training are not clearly established.

(3) Special training course

MPC is doing training for employees as special training;

- In case of price change for the postal service, the person in charge of finance at MPC educates cashiers of MPC.
- An instructor of APPTC educates the managers at MPC based on the invitation from the MPC.

- The above-mentioned manager of MPC is sometimes dispatched to training centers overseas, such as Germany, Japan and APPTC.

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. Studies for the formulation of such proposals could begin by ascertaining the organizational capacity of the principal at present, in line with the approach of clarifying the status quo. This is because the principal's organizational capacity is a major determinant of whether the project will actually get on track and proceed as planned in the future. Once the current status and level of capacity are determined, a comparison can be made with the requirements for success in the project. In areas where capacity is found to be deficient, proposals can be made to increase it.

(2) Definition of organizational capacity

Organizational capacity may be defined in various terms. For example, it could be divided into several components (such as finances, business processing, and information collection) which are each studied separately. Alternatively, studies could emphasize normative items such as accountability and transparency, or focus on the structure of incentive.

In any case, a high or low capacity could be expressed as a high or low cost on the premise that increased time and trouble in business execution translates into a higher cost. If this cost is termed the "business cost," 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.

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.²

(3) Constituent elements of organizational capacity

The items of study for evaluation of organizational capacity are the elements constituting the aforementioned business cost. 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

² Ostrom, Elinored ed. (1998), *Institutional Incentives and Sustainable Development, Infrastructure Policies in Perspective*, Westview Press.

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.

1) Expertise

In this group, the subjects are the technical knowledge, experience, know-how, and facilities in the possession of the principal and its staff. If the principal has enough experience and the infrastructure for information is well developed, business costs required for coordination among concerned personnel can be held to a low level.

2) Specificity

Specificity may be equated with the degree of clearness in the definition of authority and division of roles among concerned institutions and parties. A good specificity and a high transparency in the decision-making process can hold down business costs required for disposal of problems and monitoring.

3) Incentive

To explore the circumstances for incentive in the business principal, the evaluation in this group will take up the following three factors.

- Shared values

Organizational capacity is greatly influenced by the degree to which the concerned parties both inside and outside the principal understand and have a shared perception of its mission and significance, as well as the specific means (if any) taken to promote shared values.

- Competitive pressures

Organizational capacity is also affected by the presence or absence of competition among departments and staff in the principal, accurate evaluation of the degree of contribution, and reflection of the evaluation results in treatment. In addition, external pressures and competition also exert an influence on organizational capacity.

- Accountability

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 management.

5.7.4. Evaluation of Organizational Capacity

The existing organizational capacity of the MPC is studied with reference to the yardsticks defined in the preceding section. Indicators were selected in each group as noted below with a view to evaluating the MPC's capabilities for executing the proposals derived from the results of the study.

1) Expertise

Evaluative indicators

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

2) Specificity

Evaluative indicators

- (a) Presence/absence of simple and clear-cut systems of instruction and command within the organization; organization of chains of command in terms of type of work
- (b) 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
- (c) Laws and regulations influencing procedures
- (d) Rules for measures in response to sudden difficulties, such as natural disasters, accidents, and labor disputes

3) Incentive

Evaluative indicators

- (a) 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
- (b) 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
 - Extent of outsourcing of certain work to external private companies and privatization of certain divisions
- (c) Accountability

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

5.7.5. Expertise

(1) Presence/absence of a full complement of staff with practical ability in the technical and business aspects

All of the personnel in administrative (managerial) positions at the MPC's head office and those on the level of head of regional (Aimag) post offices have graduated from universities or professional schools. In the days of the centrally planned economy, personnel were trained in Russia, but this system is out of step with the current market economy. Full-fledged training since the transition to the market economy is exemplified by the course established at the Mongolian Institute of Technology at the request of the MPC for the purpose of grooming postal experts. The course was offered from 1995 to 1997, and comprised both general education and specialized instruction in communications and postal services. A total of 13 students graduated from it. However, the course could not be regarded as one of systematic education; it in effect received no financial assistance from the MOI, and was also hampered by a lack of full-time instructors and adequate texts. There has been no movement toward reinstatement since its discontinuation two years ago.

The following types of short-term training (of about one week's duration) are offered once a year.

- Training mainly in marketing for personnel in administrative positions (on the level of post office head)
- Training for personnel in charge of finances
- Training for personnel providing banking services in the Aimags (begun last year)

There is also training offered on an irregular basis for administrative personnel by instructors invited from the Asia-Pacific Training Center. In addition, one or two administrative personnel with the requisite foreign language ability are sent overseas for training. Training to increase the level of practical skills among ordinary employees consists mainly of on-the-job training (OJT) for about a week after they are newly assigned to a post.

In spite of these efforts for human resource development, there is widespread discontent among customers with the on-the-job attitude and level of knowledge of counter service personnel, at least to judge from the interview findings. Furthermore, in post offices on the Soum level, there are currently almost no personnel with knowledge about banking services and finances.

