

Chapter 6

Basic Guidelines for the Improvement Plan

6. Basic Guidelines for the Improvement Plan

6.1. Overview

6.1.1. Future Outlook for Mongolia

(1) Population

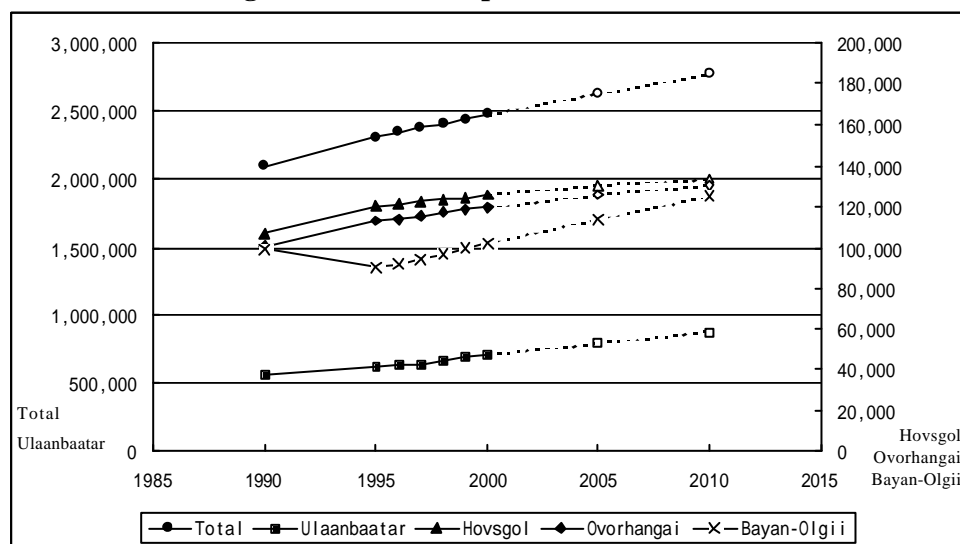
1) Forecast Perspectives

In Mongolia, nine sets of future population forecasts (i.e., estimates) were made in 1994, extending to the years 1999, 2004, 2009, 2014, and 2019. The forecasts for 1999 ranged from 2.5249 to 2.5852 million people. At 2.4167 million people, the actual 1999 population was considerably below this range. This survey adopted the set closest to the actual 1999 figure, and revised the estimates for 2004 and 2009 based on the 1999 data.

2) Forecast results

The population of Mongolia is expected to increase steadily, growing at an annual average rate of 1.2 percent from 1999 to 2005 and 1.0 percent from 2005 to 2010. The gravitation into the Ulaanbaatar area is anticipated to continue; the area's share of the national population is forecast to increase from 28.2 percent in 1999 to 30.2 percent in 2005 and 31.8 percent in 2010.

Figure 6-1 Future Population Framework



Source: Prepared by the JICA Study Team based on population estimates from the Statistical Bureau

Population should grow faster than the national average rate in the Aimags of Orkhon, Darhan-Uul, Govisumber, and Bayan-Olgii, but to stay on the same level or

decline in the other Aimags. Within Aimags, the shift from Soum centers and Bags to Aimag centers was expected to continue.

(2) Economic Outlook

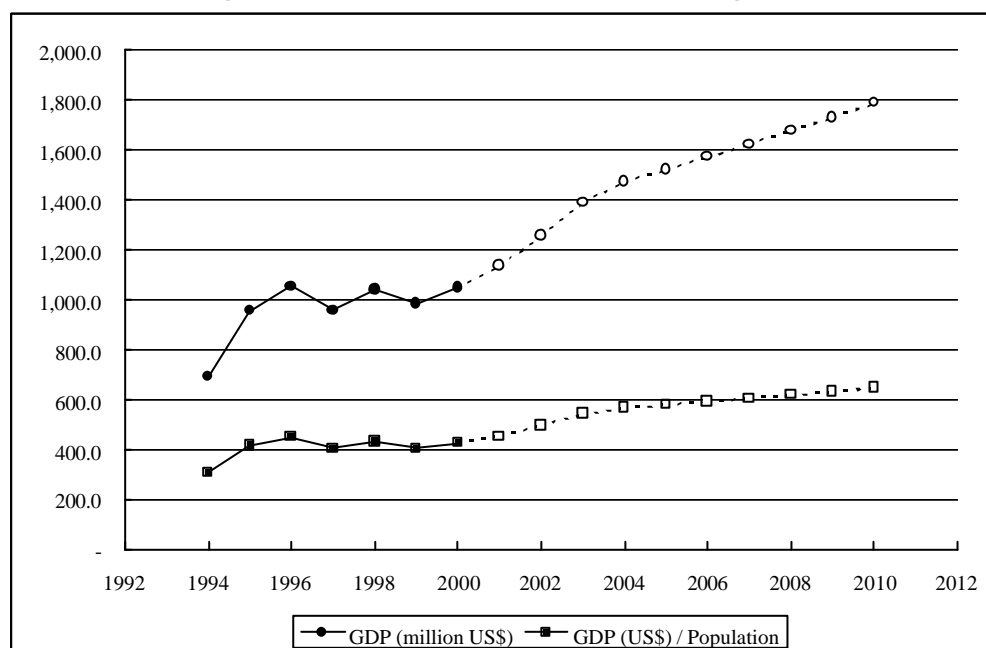
1) Forecast perspectives

Forecasts of economic indicators for Mongolia are represented by the future projections extending to 2004 made by the MOF. These projections were adopted as the economic framework to the same year, and provided the basis for a forecast of gross domestic product (GDP) and other factors over the years 2005 - 2010.

2) Forecast results

The GDP is expected to exhibit firm growth at annual rates averaging 7.5 percent over the years 1999-2005 and 3.3 percent over the years 2005-2010. The corresponding forecast figures for GDP per capita of population are 6.2 and 2.2 percent, respectively.

Figure 6-2 GDP Growth Forecast for Mongolia



(Reference)

GDP (US\$) per capita

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
US\$	-	305.9	412.6	448.0	401.8	430.2	401.8	423.3	452.2	493.8	540.1	565.4

Year	2005	2006	2007	2008	2009	2010
US\$	577.7	590.2	603.0	616.1	629.5	644.5

Source: prepared by the JICA Study Team based on MOF estimates

(3) Socioeconomic Outlook

In Mongolia, the transition to a market economy is anticipated to continue proceeding at a rapid pace. Economic activities will be centered in Ulaanbaatar. Outside Ulaanbaatar, there should be a certain degree of growth in Aimag centers which have some growth industries.

On the population basis, the list of promising markets is headed by Ulaanbaatar, followed by the Aimag centers. Population in Soums and Bags is projected to stay on the current level or decline along with the socioeconomic gravitation into Ulaanbaatar and the Aimag centers. There are wide gaps among Aimags and Aimag centers in this respect. At present, the national population shares are 20.9 percent for Ulaanbaatar, 20.9 percent for the Aimag centers, 15.9 percent for the Soum centers, and 34.7 percent for Bags and "other" areas. As this indicates, the focuses are definitely Ulaanbaatar and the Aimag centers. On the population basis, Ulaanbaatar will continue to be the main market; its share of the national population is forecast to hit 30.2 percent in 2005 and 31.8 percent in 2010. Following Ulaanbaatar, a moderate rise in population may be expected in the Aimags of Orkhon, Darhan-Uul, Govisumber, and Bayan-Olgii. Within Aimags, the main markets will be the Aimag centers, which will also presumably be a focus of population migration from Soum centers and Bags.

Table 6-1 1998 Shares of National Population

Ulaanbaatar			AIMAG CENTER		
Total	Male	Female	Total	Male	Female
652,231	317,798	334,433	479,460	227,596	251,864
28.5%	13.9%	14.6%	20.9%	9.9%	11.0%
			Average	22,831	21

Soum CENTER			Bags, Others		
Total	Male	Female	Total	Male	Female
363,654	178,593	185,061	795,494	400,874	394,620
15.9%	7.8%	8.1%	34.7%	17.5%	17.2%
Average			Average		
				515	1,546

Source: Statistics Bureau

6.1.2. Outlook for the Postal Service Market

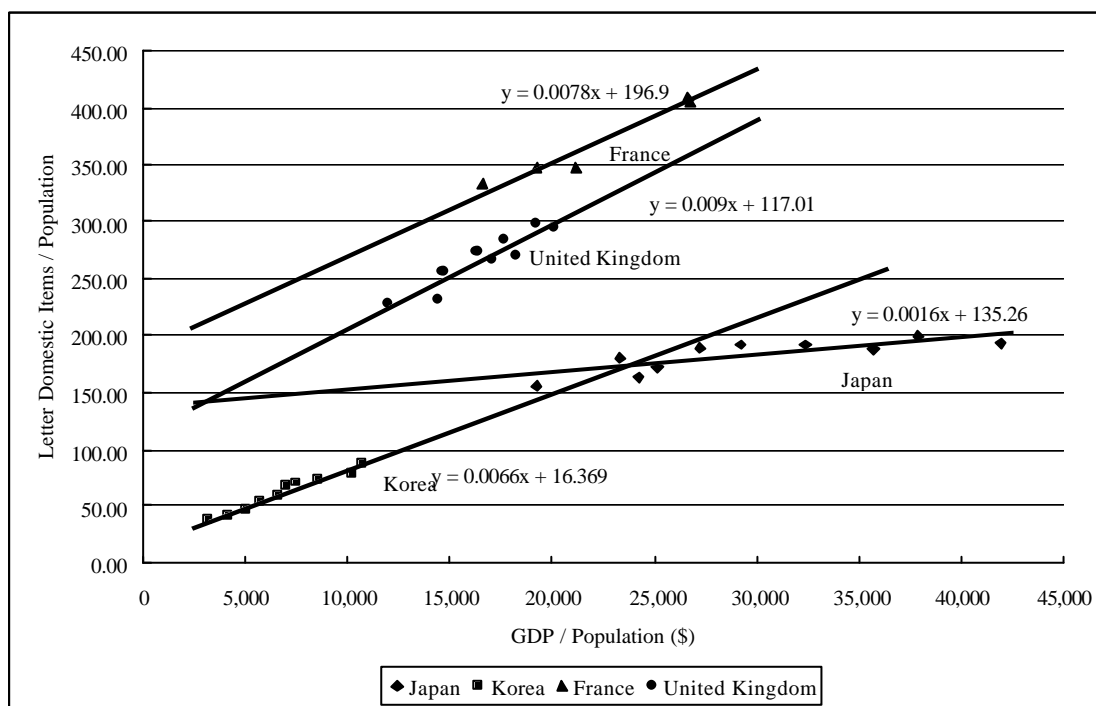
In Mongolia, postal services could not be regarded as fully discharging their function for the country's economic advancement. As was made clear by the survey of customer needs, this is primarily because the MPC is not providing services that customers want or need. Figures for the mail volume per capita in each type of service are on a par with those for GDP per

capita in various other countries but much lower in Mongolia. This implies that the inherent mail demand is not being fully actualized.

While the future development of services is treated later, this section views the potential of the postal service market in each regional category.

The figure 6-3 shows the gross domestic product (GDP) per capita of population on the horizontal axis and the number of domestic-mail letters per capital of population on the vertical axis. While the trend varies somewhat the depending on the country, the number of letters per capita of population generally rises along with the GDP per capita of population. The relationship consequently can be expressed by linear equation.

Figure . 6-3 GDP per Capita and Number of letters per Capita in Various Countries



Source: JICA Study Team

Table 6-2 presents a forecast of the number of letters per capita of population relative to the GDP per capita of population in Mongolia in 2000, 2005, and 2010 based on the trends in Japan, Korea, France, and the United Kingdom. In 1999, the number of letters came to about 0.18 per capita of population, and this implies the existence of a substantial latent demand. This demand will presumably be actualized along with progress of transition to a market economy, stimulation of economic and citizen activities, and improvement of MPC postal services.

Table. 6-2 Letter Items per person in Mongolia

	a	b	2000		2005		2010	
			x	y	x	y	x	y
Case of Korea	0.0066	16.4	423	19	578	20	645	21
Case of Japan	0.0016	135.3	423	136	578	136	645	136
Case of France	0.0078	196.9	423	200	578	201	645	202
Case of U.K.	0.0090	117.1	423	121	578	122	645	123

mathematical expression: $y=ax+b$

x: GDP / Population (\$)

y: Letter Domestic Items / Population

- Ulaanbaatar

The current socioeconomic status and future outlook indicate that Ulaanbaatar is and will remain the top market. The forecast for Ulaanbaatar includes steady population growth, strong economic growth, and a rise in resident incomes. This should be linked to a corresponding rise in the demand for postal services. At the same time, market expansion is likely to be accompanied by intensified competition with other enterprises. Improvement of services and the enterprise's resiliency for survival in the competition in Ulaanbaatar should be a matter of top priority.

- Aimags

The Aimags of Orkhon, Darhan-Uul, Govisumber, and Bayan-Olgii, where population is projected to grow, are also expected to experience economic growth and therefore present good possibilities for a rise in the demand for postal services. Even in these Aimags, however, the demand should be led by the respective Aimag centers of Erdenet, Darhan, Choir, and Olgii. In other Aimags, where population is anticipated to remain on the same level or decline and there are no prospects for substantial economic growth, the demand will clearly be seated in the aimag centers, and that on the Soum and Bag levels cannot be expected to increase. Measures for increasing the level of services in Soums (especially Soum centers) and Bags should be implemented only after studies to confirm the existence of a sufficient demand.

(1) Issues in Postal Services in Mongolia

1) Definition of Mission

Postal services are an integral part of the social capital supporting socioeconomic activities in Mongolia. It is vital to make a clear definition of the basic mission of these services and to use this mission as a standard for action in implementing them.

The nature of this mission should be fully discussed in the Mongol Post Company (MPC) and government, with the input of views emerging from a widespread sampling of public opinion. As exemplified by the bill for amendment of the Telecommunications Law, there is animated discussion about the scope of services at the MPC, which is providing postal services. Nevertheless, there has not been fully sufficient discussion on the position of the MPC as a national entity, i.e., the role which it should play in the national context.

2) Role of the MPC

In Mongolia, the transition to a market economy is rapidly progressing, and there appears to be some bewilderment about how to go about conditioning the social infrastructure and what should be done by the concerned principals. It is true that the movement for reform of telecommunications services, which was triggered by the decontrol of the telecommunications business, is unfolding with a momentum that is liable to spread to postal services. However, it must be remembered that this movement derives from the PTT setup to date; properly speaking, telecommunications and posts ought to be considered separately from each other.

In countries in the course of economic development such as Mongolia, it is critical to establish a postal system to serve as a realistic and actual means of communication among the populace.

While the transition to a market economy is moving ahead, the construction of a modern postal system must be promoted as a minimum prerequisite for the transition and as a national project, in the recognition that it is a crucial component of the socioeconomic infrastructure. This kind of perception is in absolutely no conflict with the switch to a market economy.

Fortunately, Mongolia has, in the MPC, an entity that can function as the seat of the postal system. Extensive efforts are being made in the rapid transition from a centrally planned economy to a market economy, and notable results are being achieved in the aspect of the national finances as well.

Judging from the current circumstances, however, it could not be said that the country has solidly established the postal system as a type of socioeconomic infrastructure fully capable of supporting economic advancement. This is evidenced by the level of postal service use, which is extremely low even as compared to that in other countries with a similar economic scale (in terms of GDP per capita of population).

(2) Evolution of the Mongolian Postal System and Issues for the Future

The postal system in Mongolia has undergone momentous change since the collapse of the socialistic order in 1990. A correct perception and a proper evaluation of this change are crucial for viewing the outlook for the future.

Table. 6-3 Evolution of the Mongolian Postal System

Period	Before 1990	1991 - 1995	1995 - 2000
Socioeconomic order	Socialistic	Economic collapse	Start of transition to a market economy
Postal system	Directly managed by the national government	Collapse of the former system and extensive restructuring	Establishment of the MPC Establishment of the financial foundation through diversification into new fields of services while maintaining the level of postal services based on existing assets

Source: Prepared by the JICA Study Team

<Short-term issues>

There can be no doubt that the Mongolian postal system is successfully being stabilized to a certain degree after the long struggle during the 1990s. More specifically, through unremitting hard work, it has succeeded in assuring provision of the minimum requisite postal services under the given circumstantial and environmental conditions. In addition, it is expanding its scope of business by entering into financial services, and making great progress in recruiting the related human resources. As a result, it is now realizing a net surplus in its accounts. Although it evoked some requests for more reliable services, the questionnaire survey of customer needs conducted as a part of this study did not reveal any widespread complaints about the services. This indicates that the current MPC services have achieved a certain stability for certain types of customers. The realistic objectives over the short term are: 1) assurance of reliability and speed, and 2) gradual expansion of services.