(2) Conditioning of the information-communications infrastructure for linkage between the work site and central organs

Post offices on the Soum level are equipped with at least telephones. Computer networks have been established with the exception of certain areas. However, they are used mainly for exchange of financial data; exchange of e-mail is almost non-existent. (It might be added that the master plan formulated by the Asian Development Bank in 1993 for the telecommunications sector in Mongolia targeted use of e-mail for almost all communication.)

(3) Presence/absence of a clear understanding of the attributes of the socioeconomic structure and groups of beneficiaries in the service areas

Among the strategic targets for 2002 posted by the mid-term management plan released in 1999 are the start of new services based on a firm grasp of customer needs through a market survey and the provision of services tailored to the geographic characteristics of the area in question. On the question of the degree to which this customer-first approach to service provision is now being practiced, it may be noted that the following observations emerged from the Study Team interviews with customers.

- Use rates are high (corporate customers)
- The contract was concluded under the old economic order and has not been revised since (corporate customers)
- There is a need for prompt mailing of official documents and sure follow-up work in the event of trouble (public institutions)
- Post offices that also offer banking services have deficiencies in the security aspect (financial institution)
- The same services are not available at all post offices (individual customers)

(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

The MPC was reorganized in March 2000. The major aims of this reorganization were as follows: 1) abolition of redundant divisions, 2) simplification of business procedures, 3) achievement of a uniform work load (work load leveling), and 4) abolition and consolidation of divisions with a low work load to increase the load per employee.

The following two areas must be studied further in order to ascertain whether the chains of instruction and command are clearly defined in the new organization.

- Decision-making authority on each level (the decision-making process can be speeded up by delegating more authority to the lower levels)
- Division of authority between the two vice-presidents

In the interview survey at a division in which the position of section head was abolished as a result of the reorganization, the Study Team was told that the chain of instruction/command and the scope of duties in the daily routine were unclear, and that this was disrupting operations.

(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

More study is needed in this area. The Study Team was told that procedures were simplified substantially by the reorganization.

(3) Laws and regulations influencing procedures

The body of laws and regulations bearing on postal services includes the Mongolia Corporation Law and the authorization certificate setting forth the establishment of the MPC and its objectives and obligations. These statutes do not necessarily define the relationship between the MPC and the national government or other such parties with sufficient clarity. For example, the division of roles between the State Property Committee (SPC), which manages the MPC's assets, and the Post and Telecommunications Authority of Mongolia is not clear. This lack of clarity is reportedly working against speedy decisions.

Judging from the interview findings, the laws and regulations are not hampering the conduct of routine operations. The system provides for legal advisors assigned to the personnel affairs and administrative sections to be involved in the handling of all problems related to administration or contracting.

(4) Rules for measures in response to sudden difficulties, such as natural disasters, accidents, and labor disputes

No particular measures have been laid down for response to natural disasters. If transportation lines have been cut due to snow, for example, the basic stance is to wait until they have been reopened. Provisions have been made for dispatch of emergency vehicles in the event of accidents resulting in injury or death. In character, the labor union is much like a mutual aid organization. Although there was formerly a dispute in which the union demanded the resignation of the MPC president, there have not been any serious disputes in recent years. Trouble involving mail items and other routine difficulties are handled together with legal advisors.

(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

Even in the MPC itself, it could not be said that all of the staff have a shared perception of its mission; some attach more importance to its public service dimension, and others, to making a profit (according to the findings of a C/P discussion). As for the sharing of information, conferences headed by the president are held once a week for the staff of the head office administrative department and once a month for the entire head office staff. Every day, the staff of the administrative department attend a morning meeting held by the first vice-president. The results of these meetings are relayed to the Aimag and Soum post offices by telephone and fax.

(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

It is not clear how the degree of contribution by each employee is rated. As for treatment, the head office administrative division reports the business results to the vice-president every three months, and the amount of bonuses to be paid is set with reference them. However, the bonus payment does not vary greatly, and bonuses therefore do not provide significant incentive. In the Aimags, too, bonuses are paid on the basis of the business result at the Aimag center post offices, but in terms of collective responsibility. Bonuses of this sort do not give individual employees any particular incentive.

- Extent of outsourcing of certain work to external private companies and privatization of certain divisions

In Ulaanbaatar and two other cities, the MPC is in competition with private firms in the field of newspaper delivery, which is one of its major sources of income. In that of EMS services, it is competing with firms such as DHL and Federal Express. There is no competition from the private sector in the field of mail-order sales.

(3) Accountability

- Extent of the system of internal checks through auditing, etc.,

Persons in charge of financial inspection are posted in the personnel affairs/administrative sections under the first vice-president (see the organizational chart).

- Degree of disclosure of information on the business

As far as could be determined through the interviews, there is not a very good knowledge of the various MPC postal services among the general public.

- Presence/absence of arrangements for feedback from concerned parties

There is regular auditing of the MPC's business by the MOI's SPC and of its finances by the Ministry of Finance (it is not certain how the auditing results are fed back and utilized). There is no regular monitoring of mail delivery. The MPC has statistical data and business information, but there are no indications that it analyzes them and reflects the findings in its business as necessary. It is not clear whether any unit in the organization is assigned to gather feedback from customers and make management proposals in response, and (if such a unit does exist) whether it is carrying out this assignment.