- Opinions of the nature described below were received from customers through the questionnaire survey.

1) Improvement of reliability and speed

- While some customers had thanks and praise for the postal services, this section concentrates on critical comments, for the purpose of improving services. As far as reliability and speed are concerned, the respondents noted many problems, including loss or non-arrival of mail, slow delivery, damage due to rough handling, unauthorized opening of envelopes (failure to protect confidentiality), rude treatment by postal

employees, and lack of knowledge on the part of employees.

a. Reliability

Steps must be taken to see that mail items are not lost and are delivered within the prescribed number of days. In addition, laws should be enacted to protect the confidentiality of correspondence. Employee training and preparation of manuals also must address the need for an improvement of customer treatment and knowledge of services and work.

b. Speed

In light of the limitations of the current system for collection, delivery, and transportation, action to increase speed should, for the time being, consist of the announcement of a fixed schedule for these operations and provisions to see that the schedule is strictly observed. A prospect that can be considered in connection with plans for new services is the initiation of door-to-door delivery and express delivery services, with publicity emphasizing the availability of rapid services.

2) Improvement of services

a. Classification of postal services

Customers indicated a lack of understanding (or knowledge) of the service assortment and a perception of the rates as complicated or too high. The MPC also must study the classification of services and setting of rates.

b. Reorganization of postage rates

There were numerous comments on the expense of postage. Postage should be considered in terms of comparative advantage of postal services. At present, mail is slow, unreliable, indirect, and expensive as compared to telephones, especially in Ulaanbaatar. The situation is similar in the rural areas. Internationally, the advantage of mail is that it can cheaply send a large amount of information in document form that can be read at the recipient's convenience. A letter can contain the equivalent of a 30 minutes' conversation on the phone, although it will take more time to receive. It is advisable to review pricing for better reflection of these comparative advantages. This should be essential for increasing the mail volume.

c. Classification of services

There is a wide range of services whose provision is desired at post offices, including postal services, financial services (remittance, payment, etc.), telecom services, sales

of goods, and governmental services. The MPC must define the service assortment and decide which services are to be available at all post offices and which are to be offered as the demand permits.

There is also a need for consideration of options such as flexible working hours at post offices and expansion of locations in correspondence with the demand.

d. Repair of Facilities and Equipment

Customers voiced requests for repair of the post office, improvement of cleanliness, improvement of the work space environment, and improvement of transportation equipment. Here as well, detailed studies must be made in connection with the efforts to improve reliability, speed, and service quality.

<Long-term issues>

Viewed from a long-term perspective, one of the biggest problems in the current business model is that it offers no prospects for development of needs for core services (in letters and parcels). In the future, economic activities are expected to quicken along with the country's socioeconomic recovery and advancement. In the process, various types of communications activities should grow at least as fast as the economy. Nevertheless, the existing system could not handle such growth. For example, while business results should be improving given the recent economic growth, the statistics show that sales associated with EMS, ordinary mail, and stamps have apparently peaked out, and actually dipped in 1998 - 1999.

The main factor behind this trend is the collapse of the postal network, and particularly the transportation system, dating from the days of the socialistic order. The situation probably could not have been avoided in the transition to the market economy. People are reportedly coping by depending on private postal services as well as telephone and e-mail. However, there are no signs that the MPC has gotten a firm grasp of the reasons for the decline appearing in the statistics.

There has also been no accurate apprehension by any party of the reason for discrepancies such as the rise in sales in the parcel division, where statistics indicate a decline in the handling volume, and big gaps with figures in accounts¹. At any rate, the major issue (task) for postal services in Mongolia can be summarized in the question of how to construct a postal system with the extensibility needed to keep abreast of the ongoing transition to a market economy and function as a key socioeconomic infrastructure supporting the country's economic and

¹ On this point, it should be noted that there are several sets of statistics on the mail volume, which may or may not match the record in accounting books. However, this does not change the basic contention here, seeing that even these statistics do not contain a final determination of the handling volume, which is one of the most fundamental data items in postal services, and that this very neglect is a problem in itself.

cultural life.

Issues about MPC

The issues facing postal services in Mongolia can be diagrammed as shown below. They must be addressed by the MPC. Upon a clear definition of its position, the MPC must resolve these issues and transform the business by replacing the vicious circle of unfavorable performance with a beneficent one of expansion.

<Short-term issues>

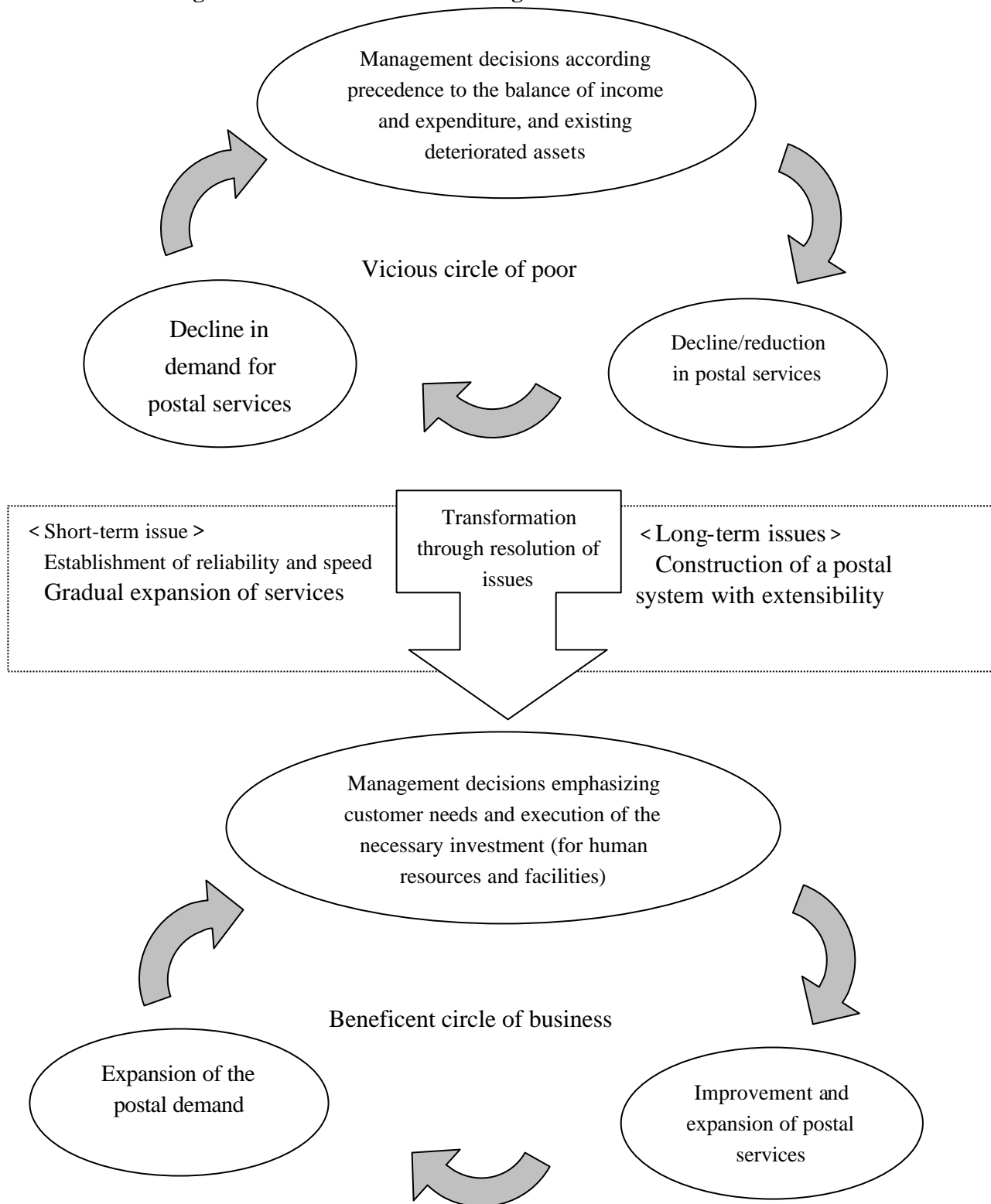
- 1) Assurance of reliability and speed
- 2) Gradual expansion of services

<Long-term issues>

How to construct a postal system with the extensibility needed to keep abreast of the ongoing transition.

The figure on the next page summarizes these issues that Mongolian Postal System currently holds. MPC must play the major role to overcome the difficulties and transform the “vicious circle” to the “beneficent circle”.

Figure. 6-4 Transformation Through Resolution of Issues



Source: JICA Study Team

6.1.3. Basic Guidelines for the Improvement Plan

The improvement plan of the MPC for resolution of the issues and the future outlook described in each section of Chapter 6 must be formulated in accordance with the following three guidelines.

(1) Provision of services that match customer needs

If the MPC is to provide postal services discharging the function of infrastructure required for development of the market economy, it is essential for it to offer services that match customer needs. It goes without saying that the existing services must be altered for close conformance with these needs. In light of the goals of establishment of reliability and speed by restructuring business process over the short term and construction of an extensible system over the long term, the Study Team proposes a new service to go beyond the existing one, namely, "Pigeon" mail (featuring door-to-door delivery, low uniform rates, and other attributes of modern postal services, with the ability for extension).

(2) Establishment of a self-funding capability

In spite of its pronounced public-service dimension, postal services must not be permitted to operate at a deficit and without regard to feasibility as a business. While efforts have been made to this end thus far, the MPC must make appropriate investments (planning and execution) and clear management decisions to enable provision of services meeting new customer needs.

(3) Establishment of accountability

Seeing that a surplus is already being posted, it could be asserted that the aim of building a self-funding capability is already being met. The important thing is to reconcile the currently conflicting ends of providing services that match customer needs and achieving self-sufficient funding. This must be followed by a shift from the present structure of contracted equilibrium to one oriented toward expansion by restructuring business process. To this end, the MPC must establish an internal accountability and take appropriate action. For this purpose, it must build a solid organization (which, however, must be flexible enough to adjust to customer needs and the service requirements), strengthen programs for personnel development, and prepare all sorts of manuals.

6.1.4. Perspectives on Regional Differences and Phased Development

In Mongolia, there is now (and will be in the future) a difference between Ulaanbaatar and the Aimags in respect of concentration of population and economic development. Although uniform services nationwide is an worthy goal, attractiveness as a market varies with the degree of customer concentration and income, and this is naturally linked to a difference in the kinds of service sought and the demand. The plan therefore should deal with Ulaanbaatar and the Aimags (and lower units) separately.

6.1.5. Ulaanbaatar

As the national capital and the hub of the country's socioeconomic life, Ulaanbaatar is the area with the greatest influence as regards reconstruction of the postal system.

At present, customers generally go to post offices to deposit and receive mail; they usually cannot receive postal services at their own address (home or office). The basic model for receipt of services lies in rental of a PO box at the post office or having post offices keep mail for them to pick up. This model is, at the same time, a type of base-centered scheme of service provision and led by the administrative (as opposed to customer) side. To utilize postal services, customers must go to counters and have the personnel there perform administrative procedures.

As a result, this model acts to restrain demand. As evidenced by the current status, although there is some margin in financial resources invested for maintenance of this model, the inefficiency is tolerated because the demand cannot be expanded. To expand the demand, it is consequently necessary to free customers from the current administrative procedures and shift to a more casual use of postal services as a matter of course. This requires a far-reaching revision of services through a shift of orientation in the five ways noted below. The general thrust is a switch from services in the manner of public-sector procedures grounded in supply-side logic to private-sector services grounded in demand-side (customer) logic.

Focal points in revision of post office services:

- Shift from points to planes (base-centered provision to provision on the site of demand)
- Shift from administrative initiative to market initiative
- Shift from supply-side logic to demand-side logic
- Shift from passivism to activism
- Shift from the public sector to the private sector as the demand center

It should also be noted that Ulaanbaatar has already become the scene of competition around international parcels. This implies a need for the construction of up-to-date management models designed for survival in competition as opposed to reversion to the traditional model premised on monopoly, which is becoming an issue in various other countries.

In light of the considerations noted above, the MPC should convert its business to the contemporary "Pigeon" management model equipped with the following four capabilities.

Major capabilities of the new postal service model:

- Instatement of door-to-door delivery
- Provision of high-quality services
- Operation with flexibility for adaptation to the demand
- Active use of private-sector energies

6.1.6. Aimags

In the Aimags, the short-term issues are simple as compared to the case in Ulaanbaatar. Considering the current domination of publications and the public-sector demand as well as the status of mail exchange between Aimags, it is clear that postal needs are focused on exchange with Ulaanbaatar. It may also be observed that the Aimag centers (with some exceptions) and the Soum centers are relatively small. As such, it would be fully possible to retain the base-centered scheme of service provision as a fundamental arrangement in the Aimags while promoting improvement of services with the five-way orientation noted above for services in Ulaanbaatar.

Over the longer term, the success or failure of the reform represented by the "Pigeon" model in Ulaanbaatar could provide the basis for decisions (including the practical aspects) on promotion of such reform in the Aimag.


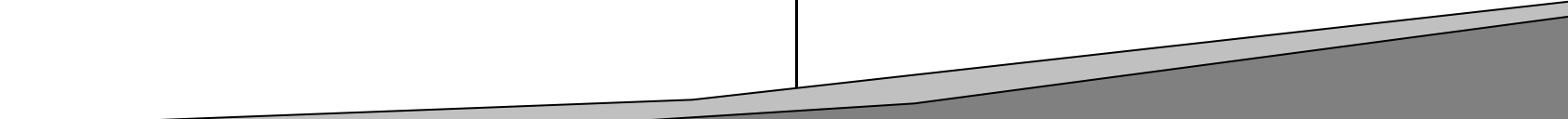

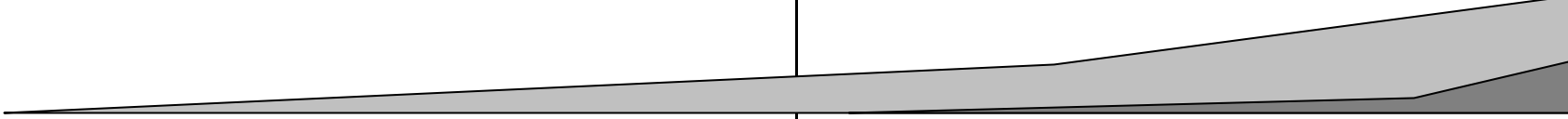
At any rate, it would be effective to allow the Aimag center post offices, which have a good understanding of their customers' needs, to lead the programs of improvement in their own service areas. The new business model should be established first in Ulaanbaatar. If and when the improvement in accordance with the aforementioned focal points in service revision makes progress, the new services exemplified by the "Pigeon" model could be introduced in correspondence with customer needs.

6.1.7. Perspectives on Plans for Phased Improvement

The plans for improvement over the years 2001 - 2010 are studied in terms of two periods: 2001 - 2005 (short term) and 2006 - 2010 (long term). In reality, the improvement must be initiated after performance of the process of revising post office services and instating a new model based on an accurate determination of the trends in the market, which vary with the region. For the revision of post office services in particular, there are numerous measures that could be implemented right from an early stage in the short term. While establishment of the new " Pigeon" model in the market is a long-term end, it will actually require implementation of various measures over the short term.

* Table 6-4 outlines the agenda in each regional category and phase.