(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.

- Under the current setup of chains, the relationships between superior divisions are unclear (e.g., concentration of final decision-making authority is concentrated in the president).
- A clear distinction has not been made between the duties of the personnel affairs and administrative sections under the first vice-president as regards personnel posting and those of the available service sections under the second vice-president.
- Although the second vice-president is in charge of laws and their bearing on postal business, legal advisors are under the jurisdiction of the first vice-president.

Under the current system, it would be advisable to delegate more authority to the vice-presidents and section heads for decisions in correspondence with the degree of importance. This could speed up the decision-making process and make the locus of responsibility clearer. As viewed from the standpoint of employees, it would, at the same time, make the channels for reporting clearer. The medium-term plan envisions a total staff size increase from 930 as of 1999 to 1,198 in 2002, but a decrease in the number of administrative personnel from 94 to 91 over the same period. Without a clarification of the relationships of authority among administrators, there consequently could occur a lack of coordination between the administrative and operational levels, which would result in a steep decline in efficiency.

The same kind of review must be made for the relationships on the level of Aimag and Soum post offices.

The Study Team intends to examine this area with the idea of making the decision-making system more effective at the current level of MPC human resources.

(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).

In the existing setup, information that should be reported by the financial auditor (one) to the president (or the board) is first reported to the head of the personnel affairs/administrative section as the immediate superior, and then relayed in turn to the first vice-president and the president. As such, reports may get buried or bogged down in the organizational line.

(3) The MPC must actively promote information sharing.

It is particularly important for information to be shared between and on the central and regional levels.

For example, information on basic matters of the operation, such as postage rates and the times of mail dispatch and delivery, should be posted at the proper places in order to avoid confusion in dealing with customers.

(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)

Groups can be formed for work on specific subjects, such as the launch of new services and improved efficiency. These groups would have a membership that crosses boundaries between departments and involves all personnel concerned with the subject in question. Once the task is finished, the group is dissolved. Use of such groups would enable the MPC to tackle various issues without repeated modification of the organizational chart or an increase in the number of administrators. Personnel who are members of working groups should be rated for their contribution in that context as well as that in their ordinary duties.

2) More flexible posting of personnel through work manuals

The preparation of work manuals would make it possible to prepare setups enabling a quicker and more flexible posting of personnel to cope with the busiest periods and times. Manuals must be prepared not only at the Central Post Office but also at the other post offices in Ulaanbaatar and the Aimag center and Soum post offices.

(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

There is an urgent need to increase the reliability of MPC services and to prepare schemes to this end, based on the needs among customers. In response to complaints about non-delivery, loss, damage, and poor treatment of customers, the MPC must build a scheme for systematic collection of customer comments, identification of causes, and corresponding improvement. A related matter for study is whether this could be done merely by reinforcing the existing Postal Operation & Inspection Division under the second vice-president or demands the establishment of a new unit.

2) Construction of a system for reflecting customer views

The MPC should institute a unit (or appoint a person) to be in charge of analysis of customer views and proposal of corresponding measures directly to the president. Similar measures must be taken in response to mail item loss or damage. This issue could also be addressed through a working group (task force). Another option for study is that of reorganization in terms of customer type, for total accommodation of each type by a separate division.

3) Systematic development of human resources

At present, there is only one person in the personnel affairs/administrative sections in charge of training. The customer opinions about the attitude exhibited by MPC employees in dealing with customers and their level of technical knowledge suggest a need for systematic development of human resources at the head office and Aimag post offices.

The training options include performance by MPC personnel and specialized training by external experts. Studies must be made to ensure that the programs are conducted both effectively and efficiently.

4) Active advertising and publicity

The MPC must actively promote systematic campaigns of advertising and publicity about its services among all customers.

(6) Construction of setups and schemes for competitive advantage in Ulaanbaatar

If the MPC is to bolster its financial foundation for the future, it must gain an edge in the competition with the services of other firms in Ulaanbaatar. This requires the construction of a scheme for the development and execution of new postal services, money-related mail and other

high-volume mail, and other sorts of new services in Ulaanbaatar. The MPC must also build systematic setups for marketing and service improvement in the segment of international express mail, where it is exposed to tough competition from entrants such as DHL.

(7) Measures to encourage a rise in the degree of target attainment

The prospective measures to this end include an increase in the wage level or rise in the degree of variation in bonuses for better reflection of individual performance. The MPC must also make studies for a clearer definition of standards for promotion and career paths.

(8) Effective use of computer networks

One of the means of promoting information-sharing and higher work efficiency is effective use of computer networks. Each Aimag center post office is currently installed with one computer but is not making full use of it. The MPC must study this area from the perspective of systematic circulation of information and training to enable all personnel to use computers and the requisite software.

(9) Contingency plan

In all types of work, the MPC must consider approaches to the preparation and sharing of manuals setting forth daily experience as well as systematic information transmission channels in the event of disasters and accidents.