Table. 6-4 Outline of the Plans for Phased Improvement

Term	2001 - 2005 (short term)	2006 - 2010 (long term)
Ulaanbaatar	Unipolar concentration in Ulaanbaatar	Greater unipolar concentration in Ulaanbaatar Rise in the level of customer needs
Existing services	<ul style="list-style-type: none"> • Refinement and improvement (improvement of customer services, etc.) • Increase in (expansion of) business result through sales activities 	<ul style="list-style-type: none"> • Shift toward new services • Maintenance of the status quo for other services
New services	<ul style="list-style-type: none"> • Construction of a new business model • Design and construction of facilities adapted to the new services • Start of sales activities once preparations have been made for regular service • Increase in vehicles and carrying equipment, etc., to support the new services 	<ul style="list-style-type: none"> • Rapid growth through steady provision of "Pigeon" services
Image of services provided 		
Aimags, etc.	Socioeconomic conditions on the same level or slightly lower, with the exception of certain Aimag centers	Continued concentration in certain Aimag centers Increased possibility of rise in customer needs in certain Aimag centers
Existing services	<ul style="list-style-type: none"> • Refinement and improvement (improvement of customer services and outsourcing in correspondence with transportation plans and the market) • Increase in (expansion of) business result through sales activities 	<ul style="list-style-type: none"> • Increase in postal services and shift to new services in certain areas • Maintenance of the status quo for other services
New services	<ul style="list-style-type: none"> • Active determination of needs and the market 	<ul style="list-style-type: none"> • Introduction while monitoring the market and taking Ulaanbaatar as a precedent case
Image of services provided 		
Internal organization	<ul style="list-style-type: none"> • Organization of a team to be in charge of new services and reinforcement of the sales section • Establishment of the setup for supervision, definition of responsibilities at each stage, and incorporation of arrangements for mutual checking • Rigorous control of documents and data (preparation of a manual) • Incorporation of an incentive system into performance evaluation • Instatement of a systematic program for human resource development adapted to personnel careers • Presentation of perspectives on outsourcing (preparation of a manual) 	

Source: JICA Study Team

6.2. Outlook for Existing Services

As shown in Table 6-5, the demand for existing services may be expected to increase about as fast as the per capita GDP, assuming maintenance of the current service level and implementation of the short-term measures of improving quality control and customer treatment.

As compared to that in developed countries with modern postal systems, the demand for existing services in post offices in Mongolia is on a fairly low level (in terms of the number of items per person in each service category). The level is also low when viewed from the standpoint of the level of the GDP per capita of population. An increase in line with the per capita GDP growth rate is fully conceivable.

Table. 6-5 Target Growth for Existing Services

Service level	Perspectives on demand
Maintenance of the current service level	Growth on the order of the GDP growth per capita of population 1999 - 2005 AAGR: 6.2% 2005 - 2010 AAGR: 2.2%

* GDP per capita imported here can be referred in the Figure 6-2.

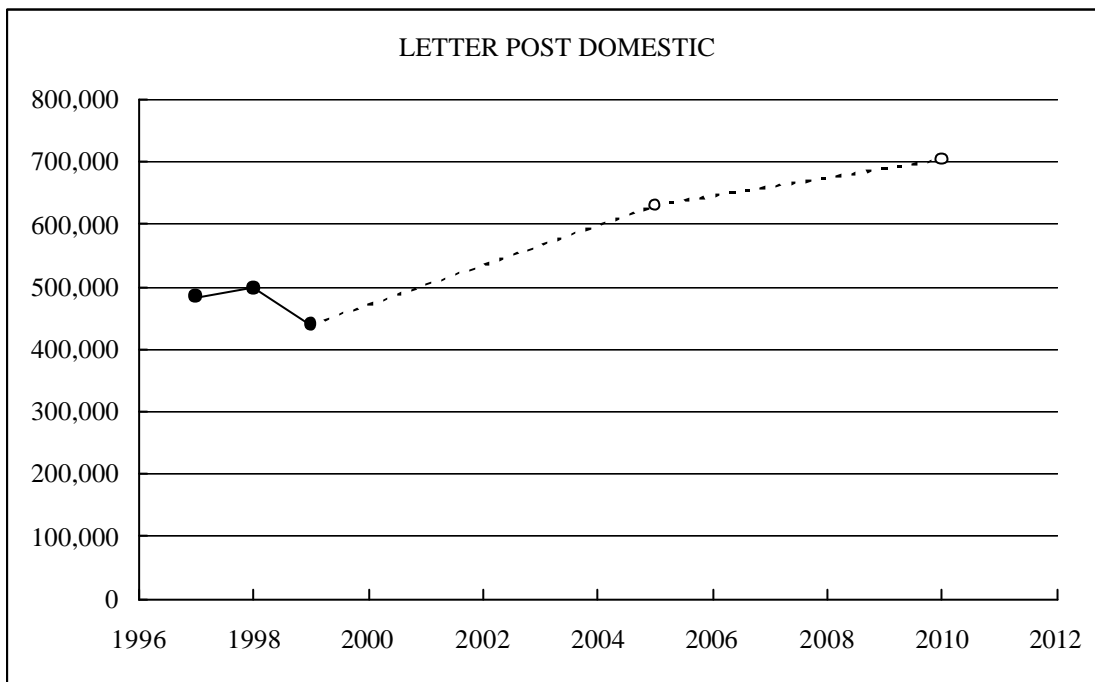
Source) JICA Study Team

The following figures show the forecast trend for each existing type of service. Of these types, the demand for domestic and international letter-post as well as parcels and for EMS would shift to the new "Pigeon" services once they become established, as described later in this chapter. In view of this probability, it must be borne in mind that the trends in the figures are of a transient nature.

(1) Domestic Letter-Post

Demand for domestic letters are mostly for official use at the moment. Comparison with foreign usage of postal services reveal that the current use of domestic mail is way too low by any standards, with only 0.3~0.4% of the mail volume per population compared to other countries. It is also an alarming sign that even with the recovering economy, mail volume actually dropped. Since it is unthinkable that the potential demand for mail should decline with a growing economy, a significant service improvement and higher marketing effort are urgently needed.

Figure. 6-5 Forecast of Domestic Letter Post

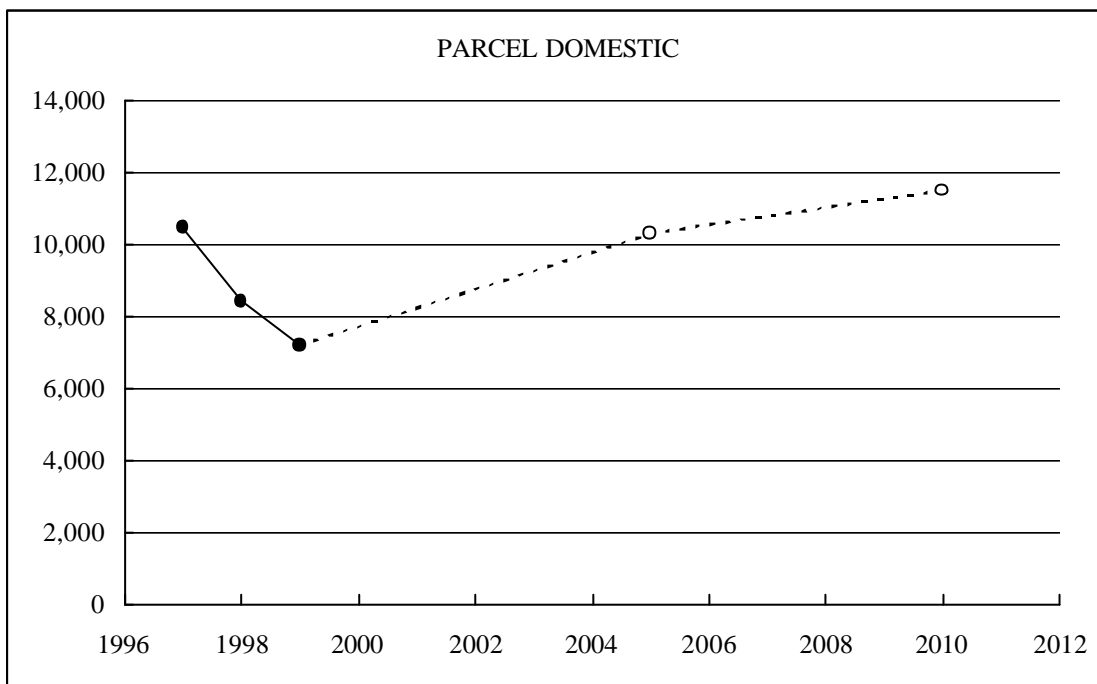


Source: JICA Study Team

(2) Domestic Parcels

Domestic parcel is an area where MPC boasts a monopoly. However, the usage is still extremely low compared to the international level, with only 0.2~0.4% of the mail volume per population compared to other countries. It is also an alarming sign that even with the recovering economy, mail volume actually dropped. As with the domestic mail service, a significant service improvement and higher marketing effort are urgently needed.

Figure. 6-6 Forecast of Domestic Parcels



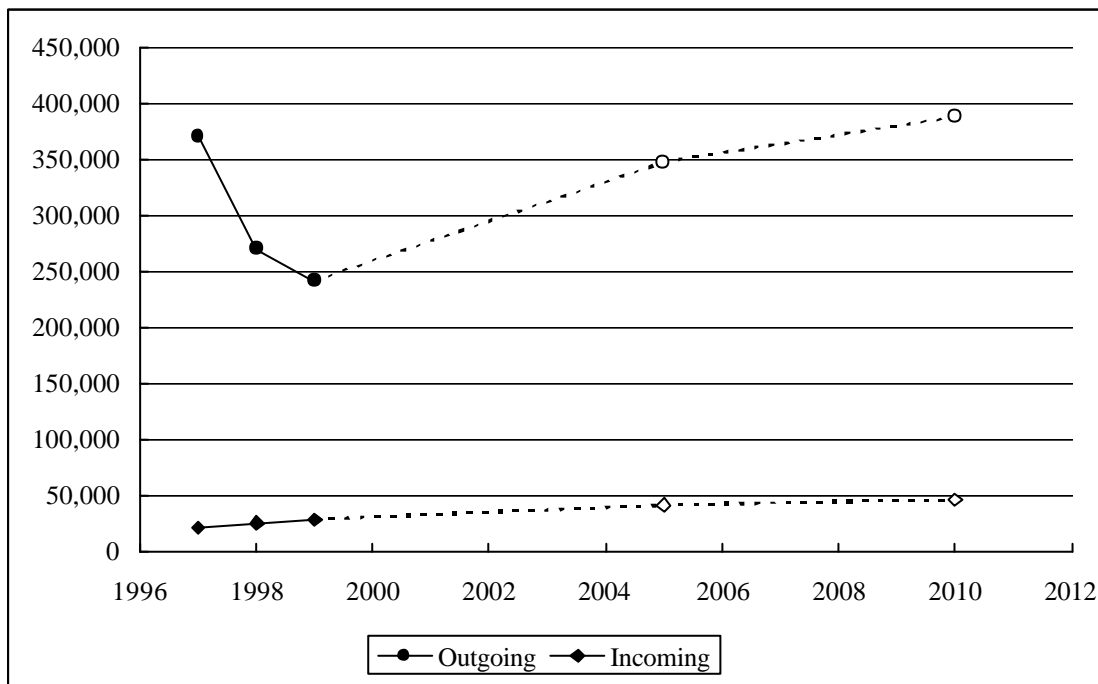
Source: JICA Study Team

(3) International Letter-Post

International mail is at a very high level now, and stable growth is expected as the economy expands, especially around Ulaanbaatar. International trade should grow, which should increase transaction of various business documents such as reports, catalogs and invoices. It should also be noted that although the level of international mail is high by Mongolian standards, it is still at a mere 20 percent of the international level.

One cause for caution is the growth of international courier services, such as DHL and the new UPS. Service improvement is extremely important in this service area, too.

Figure. 6-7 Trends of International Letter Post



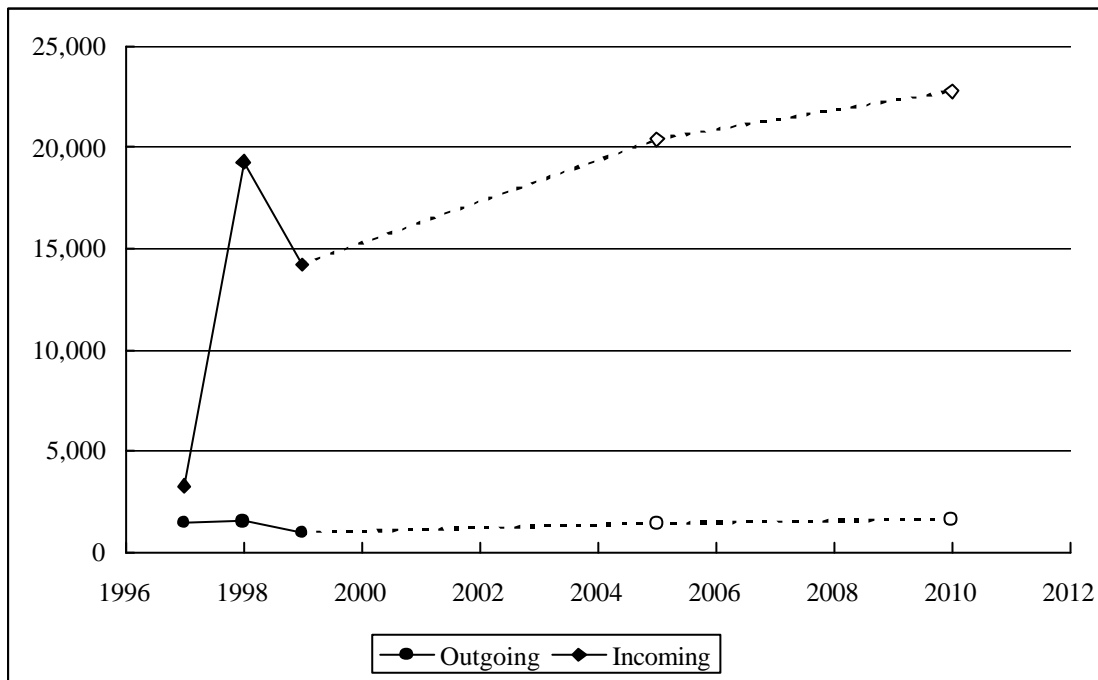
Source: JICA Study Team

(4) International Parcels

International parcel is under competition from international courier operators, as well as EMS. The total demand should increase as the level of foreign trade increases, especially around Ulaanbaatar. The usage of international parcels is at a mere 3.0 percent of the international level, which indicates that there is more potential demand for this services.

As mentioned, competition from international courier is a concern. MPC should make significant effort to improve reliability, as well as introduction of competitive tariffs and collection services.

Figure. 6-8 Trends of International Parcels

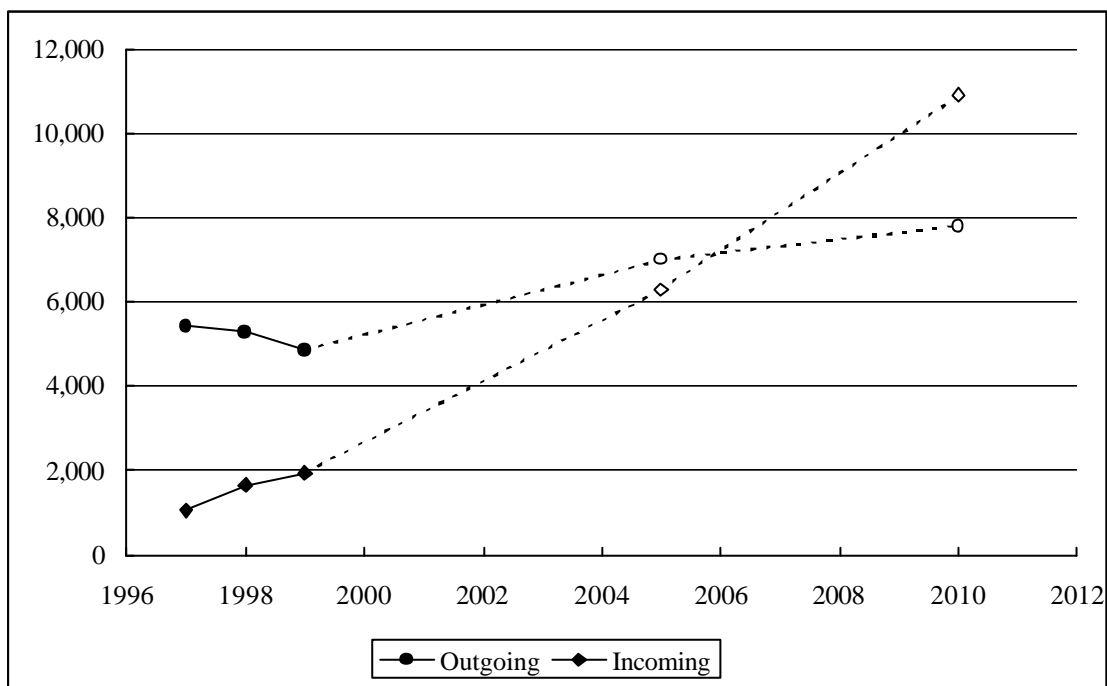


Source: JICA Study Team

(5) EMS

EMS is also under competition in the international market, although in the domestic market, EMS (or rather express parcel) is an MPC monopoly. The total demand should increase as the level of economic activity increases, especially around Ulaanbaatar. However, this also is an area where heavy competition may be expected. MPC should make significant effort to improve reliability, as well as introduction of competitive tariffs and collection services

Figure. 6-9 Trends of EMS

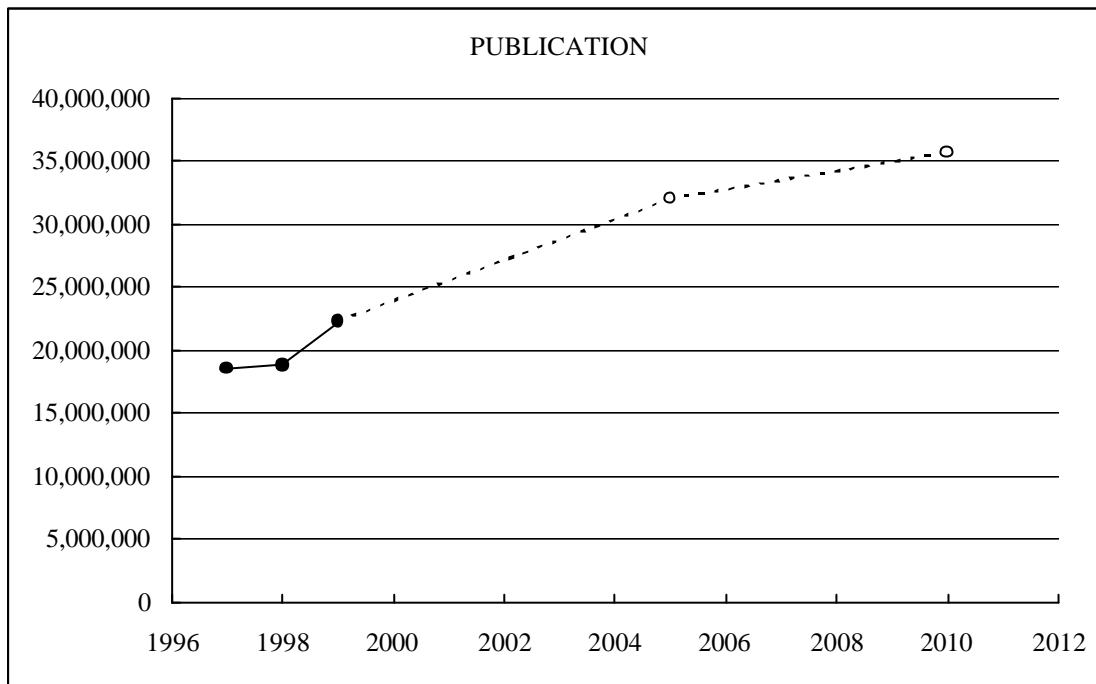


Source: JICA Study Team

(6) Publication

The publication delivery, which forms a large part of the handled volume for MPC at the moment, needs careful consideration. The service requirements for handling publications and handling mail differs significantly, both internally and for the user. With the increase of mail volume and possible competitors, the publication handling may become a burden.

Figure. 6-10 Trends of Publication



Source: JICA Study Team

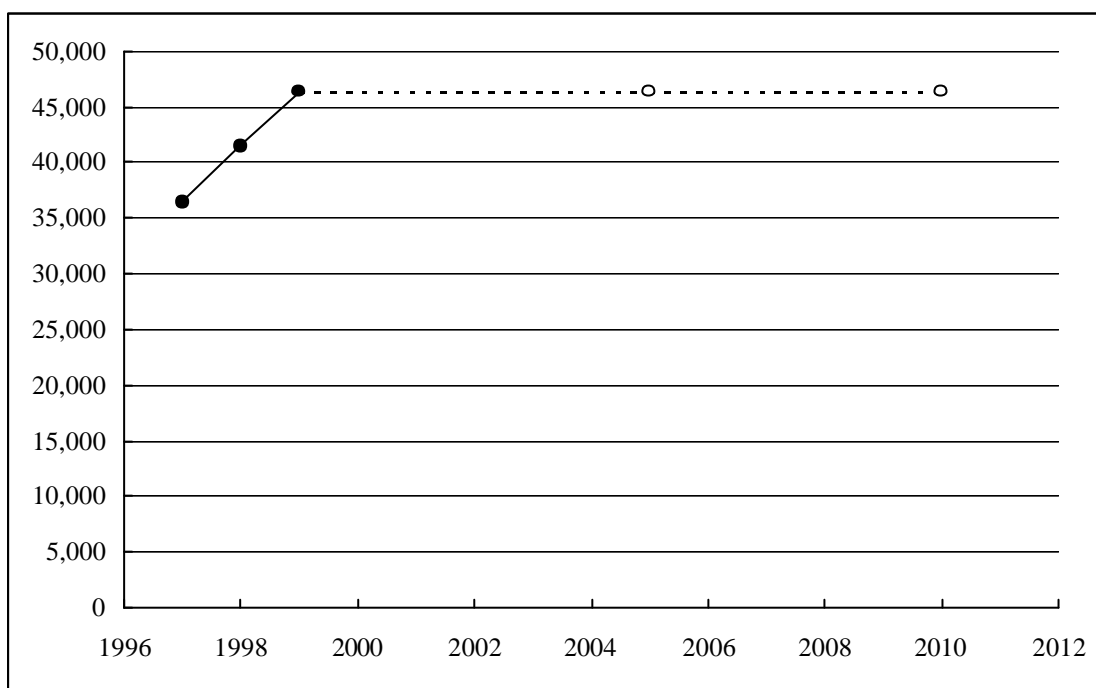
(7) Sales of Stamps

In Mongolia, normal stamps (which are used for normal payment of postage) and stamps for collection purposes are completely separate. Demand for normal stamps should increase along with the postal demand. On the other hand, demand for collector stamps are based on the international demand from the stamp collectors. It has been pointed out that lack of proper announcement, inconsistent themes and low quality printing of stamps hinder the potential demand for Mongolian stamps.

(8) Passenger Transportation

The demand for passenger transportation itself should increase along with population growth and economic recovery. However, the main market would be in the rural Aimags, where growth is likely to be limited. Also, this service has a very low barrier to entrance, which means that any opportunity would more likely than not be snatched up by anyone who has a car. Therefore, significant growth is unlikely.

Figure. 6-11 Trends of Passenger Transportation



Source: JICA Study Team

6.3. Perspectives on Plans for New Services

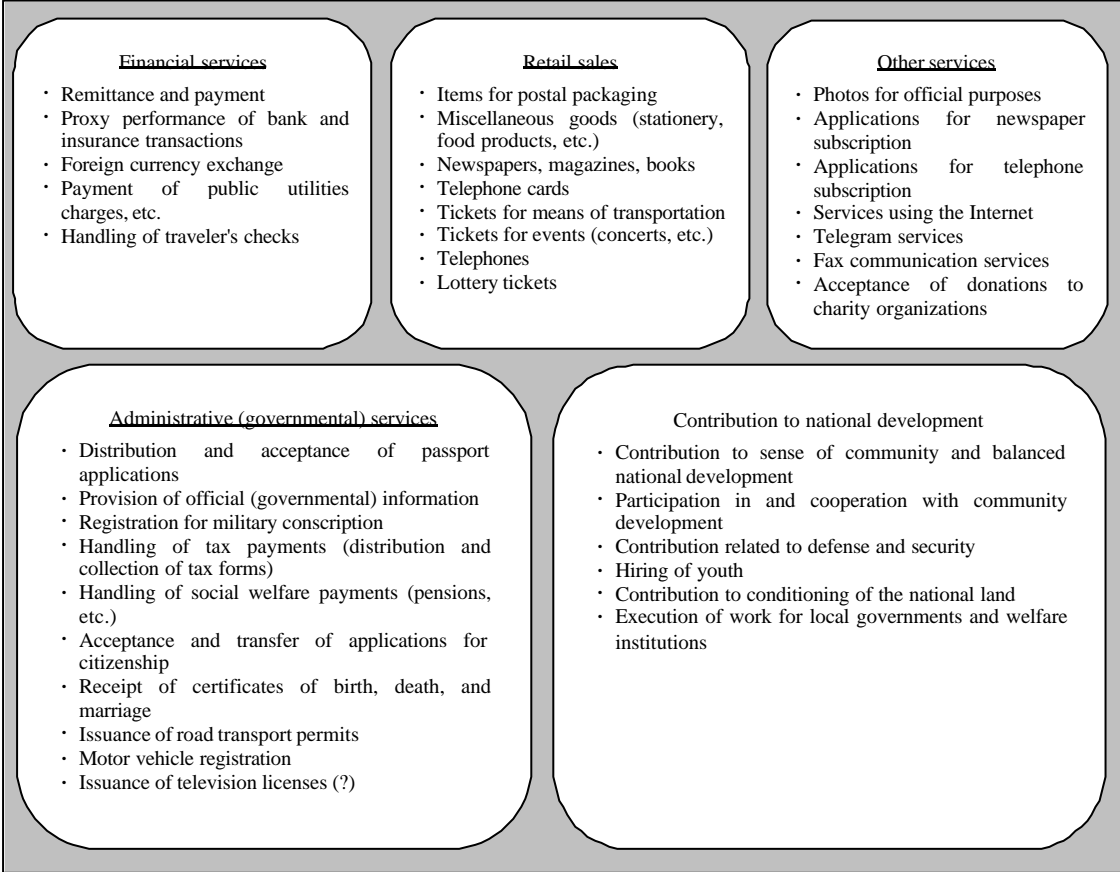
In addition to the outlook shown in section 6-2, in light of the results of the survey of customer needs conducted by the JICA Study Team, the MPC cannot achieve advancement over the medium and long terms with its current level of trustworthiness and existing services; instead, it must take measures over the short term (up to and including 2005) and effect a noticeable improvement in its services. The customer survey also indicated that, as the transition to a market economy progresses, needs for postal and related services will gradually expand. However, there is considerable variation in respect of the level of demand for each type of service, and knowledge of services is by no means widespread among customers. For these reasons, the MPC must promote active marketing campaigns while commencing new services characterized by a high reliability and convenience in a phased

manner, i.e., beginning with the segments of greatest demand.

The cases of postal services in other countries suggest that it is important for the MPC to view the development of new services from two perspectives: 1) that of postal services using the physical distribution (logistics) network, and 2) that of post office services using the network of post offices. Figure 6-12 presents the different facets of the role of post offices in other countries. As shown in this figure, post offices function as infrastructure for discharge of their public role while also providing various services and making a contribution to the local community. The augmentation of services along the lines of this target vision for post offices can be fully expected to further the advancement of Mongolia as well.

In view of the planning of postal services and post office services, JICA Study Team summarized those plans in the following section. Details of customer needs survey shall be referred to the “Supporting Report”.

Figure. 6-12 Role of Post Offices in Other Countries



Source:

6.3.1. Plans for New Services

The development of new services must be grounded in a viable vision for the business model. It demands definition of the kind of value to be delivered to the customer and the kind of action to be taken by the MPC side. Over the longer term, the MPC must improve services with an awareness of competing ones as the market expands. As such, it also must take account of the elements of strategy and differentiation relative to competitors. In the following section, plans for new services for mail, remittance/payment and post office services are described.

6.3.2 Mail Services

(1) Development of Pigeons Express Services

Modern postal services are important infrastructure for Mongolia during the transformation period toward market economy. However, as the questionnaire surveys to customers, the issues of collection and delivery and such are clearly indicating, current postal services are low in reliability, and their poor quality and inefficiency in operation are pointed out. While to make MPC's operations upgraded and efficiency is essentially necessary, it is very difficult to eliminate users' doubt. As a consequence, it is considered that introducing the pigeon mail service, which not only eliminate users' low evaluation for the existing service level, but obtain reliability and enables MPC to provide high quality and efficient services differing from the existing ones with absolutely new concept.

As agenda items for the time being, the MPC should initiate door-to-door delivery in Ulaanbaatar, establish new mail handling facilities in Ulaanbaatar designed to prevent damage and loss, and develop postal services equipped with a reliability and convenience (ease of use) that can bear comparison with those of competitors. As viewed from the standpoint of the business model, this clearly entails new services as opposed to services that are merely extensions of the existing ones.

1) Contents of service

- For both international and domestic, letters (documents) and parcels services will be provided in the totally new manners which has improved reliability, speed and convenience.

2) Value provided to the customer

- Reliability, speed, convenience

3) Action to be taken by the MPC

- Clear definition of the service areas of each post office and their establishment as centers of sales in these areas
- Assurance of uniform mail handling facilities
- Establishment of the schedule and method of mail transfer between post offices and the new handling facilities
- Preparation of marketing materials for services
- Preparation of work manuals for MPC employees

The Pigeons Express Services will occupy a position of importance also for the rippling effects on and expansion into the future services. The MPC must aim for early implementation of door-to-door delivery in Ulaanbaatar around the Pigeons Express Services if it is to encourage use, especially by companies, government, and international organizations, for large-volume purposes such as financial mail, direct mail, and official documents as well as for high-value-added express services such as EMS.

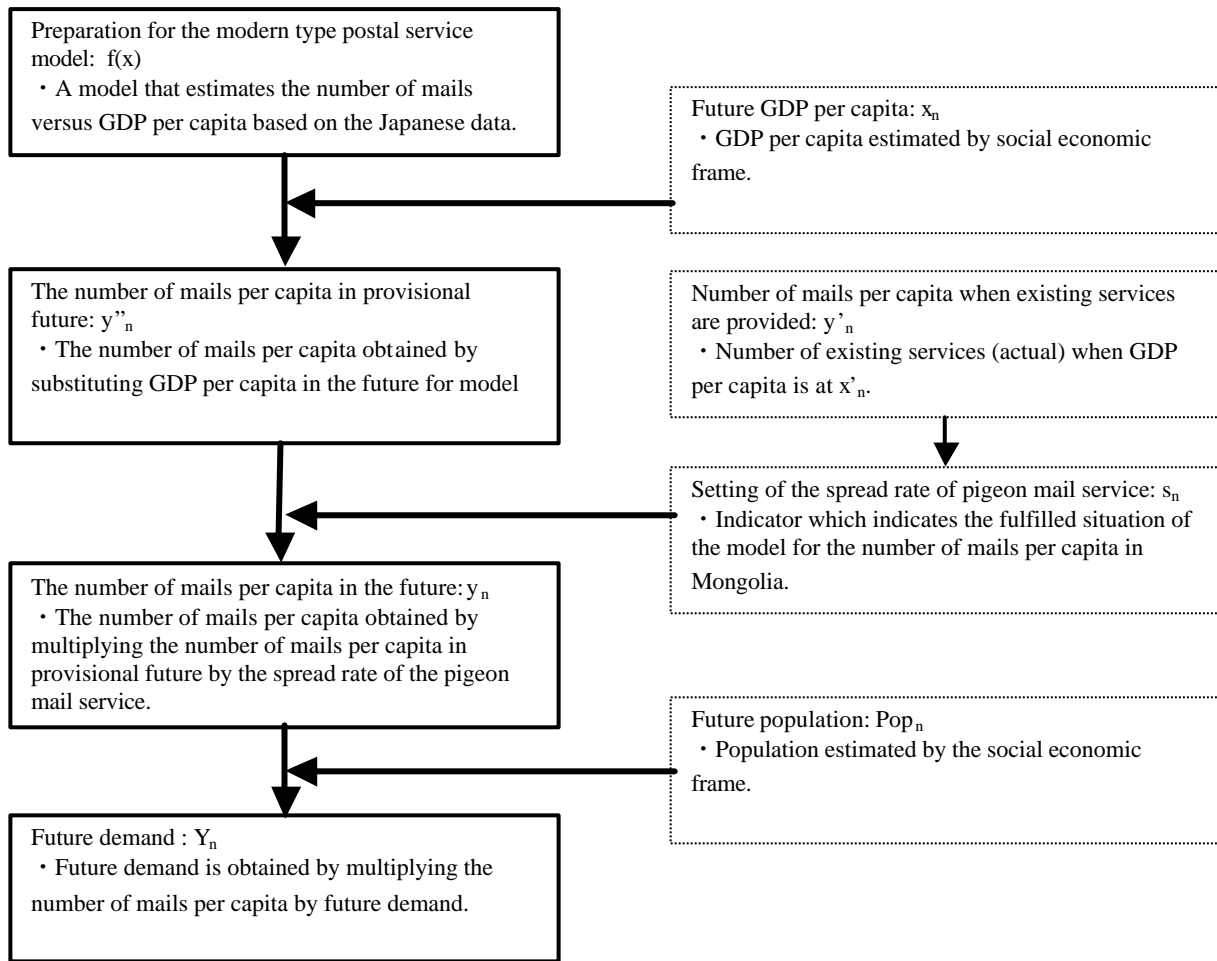
The current MPC's EMS services are not widely known by customers and are capable of delivery for only a limited number of countries. The findings for customer needs indicate considerable use of the services of DHL and other such competitors. The interview survey found that DHL's share of the demand for express delivery services in Mongolia is more than 60 percent. In addition, although customers such as banks indicated needs for same-day delivery within Ulaanbaatar, such services are not yet offered by competitors. To avoid missing opportunities of this type, and to recapture markets that are being taken away from it, the MPC must develop express delivery services.

At the same time, it naturally must also implement door-to-door delivery for individuals in view of the increase in mail sent by companies and organizations to ordinary people as consumers and citizens.

(2) Perspectives on future targets

The following estimates domestic mails, domestic parcels, international mails and international parcels developed as a new service called "Pigeon Mail". This pigeon mail is modeled after a current postal service in Japan and is totally new for MPC.

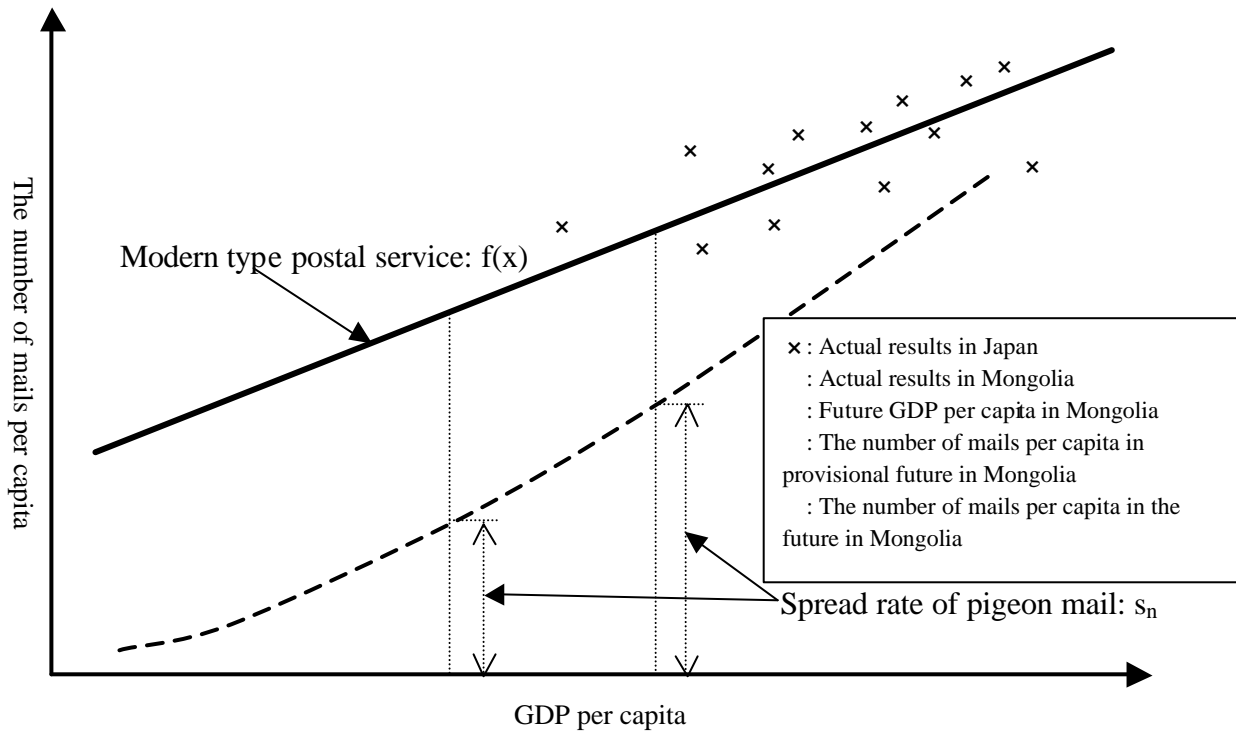
Figure. 6-13 Flow Chart of Estimating Demands for Pigeon Mail Service



1) Outline of demand estimation

The demand estimation for the four types of the pigeon mails, which are not provided at the present situation, has been executed from the concept shown on figure 6-13. First of all, clarifying the relations between GDP per capita regarded as a common indicator and the number of mails per capita, the modern type postal service model has been prepared. Next, the number of mails per capita in the future in Mongolia is calculated by this model and GDP in the provisional future in Mongolia. Although this can be considered as the future demand of Mongolia, the number of mails per capita and GDP per capita under the existing services are isolated from the modern type postal service model, therefore, even if the new pigeon mail service is developed, the modern type postal service won't be able to take a steady position. Therefore, the spread rate of the pigeon service was set against the number of mails per capita and the number of mails per capita in the future set by this model was made by multiplying the spread rate. The future demand is obtained by multiplying the number of mails per capita derived from the above process by the future population.

Figure. 6-14 Image of Demand Estimation



2) Preparation of modern type postal service model

Since the data according to each service type for the modern type postal service can be obtained for a long period of time, it was prepared from the Japanese actual results. Because the actual results in Japan take a range from the times when its GDP per capita was low, the actual results for the past 20 years were utilized. For the function type, it returns for linear, exponential, logarithm and exponent, the most fitted function types were employed.

Table. 6-6 Modern Type Postal Service Models According to Types

Type	Function type	Model formula	Correlation coefficient
Domestic mails	Logarithm	$Y = -47.3043 + 21.0686 \ln(X)$	0.9404
Domestic parcels	Linear	$Y = 1.1666 + 0.0001X$	0.8359
International mails	Logarithm	$Y = 0.0633 + 0.0954 \ln(X)$	0.8529
International parcels	Logarithm	$Y = 0.0020 + 0.0020 \ln(X)$	0.8111

3) Setting of spread rate for pigeon mail service

The spread rate of the pigeon mail service was set as shown in the figure 6-15. Considering the actual results by existing services standing at base levels, the pigeon mail service is presumed to gradually spread as a new service. Although the pigeon mail service is considered to be close to the modern type postal service model from a super long viewpoint, it stands at a substantially low level due to the low levels of existing services, and based on this status, the spread rates of the pigeon mail service of each year are calculated multiplying the annual average increasing rates (about 2%).

Figure 6-15 shows the trend of the number of mail items per capita of population per service relative to the GDP per capita of population. It can be seen that use is on a low level in these terms, and the instatement of Pigeon Mail services could be expected to improve this situation. Here, it is assumed that these services will bring an increase in line with the rate of growth in the per capita GDP.

Figure. 6-15 Spread Rate of Pigeon Mail Services

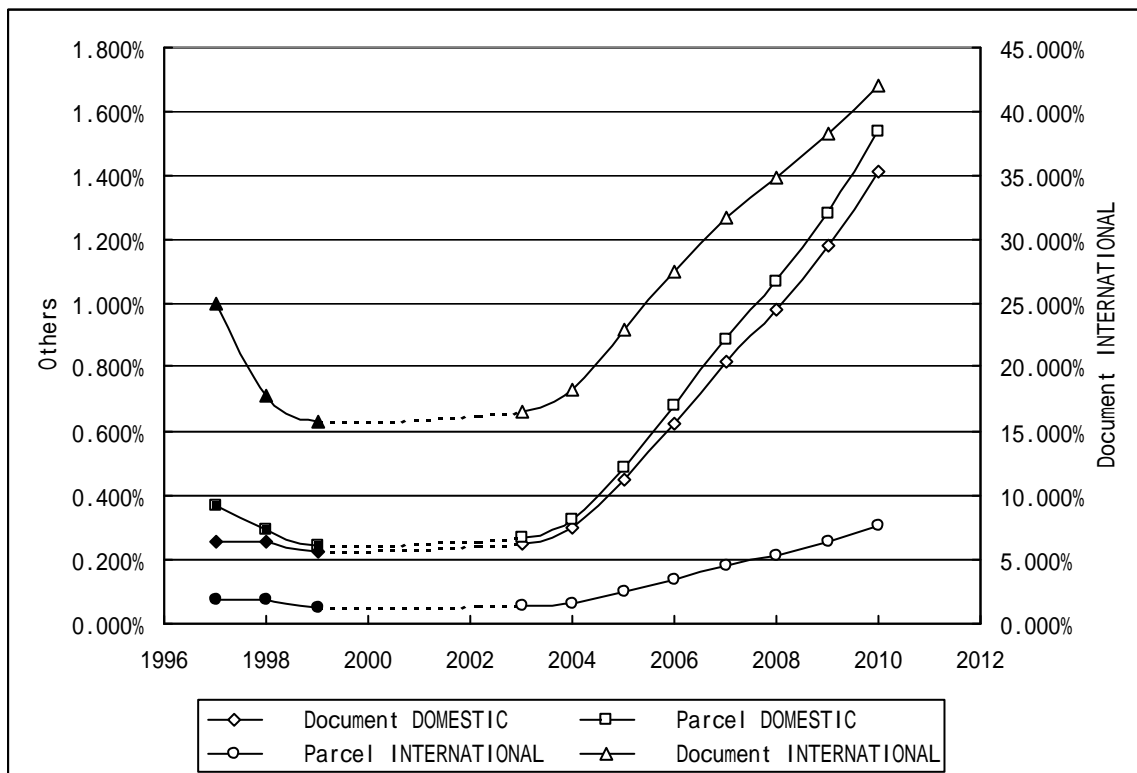
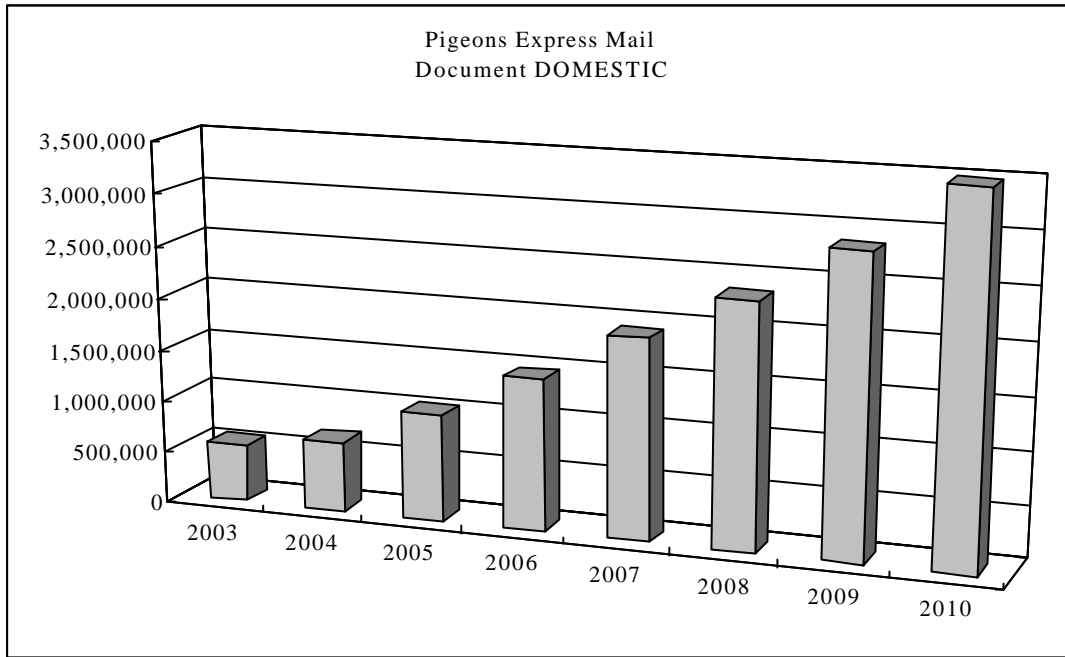
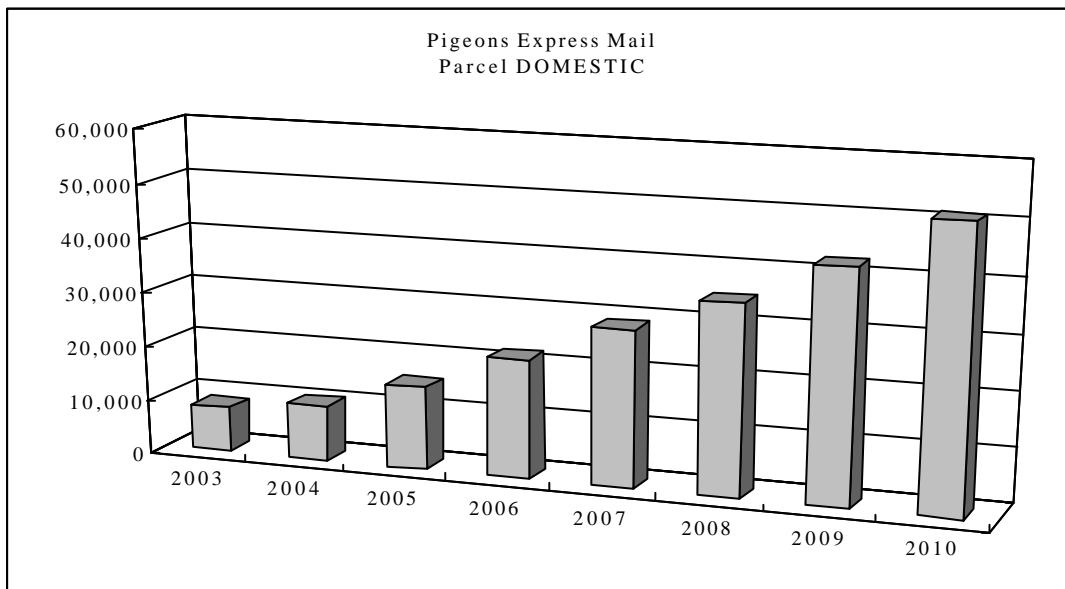


Figure. 6-16 Targets for Pigeons Express Mail (Domestic Document)



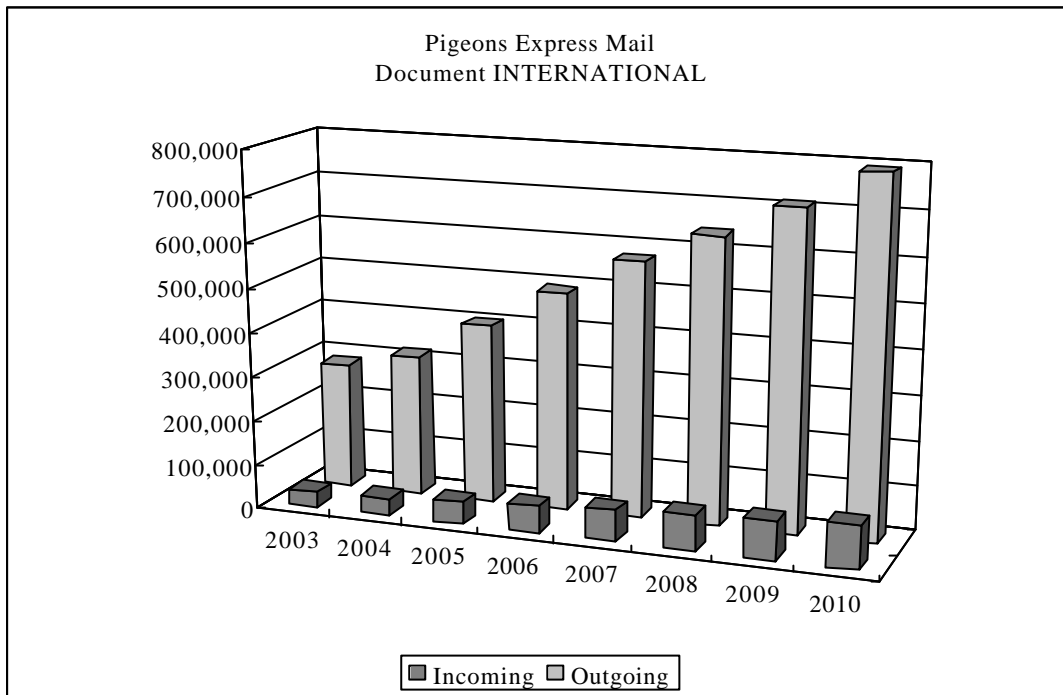
Source: JICA Study Team

Figure. 6-17 Targets for Pigeons Express Mail (Domestic Parcel)



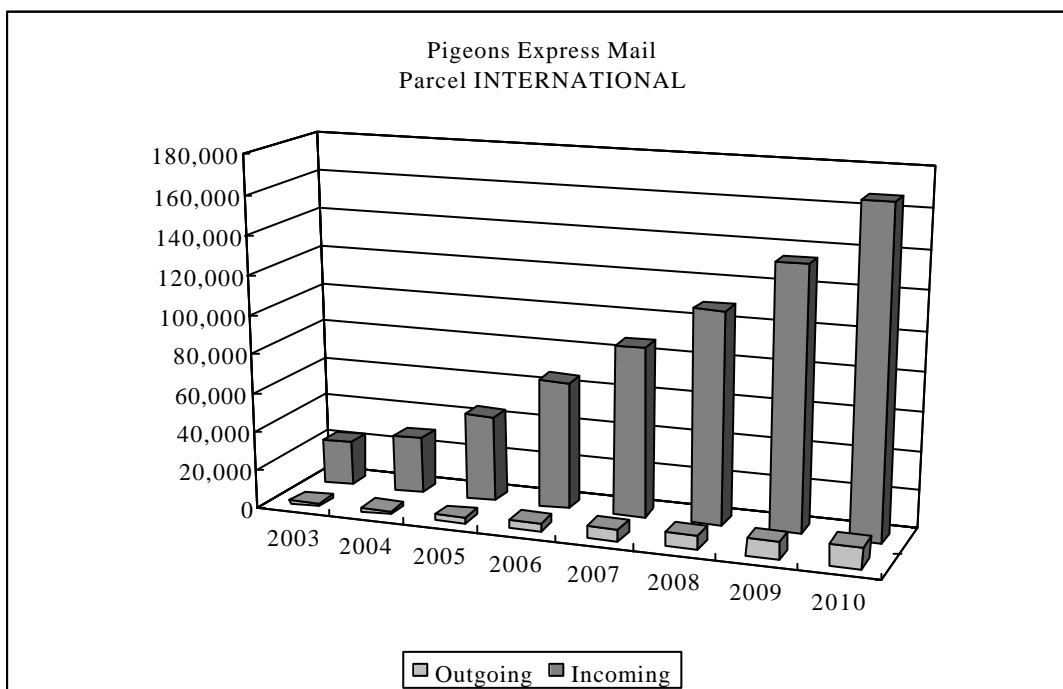
Source: JICA Study Team

Figure. 6-18 Targets for Pigeons Express Mail (International Document)



Source: JICA Study Team

Figure. 6-19 Targets for Pigeons Express Mail (International Parcel)



Source: JICA Study Team

6.3.3. Remittance and Payment Services

(1) Long-term forecast of remittances and payments

1) Forecast of the remittance and payment demand

The estimate for remittance demand may be estimated from the experience of other banks. At the TDB, income from commissions on remittance and payment services accounts for about 1 percent of the gross income. Based on market share, MPB may be able to gross out 256 million tugrik (54/0.391).

The scale of the market for remittance and payment services can also be estimated from the standpoint of the MPB. In 1999, the MPC/MPB remittance and payment income came to 95 million tugrik. The MPC accounts for 65, or 25.0 percent, of the total number of 260 locations in Aimags (in Aimags alone, the number of AB locations was cut to 185). Division of the 95 million tugrik by 25 percent yields a figure of 380 million tugrik.

A JICA report entitled "Rural Banking Services and Savings Mobilization" released in February 2000 presents estimates for the extent of people with deposit accounts on the Aimag and Soum levels. According to the survey, in the nomadic group, about 25 percent of the respondents had deposit accounts, roughly 20 percent had made remittances. This also indicates the existence of demand for remittance services.

2) Forecast of the remittance and payment demand (2000 - 2010)

The rate of increase in the national money supply would form an appropriate basis for an initial forecast of remittance and payment demand. Over the last four years (based on actual data for April in the case of 2000), the annual growth of money supply was 23.9 percent. If the market for remittance and payment should increase with this rate, it would undergo a roughly ten-fold increase (in nominal terms) over the next ten years. However, taking into the account of the general distrust against the financial system, the increase to 2010 was consequently forecast at about seven-fold, also taking into account a reduction in commission rates for remittances and the slowing of the pace of growth in currency in circulation as the financial situation stabilizes.

Based on this figure, the MPB revenue from commissions on remittance and payment services would come to over 700 million tugrik as compared to 95 million tugrik in 1999.

The remittance demand could also be forecast on the basis of GDP growth. In this case, the increase would be held to the three-fold level over the next ten years even if rates are not lowered. The remittance income for the MPB/MPC would come to about 300 million tugrik (using the same figure of 95 million tugrik for 1999). Remittance and payment services would not constitute such a big business in themselves.

3) Forecast of pension handling

The number of people receiving pensions is projected to increase at an average annual rate of 1.5 percent (as estimated by the Social Insurance Ministry). The total payment amount is forecast to increase by about 10 percent a year since adjustments are to be made for inflation beginning in 2000. The commissions on pension handling by the MPC/MPB were forecast on the basis of the Aimag distribution rate (68.5 percent) and MPC/MPB share (33 percent). This yields a figure of about 77 million tugrik in 2010 as compared to 30 million tugrik in 2000. This pension income was added to that from remittance and payment commissions.

Table 6-7 Forecast of Remittance and Payment Services (MPC/MPB Commission Income)

Forecast of remittance and payment services (MPC/MPB commission income)

Unit: hundreds of millions of tugrik

	Total amount of currency	Currency in circulation in the market	Deposits	Pension commissions	Remittance/payment commissions	Rate	Total	MPC/MPB income
1991.12	89	16	73	0		(see note)		
1992.12	94	18	76	0				
1993.12	272	87	185	0				
1994.12	515	187	328	0				
1995.12	681	255	426	0				
1996.12	1,060	417	643	0				
1997.12	1,258	497	761	0				
1998.12	1,389	564	825	0				
1999.12	2,020	872	1,148	0	3.80	3.0	3.80	0.95
*2000.12	2,495	1,139	1,356	1.32	4.67	3.0	5.99	1.50
2001	3,069			1.45	5.75	3.0	7.20	1.80
2002	3,775			1.59	7.07	3.0	8.66	2.17
2003	4,643			1.75	8.70	3.0	10.45	2.61
2004	5,711			1.93	10.70	3.0	12.63	3.16
2005	7,024			2.12	11.84	2.7	13.96	3.19
2006	8,640			2.33	14.57	2.7	16.90	4.22
2007	10,627			2.57	17.92	2.7	20.49	5.12
2008	13,071			2.82	19.83	2.4	22.65	5.66
2009	16,077			3.11	24.40	2.4	27.51	6.88
2010	19,775			3.42	26.26	2.1	29.68	7.42

Method of calculation

- Estimates were based on the annual average growth rate of 23.9 percent for the total amount of currency over the last four years.

- The figures for December 2000 are for the year ending in April 2000.

- For the years 2000 - 2004, the income forecast is based on the increase rate of 23 percent in the total amount of currency.

- For the years 2005, 2008, and 2010, the commission rate was lowered by 0.3 percent.

Note: A commission rate (percentage) was applied only for general remittances; the fee for pension payments was assumed to be constant.

- The MPC/MPB share of this market was put at 25 percent.

Source: JICA Study Team

* Source of data from 1991 to 1999 is Bank of Mongolia

Table. 6-8 Forecast of Remittance and Payment Services (MPC/MPB Commission Income)

Forecast of remittance and payment services (MPC/MPB commission income)

Unit: hundreds of millions of tugrik

	GDP	Remittance and payment commissions	Pension commissions	MPC/MPB income
1993	1,662			
1994	2,833			
1995	4,292			
1996	5,865			
1997	7,589			
1998	8,759			
1999	10,128	3.80	0	0.95
2000	10,553	3.96	0.30	1.29
2001	11,018	4.13	0.33	1.36
2002	11,580	4.34	0.36	1.45
2003	12,263	4.60	0.40	1.55
2004	12,925	4.85	0.44	1.65
2005	13,571	5.09	0.48	1.75
2006	14,250	5.35	0.53	1.87
2007	14,962	5.61	0.58	1.98
2008	15,710	5.89	0.64	2.11
2009	16,496	6.19	0.70	2.25
2010	17,321	6.50	0.77	2.39

Method of calculation

- The rate of increase in the remittance and payment demand was estimated on the basis of GDP growth.

- The commissions on pension payments were estimated separately and figured into the totals.

The MPC/MPB share of this market was put at 26 percent.

Source: JICA Study Team

* Source of data from 1993 to 1999 is Ministry of Pension Funds

4) Capital investment for remittance and payment services

MPB remittance services were initiated on a trial basis in 1997, in the Aimag of Hovd, and began being provided in other Aimags on a regular basis in early 1999. Personal computers (PCs) were installed in Aimag locations in 1999 at an MPC investment of 39.6 million tugrik for a total of 26 units. Additional investments were made for a total of 12 printers (2.6 million tugrik) and four safes.

For the time being, the MPC is emphasizing profit levels and therefore intends to refrain from installation of PCs on the Soum level. Around 2005, by which year the profit base is expected to be solidified, investments will have to be made for installation of PCs in the major Soums in each Aimag. Assuming installation of an additional ten PCs in each Aimag, 220 more units would have to be purchased. This cost is to be covered by the profits from the remittance services, and would probably reach about 400 million tugrik.

Table. 6-9 Equipment Investment to MPC (1999)

Equipment investment to MPC, 1999. 單位 :1000Tg

Aimag name	Computer		Printere	Safty Box		Total	
	Quantity	Cost	Quantity	Cost	Quantity		Cost
1 Arkhangai	1	1,524			1	200	1,724
2 Bayan Olgii	1	1,524	1	214			1,738
3 Bavankhongor	1	1,524			1	150	1,674
4 Bulgan	1	1,524					1,524
5 Govi Altai	1	1,524	1	214			1,738
6 Govi Sumber	1	1,524	1	214			1,738
7 Darkhan Uul	1	1,524					1,524
8 Dornogovi	2	3,048	1	214			3,262
9 Dornod	1	1,524					1,524
10 Dundgovi	1	1,524			1	55	1,579
11 Zavkhan	1	1,524					1,524
12 Orkhon	1	1,524					1,524
13 Ovorkhangai	2	3,048	1	214			3,262
14 Omnogovi	1	1,524					1,524
15 Selenge	3	4,572	3	642	1	50	5,264
16 Sukhbaatar	1	1,524					1,524
17 Tov	1	1,524	1	214			1,738
18 Uvs	1	1,524					1,524
19 Hovd	1	1,524					1,524
20 Hovsgol	1	1,524	1	214			1,738
21 Hentii	1	1,524	1	214			1,738
22 Baganuur	1	1,524	1	214			1,738
Total	26	39,624	12	2,568	4	455	42,647

Source: MPC

(2) Measures for the future

There are no clear grounds or long-term strategy behind the choice of locations opened for remittance and payment services by the MPC/MPB; the intention was apparently an even development of the business nationwide. Expediency was also a factor in some cases, as evidenced by siting through use of some idle postal facilities. A nationwide development of such services should be avoided. Continued expansion on the Aimag level would hold a strong risk of sizable deficit. The MPC/MPB must concentrate on Aimags where profits can be ensured by income from remittance and payment services and pension payment services.

(3) Problems in the contract between the MPC and the MPB

1) Burden of interest payments to depositors and use of deposits

Interest payments to depositors are covered by income from commissions (handling fees). Although deposit activities have been initiated in some Aimags, this interest due is based on income from commissions for postal money orders, pension payments, etc.

2) Review of the contract

The contract between the MPC and MPB contains the following stipulations regarding the processing of accounts for the costs of banking service provision.

- a. The MPC and the MPB shall share the cost burden of repair, expansion, and equipment purchases for banking business, and post these costs in their respective account books (Article 2, Paragraph 4-a).
- b. Operating funds used once for banking business and funds for purchase of facilities to be used only by the MPB in the future are to be drawn from banking business income and entered in the account book (Article 2, Paragraph 4-b).

Although the contract stipulates that funds for the purchase of facilities which will be used only by the MPB are to be drawn from the banking business income, it would be advisable for the MPB to shoulder part of this burden.

3) Items requiring improvement

As a state-run enterprise, the MPC must exercise sufficient caution in forming partnerships with private enterprises. The following items require improvement.

- a. In the existing contract, in the event of deficit at Aimag branches, the loss is to be shared equally by the MPC and MPB. However, the MPB specializes in financial business and ought to be in possession of the know-how for prompt guidance and improvement before the services in remittance and payment worsen to a significant degree. The MPC therefore should negotiate for a change in the burden shares.
- b. The MPC is providing remittance and payment services on the Aimag level, which is less feasible than the Ulaanbaatar level. In consideration of this disadvantage, the MPC should negotiate for the ability to use the deposits collected in Aimags for financing in Ulaanbaatar (further in the future), and to gain an interest rate profit margin on this financing. In so doing, it could adopt a fee business method in which handling fees are added to the cost of deposit collection (inclusive of interest due) in the Aimags.

(4) New service for demand expansion

1) Remittance system based on deeds

In Mongolia, remittance and payment (exchange settlement) transactions are conducted mainly on a cash basis. The MPC/MPB should consider the instatement of a remittance system based on deeds (documents). There are two basic types of such deeds: fixed-amount postal money orders and ordinary postal money orders. The former are used for remittances in small amounts. The main target would be use by individuals for presents, etc. The latter would enable remittance of up to 500,000 tugrik, for example (the amount being freely designated) on a single deed. The main target would be use by companies for business. The

commission could be set in the range of 0.5 -1.5 percent of the amount.

The inauguration of remittances by deeds would enhance the convenience for customers. Because instatement of a delivery service is under study for certain parts of Ulaanbaatar, the deed-based remittance system could give rise to the following other services: (a) delivery of cash to the door by registered express mail, and (b) delivery of postal money orders to the door by registered express mail, and payment of cash upon presentation of money orders at the post office.

2) Telegraphic money orders

At present, remittances of tuition from people in Aimags to their children in Ulaanbaatar is accomplished by transmission from the Aimag MPB branch (post office) to the MPB head office. The information on the invoice for the remittance from the Aimag branch is sent to the Ulaanbaatar head office by fax or e-mail. If the sender applies for remittance in the morning, the recipient can pick up the money in cash at the head office on the evening of the same day.

The start of home delivery service in Ulaanbaatar would make it possible for people to receive payments at their door through delivery of cash by registered express mail. It would also be possible to deliver postal money orders to the door by registered express mail and have the recipients come to the nearest post office to receive cash for them. Although this is possible to an extent, it takes too much time to be useful. The increased convenience should add to the level of usage.

3) Remittance and payment service diversification and use of the nationwide network of post offices and MPB locations.

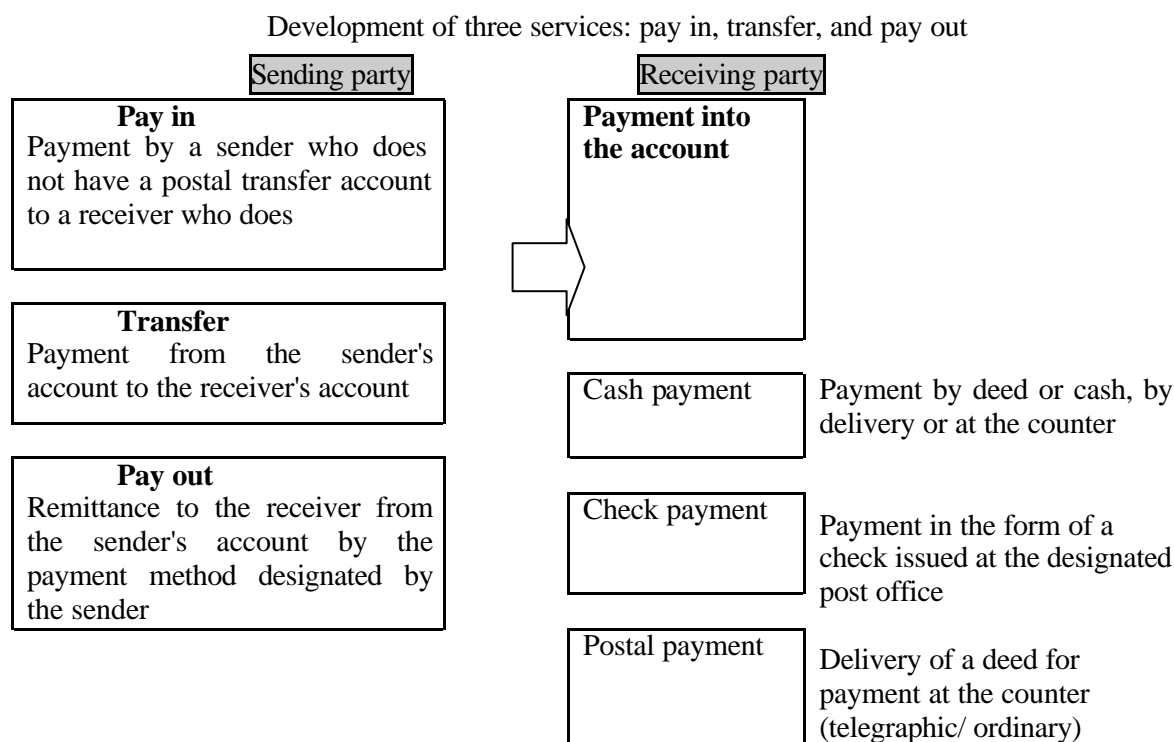
At post offices in Aimags where deposit accounts are already available (such as Hovd and Selenge), the business development described below could become necessary for an expansion of remittance and payment transactions. Over the long term, the related basic framework should be built for the construction of a remittance and payment system harnessing the nationwide network of post offices (and MPB locations). In terms of purpose, three types of services could be offered: pay in, transfer, and pay out. Customers who already have a deposit account, regularly make remittances, or are anticipated to open a deposit account in Aimags (over the longer term) could be encouraged to open an account for these services. The pay-in service would consist of payment into the account of customers who do not have a postal transfer account. The transfer service would be used for transfer of funds from the sender's account to the recipient's account. The pay-out service would enable customers to send payments from their own accounts by a method of their own designation.

There would be three types of remittance payment: cash, check, and postal payment (delivery of a deed for payment at the counter).

Currently, even checks issued by banks are in sparse circulation due to the bank failures

and rise in the rate of bad debt in 1999 and 2000. It goes without saying that almost no companies are issuing checks. In the Aimags, checks for small amounts issued by NIC are in circulation for purchase of gasoline. The MPC/MPB have also issued petty checks for use only in Aimags, and these are in circulation as well. Issuance of checks by banks and companies is likely to make a resurgence along with the restoration of confidence in the banking sector, which will probably take place no sooner than around 2005. At present, the only options are cash payment at counters and withdrawal of cash from the deposit account (by companies or individuals) for remittance to the recipient, who receives payment at the post office counter.

Figure. 6-20 Remittance and Payment System Harnessing the Nationwide Network of Post Offices (and MPB locations)



(5) Short- and long-term plans for remittance and payment services

Measures for remittance and payment services should be developed in accordance with short- and medium-to-long-term plans based on the procedure outlined below.

Over the short term, the plans for these services should emphasize the following points.

First, such services should be offered at all Aimag centers, but confined to those Soums where they are payable. There is a certain level of demand for these services in Aimag centers, and it would be possible to hire full-time staff for them. In Soums, on the other hand, the third type (Type C) should be selected in order to have the same employee perform remittance/payment work when there is no mail work, and thereby avoid hiring additional personnel just for these services. It is important to improve the payability of the services over the next two years. The services ought to be positioned as a business that is supplementary to postal services and performed only when time can be spared from the latter. Emphasis must be placed on payability.

Even in the six Aimags where the MPC/MPB will be licensed for financing services in the future, three-person setups for these services should be confined to those districts where they are payable. In Aimags where big deficits are being recorded, accounts must be balanced by cutting back personnel requirements. If the deficit-ridden Aimags can be brought to equilibrium, the remittance and payment division could post an overall profit in 2001. At the least, the MPC/MPB should aim for an overall

equilibrium in 2001. They also should establish and promote business models based on the experience and methods of Aimags and Soums where these services are profitable.

2002 - 2005

In this period, the MPC/MPB emphasis should shift from profits to business expansion. To this end, they should gradually invest in PCs, fax machines, and other such equipment for installation on the Soum level. The installation would begin with Soums that offer the best profitability.

In addition, one employee should be posted to each Aimag center exclusively to be in charge of sales. This employee would work to develop business among companies and otherwise raise the level of use.

2006 - 2010

- Implementation of rationalization measures in correspondence with the commission rate reduction
- Introduction of new services, and corresponding diversification of means of remittance (e.g., payment into a postal account, cash payment, payment by check, and postal payment)

Table. 6-10 Plans for Remittance and Payment Services

Short term (2000 - 2001)	Medium-to-long term (2002 - 2010)
<p>Business plans</p> <ul style="list-style-type: none"> * Provision of remittance and payment services in all Aimag centers, but limitation on the Soum level to those Soums where they are payable * Establishment of three-person setups for these services only in those districts where they are payable, even in the six Aimags where the MPC/MPB will be licensed for financial services in the future; aim for balanced accounts through reduction of staff in those Aimags posting big deficits * Positioning of remittances as supplemental to postal services, to be performed during idle times; emphasis on payability * Achievement of an overall profit in the remittance and payment division in 2001 by bringing the deficit Aimags to equilibrium; aim for an overall equilibrium in 2001 at the least * Establishment and promotion of business models based on the experience and methods at Aimags and Soums achieving profits 	<p>I. 2002 - 2005</p> <ul style="list-style-type: none"> * Emphasis on payability and expansion * Improvement of the payability in Aimags <ul style="list-style-type: none"> - Consolidation of the business in Soums at deficit into that in neighboring Soums; creation of a structure that constantly produces an overall profit - Posting of one person to each Aimag center exclusively in charge of sales, to develop business among companies and improve the level of service use <p>II. 2006 - 2010</p> <ul style="list-style-type: none"> * Rationalization measures in correspondence with the commission rate (percentage) reduction * Introduction of new services <ul style="list-style-type: none"> - Corresponding diversification of means of remittance (e.g., payment into a postal account, cash payment, check by check, and postal payment) * Investment for installation of PCs, fax machines, safes, and other such equipment, beginning with the most payable Soums

Source: JICA Study Team

6.3.4. Post Office Services

In addition to the mail services and payment/remittance services there will be wide variety of possibilities in the post office services including telecom, retail, government services, etc. as shown in the Figure 6-12. More precise information of the needs for such services shall be referred to the supporting report.

It is important to see the market and needs of each post office area, and decide which service to add for new services, and suggested that post office masters of each Aimag and all post office masters in Ulaanbaatar shall make business plan according to type of services. On the other hand, Central Post Office (Headquarters) shall provide scheme and supports such as marketing/promotion, staff training, business manuals, etc.

Another important measure is that the governments of Mongolia have to provide necessary support including entrust of various government services to post offices and provision of appropriate subsidies and/or benefits, to MPC maintaining post offices all around the country.

The following summarize some new type of post office services.

(1) Mail order and retail services

The current mail order services in the MPC are essentially confined to electrical products. The circle of goods which people in the communities served by post offices want also includes postal goods, books and magazines, stationery items, etc. The MPC must consider forming partnerships with companies handling these goods and examine the prospects for mail order services based on a model that does not require an inventory and for retail sales that would also be aimed at drawing customers to post offices by their attractive products/services. It can also be noted that, at present, the (retail) sale of goods at post offices on the Aimag level, for example, is mistaken for mail order sales in some cases. To correct such misapprehensions, the MPC must prepare manuals and training for employees and promote thorough knowledge of the services among all of them.

The aforementioned remittance and payment services also have an important role to play in the development of these services.

- Contents of service
 - Mail Order
 - Retail Shop
- Value provided to the customer
 - Provision of wide variety of products useful for daily life
- Action to be taken by the MPC
 - Expansion of products by additional partnerships with companies
 - Clear definition of the business process of mail order in relation to the partner companies, internal staffs, and customers
 - Preparation of marketing materials for services
 - Preparation of work manuals for MPC employees, and training

(2) Business center and e-mail services

In areas other than Ulaanbaatar, there are comparatively strong needs for provision of e-mail and fax services at post offices. This suggests that the MPC might consider having personnel on the order of Aimag post office masters make plans for such services and initiating them as new services if they are found to be commercially viable.

Fax-mail (the so-called Letax service) is a new service that has been introduced at several post offices during the past two years. In a similar vein, the so-called "e-letter" combining e-mail service with a print-out and delivery service is a likely candidate for a new service. Fax-mail will require an individual phone call for each transaction, but the e-letter system would not. Currently, all the Aimag post offices are equipped with a computer system that exchanges electronic data with the head office twice a day. This network is expanding to the Soum level along with the introduction of financial services. It would be feasible to send all the e-mail associated with e-letters along with these transmissions. This arrangement should entail very little additional communications cost and make

the service extremely convenient and affordable.

- Contents of service
 - Business center or communication service
- Value provided to the customer
 - Fulfil communication and business needs in the area of post offices
- Action to be taken by the MPC
 - Business Plan by post masters in Aimag Centers
 - Preparation of marketing materials for services
 - Preparation of work manuals for MPC employees, and training

(3) Other entrusted services

The MPC should consult with the Mongolian government for active development of services entrusted by the government and public welfare services. To put it in another way, the MPC must determine how the Mongolian government wants post offices to function as outlet facilities throughout the country, and examine the related approaches and concrete measures. The provision of subsidies and/or other benefits to the MPC as necessary must also be considered for their provision of universal service.

- Contents of service
 - Government related services such as payment/ delivery of pension and salary for government staffs, sales of lottery tickets and payment, applications for government administrations, payment of taxes, motor vehicle registration, acceptance of donations, etc.
- Value provided to the customer
 - Provision of government services to all Mongolian citizens by utilizing post office network
- Action to be taken by the MPC
 - Preparation of Business Plan and submission to the government for authorization
 - Preparation of marketing materials for services
 - Preparation of work manuals for MPC employees, and training
- Action to be taken by Mongolian Government
 - Decision of how to utilize post office network as governmental outlets all over Mongolia
 - Provision of appropriate subsidies and/or benefits to MPC for their provision of universal service.

6.3.5. Information System Infrastructure for Promotion of the New Services

The current information system in the MPC could not be said to be in perfect order and effectively used.

Personal computers are installed in the Aimag center post offices and post offices in Ulaanbaatar. These enable connection (by modem) with the head office twice a day. Computer communication is limited to the record of bank transactions and instructions from the head office.

It can also be noted that the in-house work at Aimag post offices is not very computerized. Almost all of the routine financial recording and bookkeeping is written by hand. Computerization does not go beyond the exchange of electronic files by a few progressive post offices. As this implies, the capabilities of computers are woefully underused.

In light of this situation, aside from the further task of adding new facilities, the MPC must make more effective use of its existing ones. There is no need for development of any complicated software; efficiency could be improved substantially in the entire process from input and data totalization to data application merely by preparing and distributing templates for tabular calculation for use in account book entries throughout the company.

One possibility for more sophisticated use of information technology (IT) is the installation of various facilities for mail tracking. In this case, the software would be more important than purchase of new hardware. The choice of software would have to be carefully studied with a attention to the match with the level of technology in Mongolia.

6.4. Collection, Delivery, and Sorting Work Plans

6.4.1. Establishment of Dedicated Facilities

As noted in the above section, there are major problems in the division of postal parcels, which ought to be accorded the greatest emphasis in the postal services at present. The situation must be urgently improved.

The most effective step for improvement would be assurance of ample work space.

Fortunately, there is a vacant lot measuring about 800 square meters to the side of the current Central Post Office building. The construction of a building especially for postal services on this lot would not only improve the handling of postal items but also enable use for implementation of door-to-door delivery on a trial basis.

Furthermore, the use of this site would make the necessary improvements possible without a decline in the level of current customer services. As such, the construction of a new building on it is highly recommended.

6.4.2. Improvement of Delivery Work

The current status of mail delivery in Ulaanbaatar is described in the first section of this chapter. It is beyond question that performance of door-to-door delivery for all items is an extremely vital task that must be achieved eventually. However, execution today, when the annual volume of mail averages less than one item per capita of population, would involve too many problems. The cooperation of the receiving side is needed for sure delivery of items with as little manpower as possible.

The most necessary step in this direction is the installation of boxes for collection of mail at each door (at locations that are convenient for delivery in the case of medium- and high-rise residential buildings). In Ulaanbaatar, where many people live in apartment buildings, delivery to each apartment would take a substantial commitment of manpower and require a considerable increase in the number of carriers even if there is not such a great expansion in the mail volume.

Moreover, given the current housing situation, it would be difficult to find places where mail could be left when the occupant is gone. It is doubtful whether loss and theft could be prevented if mail were left without proper assurances of security.

Nevertheless, it would be, in effect, impossible to compel all households to install mail boxes when many have no expectations of receiving mail.

These observations suggest that it would be unreasonable to expect the door-to-door delivery to be implemented uniformly and promptly.

The same requirements apply to delivery to groups and companies. When two or more organizations are in the same building, arrangements should be made for deliveries for all at a single place, as far as possible. This must be achieved for mail items that do not require recording.

As a transitional measure in this area, it appears necessary to retain the current system of delivering mail items and newspapers upon the conclusion of special contracts at the post offices in

charge.

At the same time, there is probably a need for instatement of a new system in parallel for delivery based on registration under certain conditions (e.g., installation of collective mail boxes) for response to parties who are dissatisfied with the current situation and want prompt delivery.

This could begin with the establishment of a delivery division in the Central Post Office and special delivery districts in central Ulaanbaatar. Deliveries would be made to the registered recipients by the fastest means, and the service could be gradually expanded in correspondence with the demand and setup preparations.

If coordinated with the promotion of improvement in indoor work in the Central Post Office, the delivery time could be reduced by more than one day as compared to the present, and this would presumably do much to expand use.

Once this service has been placed on track and the mail volume increases, the post office could proceed to the ultimate objective of door-to-door delivery for all mail. In this case, the work of the current delivery post offices would, of course, be confined to counter work and distribution in PO boxes.

For progress to this end at the present stage, each post office should compile delivery-related materials for their area, including lists of residents, delivery ledgers, and delivery maps.

6.4.3. Reconstruction of the Postal Code Number System

The first two digits of the postal code are called the country code, and indicate the country of Mongolia. At present, however, such numbers are not in international use, and the code is consequently devoid of meaning. The postal code number therefore may be regarded as consisting, in effect, of four digits.

Of these four digits, the first two indicate the district in the case of Ulaanbaatar (i.e., mail directed to addresses in Ulaanbaatar) and the Aimag in other cases (i.e., mail directed to addresses in Aimags). Although the scope differs, they are basically in the nature of regional indicators. The second two indicate the Soum in the case of Aimags and the name of the post office in the case of Ulaanbaatar. The assignment of numbers to post offices is random, and some post offices have service areas that straddle two districts. For this reason, the postal code numbers are used in a completely different fashion from the norm.

The system must be completely reconstructed to enable more effective use in preparation for the future expansion of the mail volume.

Properly speaking, in the interest of efficiency, postal code numbers should correspond with the mail flow and transportation network. In Mongolia, the network of roads is underdeveloped, however, the current roads network and administrative blocks which has been naturally and historically developed will be a good source for establishing efficient postal code system in Mongolia.

The following are some possible methods for assigning postal code numbers:

For the first two digits, in consideration of the mail volume and share in the number of citizens, will be designed by dividing Mongolia in some geographic area such as Ulaanbaatar/Darkhan/Erdenet/East/West/North/South, Aimags, and Horos in case of Ulaanbaatar. The following options will be also considered simultaneously.

- (a) Following the flow of the existing railway and airline traffic centered around Ulaanbaatar
- (b) From east to west (or vice-versa), or from north to south (or vice-versa)
- (c) In a clockwise movement centered around Ulaanbaatar

For the last two digits, assignment of numbers in units of Soums based on the method chosen for the first two digits.

The following is a prospective method for assigning numbers within Ulaanbaatar.

For the second two digits:

* Use of the existing numbers for Horos as current administrative units (this would presumably also gain the understanding of the residents)

In this case, the numbers now assigned to post offices in Ulaanbaatar as their names would have to be replaced with other names.

6.4.4. Measures for Restoration of Confidence

One of the factors that is further lowering the rate of use of postal services, which is on an extremely low level to begin with, is the lack of confidence/trust in them among the populace.

The main causes of this lack of confidence are apprehensions about irregularities (e.g., non-arrival, damage, missing contents, etc.) and the uncertainty about the time of delivery.

The apprehensions about irregularities are deeply seated. On various occasions, members of the JICA Study Team were told by interviewees that post offices did nothing in response to complaints.

While reports about irregularities such as non-arrival can sometimes be resolved in accordance with the particulars in question, they are thought to indicate the presence of fundamental failings or criminal behavior in the current work. They must be addressed by making a detailed record of the particulars in each case as well as by in-depth analyses and investigations on an ongoing basis.

Even in countries with well-developed postal services, eradication of irregularities such as non-arrival is an extremely difficult task.

Japan instated provisions for the handling of complaints about postal irregularities based on this type of investigative approach, which was established in the United States in the 1950s. Coupled with reform of the postal service monitoring system, this is at the core of relentless efforts to eradicate the non-arrival of unregistered mail.

It cannot be denied that, as the focus of postal services shifts from transmission of thoughts to transport of goods, the incidence of crimes involving postal items in hand will increase. The prevention of such crimes requires clear establishment of the facts in any such cases through analytical techniques based on statistical processing and empirical rules, in order to exclude causes.

For general reports (on matters such as education and training, treatment of customers, and

services), measures must be taken not by the person receiving the report (directly from the customer) but by the person in charge at the post office. The necessary procedures include a record of the particulars, investigation into the cause, and measures to prevent recurrence. To the same end, systematic steps must be taken to find solutions that can be uniformly applied throughout the MPC and will improve the level of the whole enterprise.

For response to expectations for sure and speedy delivery, it is absolutely necessary to ensure that mail bags stay properly closed and to improve the method of transferring parcels. Partly as a demonstration of such efforts to the public, it is important to see that the clocks on post office walls always show the correct time.

6.4.5. Improvement of Treatment of Delivery Personnel

At present, carriers (personnel engaged in delivery) generally use satchels which they obtained themselves for carrying mail. Even at post offices where the satchels are issued, they have the same appearance as commercial products, i.e., do not look like official satchels for mail. Similarly, the carriers are dressed in what looks like ordinary apparel, and observers cannot tell at a glance that they are carrying mail.

In this area, the MPC must issue uniforms and standard satchels to carriers. This is also important for building trust in the services and carrier pride in their work.

6.4.6. Handling of Newspapers

When newspapers arriving in post offices in Ulaanbaatar in the morning are taken out in preparation for delivery, the person in charge first removes the necessary editions (from the many types) and quantities for each subscriber individually, then notes the address on the top, and finally hands the stack to the delivery personnel. This procedure is time-consuming and delays the delivery dispatch.

Ordinarily, three-month contracts are concluded for newspapers. If handed a list of subscribers within the current term, the person in charge could take out the entire number of copies of each newspaper needed all at once. This should not cause any significant disruption, and would help to effect a commensurate improvement in indoor work connected with delivery.

The same kind of time-consuming procedure is performed for distribution of newspapers to post office boxes. The recommendation for PO boxes is to note the proper editions and number of copies on the PO box door, for example. This would facilitate distribution and also pose little risk of disruption or mistaken distribution.

6.5. Transportation Plans

6.5.1. Transportation on Trunk Routes (Between Ulaanbaatar and Aimags)

(1) Transportation by Air

Mail to remote regions of Mongolia is currently transported by air from Ulaanbaatar. Scheduled flights operated by Mongolian Civil Air Transport (MIAT) between Ulaanbaatar and the main Aimag centers are used for this. Scheduled MIAT flights all depart from and arrive at Ulaanbaatar; there are no flights linking Aimag centers to each other, also there is not so much demands in the dramatic increase of passengers and commodities.

The exact number of flights varies depending on the season. However, nearly all the 31~39 round-trip flights per week on the 16~17 routes to and from Ulaanbaatar are used.

With the exception of certain times of the year, such as the New Year period, there is not currently a large amount of mail. There is in addition little parcel mail, which can have a major impact on the weight and volume of mail that can be transported. Considerable capacity is required on flights from Ulaanbaatar as newspapers are also carried, but inbound flights carry only a small quantity of mail. Thus even if the amount of mail (excluding parcels) doubles, there should not arise any problems with regard to transportation capacity.

As noted, however, parcels have a large impact on transportation capacity, and limits on the maximum weight and volume of individual parcels need to be introduced and implemented.

Increasing the number of flights is apparently impossible, as only 10 of MIAT's nominal fleet of 20 aircraft are used on domestic routes, and the Antonov AN-24s used domestically are growing increasingly decrepit. Increasing the frequency of mail transportation would therefore be difficult using only scheduled flights.

In some areas, there are both air and bus services between Ulaanbaatar and Aimags, and in some of these areas mail is transported by road (bus) as well as by plane. As the expansion of bus routes in the future would in some areas enable the transportation of mail on days when there are no scheduled flights, use of bus transportation should be considered as one option if there arises a need for more frequent mail transportation.

As those regions where airplanes provide the main means of transport are some 300~1,600km away, however, use of buses would dramatically increase the time required to transport mail. Without detailed study of time requirements and service timetables, therefore, use of buses would not necessarily lead to a reduction in costs and improvement in levels of service.

In areas served by around one flight a week, a hub-and-spoke method could be adopted for transporting mail to areas served by only around one delivery a week. Thus mail could be flown into areas with frequent flights, and then sent on by road to surrounding districts with fewer flights. As the situation stands at present, however, there is no network of scheduled flights and other forms of public transport to many areas, rendering use of public transport difficult. In such cases, mail would need to

be transported by the MPC itself, a task that would be difficult given the number of vehicles currently available. Introducing more vehicles for transportation of mail would in addition not have a favorable impact on earnings in the absence of a dramatic increase in the volume of mail handled.

With regard to transportation by air, there is an agreement between the MPC and MIAT that stipulates the weight of mail that can be transported.

Although there are not at present any particular problems, an increase in the volume of mail transported, due for example to an increase in the number of parcels sent, could create a situation where not all mail could be carried. Consideration should therefore be given to how such a situation would be dealt with.

(2) Transportation by rail

Mail transported to Aimags by rail is currently transported using regular services operated by Mongolian Railways (MTZ).

Not all of MTZ's 89 runs a week on domestic routes are presently used for transportation of mail (excepting newspapers). Given that there are daily trains on some routes and some are used only for newspapers, it would be possible to increase the frequency of transportation of mail by rail.

It would thus not be difficult to increase the frequency of transportation in the event of an increase in the volume of mail handled. There would, however, be a need for more staff if the current system of having staff accompany mail onboard trains were to be continued. Unlike in the case of airplanes and buses, it would be physically possible to increase the volume transported per service. Trains may therefore be said to be a reliable means of transport.

As in the case of transportation by air, bus could be used as an alternative means of transport over some sections in the north of the country. In most areas, however, there are no competing train and bus services, making it difficult to substitute one for the other. Bearing in mind transportation capacity and reliability (such as having a system where post office staff accompany mail), a number of problems would have to be overcome in order to enable use as a substitute means of transport. As a supplementary means of transport, though, this option should be considered as one means of coping with an increase in mail in the future.

(3) Transportation by road

1) Transportation by bus

There are over 110 round-trip long-distance bus runs operating on 48 routes between Ulaanbaatar and individual regions, and over 50 short-distance runs operating on 22 routes, but not all of these are used for mail transportation. Areas with considerable demand are served by daily runs, and some areas have at least two runs a day. In the case of these areas, it would be possible to increase the frequency of transportation of mail as required. Unlike rail

transport, however, the amount that can be carried per run cannot be increased as long as mail is carried inside the cabin, given that buses also serve as a means of passenger transport. However, the bus transportation will provide necessary capacity in the medium-long term length that is considered in this master plan.

2) Transportation by truck on regular routes

There are currently no regular truck services in Mongolia. This is due more to the lack of a sufficient volume of demand to make running such services commercially viable than to any particular obstacles preventing operators from running truck services.

An increase in the volume of freight transported in Mongolia in the future will naturally lead to an increase in regular truck services. If there exists sufficient demand, naturally more carriers will enter this line of business.

When regular services are launched, they are expected to form a domestic network connecting Ulaanbaatar and the Aimags in much the same way as existing bus services. If and when this happens, a priority will of course be to look into the use of regular truck services to transport mail in place of or as well as using buses as at present.

Even now it is possible to charter trucks, though there is currently insufficient demand to make transporting mail on a regular basis in this manner a viable option from the point of view of profits and level of service. Although it would be possible to transport a sufficient amount of mail if a route were to be established for one truck to serve a number of post offices, this would not necessarily be particularly efficient given that breakdowns and the increase in transportation time due to the number of post offices visited would not make the system any more stable than at present.

3) Transportation by means other than bus and regular truck services

In areas where there are no bus services available, use could be made of chartered trucks or privately-owned vehicles, other agencies could be permitted to carry mail, or the MPC could make use of its own vehicles. Use of other parties' vehicles, however, would require that detailed contracts be signed and that the reliability of the other party be taken into full consideration.

The primary problem with using MPC vehicles to transport mail is the cost of doing so. It is therefore necessary to consider this option after weighing the cost of purchasing and operating the vehicles against the volume of mail to be transported.

In order to increase revenues from operating MPC vehicles, mail can be transported in combination with passengers. Normally, however, MPC vehicles are used only for transporting mail, and the permission of the transport authorities would be required in order to carry passengers as well. To obtain such permission, the MPC would have to enter and win a tender against other operators.

6.5.2. Transportation in Ulaanbaatar

(1) Ordinary transport between the central post office and city post offices

Mail is at present transported twice a day—in the morning and during the day—from the Ulaanbaatar Central Post Office to each post office in the city. As a rule, seven courses are used, one of which is to the rail station post office and the bus terminal post office.

To reduce the time required for transportation between post offices in the city, it is necessary to increase the number of courses and to reduce the number of post offices on one course. At present, the six courses other than the course to the rail station post office and the bus terminal post office cover six to eight post offices. Reducing the number of post offices per course should reduce the time required for transporting mail from the central post office to each post office.

Doing so will necessitate the subdivision of existing courses and the creation of separate routes for post offices near the Central Post Office in the center of the city, and those on the outskirts. Increasing the number of services will naturally increase operating costs even if there is no increase in the total distance traveled by vehicles overall. However, the distance traveled per vehicle will be reduced, dramatically improving the time required for transportation of mail to post offices.

To give one example, one option would be to change the composition of transportation between post offices. It would also be necessary to amend routes depending on traffic restrictions en route.

Table. 6-11 Proposed New Timetable Between Ulaanbaatar Post Offices

Central		East		West		South		Terminal
A	B	A	B	A	B	A	B	
CPO	CPO	CPO	CPO	CPO	CPO	CPO	CPO	CPO
44	20	48	22	24	21	36	31	28
38	20b	51	32	23	37	53	Ulzit	35
46	40	49	50	26	25	30	47	CPO
CPO	CPO	20a	CPO	CPO	CPO	34	CPO	
		CPO				CPO		

Source : JICA Study Team

The increase in the number of trips under the above timetable would require an increase in the number of vehicles by around three if vehicles on all courses start at the same time as at present. By staggering departure times, it would be possible to limit any increased requirement for vehicles, but this would require a major reorganization of operating systems, deadlines and sorting work at the central post office.

Even considering the state of the roads in the city, vehicles used on urban routes would not particularly need to be four-wheel drive vehicles or heavy-duty vehicles. And unlike in the Aimags, vehicles would not need to be capable of transporting passengers, as there would be no need to function as a means of public transport for carrying people.

(2) EMS delivery vehicles

In addition to ordinary vehicles used for urban transportation of mail, there is also a need to introduce EMS delivery vehicles to enable the further expansion of international EMS services, which are currently a major revenue earner. These vehicles would be introduced principally for making deliveries to customers, and in some cases would also make collections. These vehicles could in the future also be used for providing domestic home delivery services and new mail services such as mail with delivery and mail with collection.

One function of vehicles used on urban routes is to improve the image of the MPC. For this to be achieved, use should be made of standard vehicle livery and markings so as to make vehicles immediately recognizable as MPC vehicles. Care should also be taken regarding vehicle maintenance and management.

(3) Transportation between the Central Post Office and airport

There is scope for improvement of transportation between the Central Post Office and airport of mail transported by air. There are at present generally two runs a day to the airport.

Of these two runs a day, one is for transporting mail loaded on flights leaving in the morning. As flight departure times are fairly concentrated, this works quite efficiently. Arrivals, however, are much more spaced out, which creates problems in terms of speed as mail has to be transported to the Central Post Office by the afternoon delivery or the delivery the following morning.

To reduce the time required for transportation of mail arriving at Ulaanbaatar from each region to the Central Post Office, it is necessary to swiftly transfer mail that has arrived to individual post offices in Ulaanbaatar by air, plane and bus. In order to do so, it is necessary to increase the number of runs between each base post office and the Central Post Office, to operate services to coincide with the flight schedules and timetables for other means of transport, and to transport mail from the airport to the Central Post Office at least once every two hours so that it can go on to the next stage.

Unlike vehicles used in the Aimags, vehicles used on urban routes generally only need to be capable of running on surfaced roads. However, the capacity of vehicles used for departures needs to be increased to around four tons. For arrivals, on the other hand, the number of vehicles needs to be increased by one rather than increasing the capacity of individual vehicles. These vehicles can be used

for transporting mail to railway stations performing similar operations.

The table 6-12 is shown one example of how the timing of services can be adjusted so as to coincide with the departure and arrival times of domestic flights.

Table. 6-12 Timetable for Transportation Between Airport and Central Post Office (Departures)

		Mon	Tue	Wed	Thu	Fri	Sat
21:00	CPO			8:00 <i>Irkuutsk</i>			8:00 <i>Irkuutsk</i>
21:30	APT	8:05 Bulgan	8:05 Olgii	8:05 Tosontsengel	8:05 Olgii		8:05 Olgii
22:00	CPO	8:25 Ulaangom 8:45 Uliastai 9:05 Moron	8:25 Hovd 8:45 Choibalsan 9:20 Dalanzadgad	8:25 Ulaangom 8:45 Altai 9:05 Baruun Turuun	8:25 Hovd 8:45 Uliastai 9:00 Baruun Urt	8:25 Ulaangom 8:45 Choibalsan 9:05 Moron 9:20 Dalanzadgad	8:25 Hovd 8:45 Altai 9:05 Bayanhongor
8:30	CPO	10:30 <i>Beijing</i>		10:30 <i>Beijing</i>		10:30 <i>Beijing</i>	
9:00	APT						

Source: JICA Study Team

Table. 6-13 Timetable for Transportation Between Airport and Central Post Office (Arrivals)

		Mon	Tue	Wed	Thu	Fri	Sat
12:00							
12:30							
13:00	CPO						
13:30	APT		12:35			12:35	
			Choibalsan			Choibalsan	
14:00	CPO						
14:30	APT	12:55	13:10		13:30	12:55	
		Moron	Dalanzadgad		Uliastai	Moron	
15:00	CPO	13:30			13:40		
		Uliastai			Baruun Urt		
15:30	APT			14:00		14:40	14:00
				Irkutsk		Dalanzadgad	Irkutsk
16:00	CPO			14:50			14:15
				Tosontsengel			Bayanhongor
16:30	APT			15:30			15:30
				Altai			Altai
17:00	CPO						
17:30	CPO						
18:00	APT	16:30	16:50	16:05	16:50	16:50	16:30
		Beijing	Olgii	Baruun Turuun	Olgii	Ulaangom	Beijing
18:30	CPO	16:50	16:55	16:30	16:55		16:50
		Ulaangom	Hovd	Beijing	Hovd		Olgii
19:00				16:50			16:55
				Ulaangom			Hovd
19:30	CPO						
20:00	APT	19:05					
		Bulgan					
20:30	CPO						
21:00							

Source: JICA Study Team

6.5.3. Transportation in Aimags

Although there were in the past aircraft for transporting mail from Aimag centers to Soums and Bags, there at present no such special mail planes. Moreover, the only Soums with regular flights like those between Ulaanbaatar and each Aimag center are Tosontsegel, Baruun Taruun and Hovd Bulgan.

With the exception of the railways in some Aimags, there are hardly any means of transport from each Aimag center to the Soums other than MPC vehicles. These MPC vehicles, the majority of which are operated by the post offices in each Aimag center, make around one to three trips a week.

Because of the absence of alternative means of public transport in most areas, it would be possible to increase the frequency of transportation (MPC vehicles also serve as a means of public transport and carry passengers) by improving, for example, operating methods within the MPC. In actuality, the question of whether there is sufficient mail to warrant an increase in services needs to be taken fully into consideration.

One point that needs to be considered in conjunction with this is the relationship with the frequency of transportation from Ulaanbaatar to the Aimag centers and from the Aimag centers to the Soums. Even where there are at present three deliveries a week from Ulaanbaatar, there is in some cases only one deliveries a week from Aimag centers to Aoums. Prompt consideration needs to be given to what action should be taken with regard to such areas.

Despite some regional variation, there is not currently a shortage of vehicles in all regions, and it should be possible to increase the number of transportations in some areas without increasing the size of the current fleet. Throughout the country, however, vehicles are aging and operating ratios are declining.

In particular, given the state of the roads in the Aimags, vehicles need to be durable and capable of traveling over difficult terrain, and replacement of expendable parts may well increase in frequency.

The view seems to be that vehicles need to be capable of carrying passengers, particularly where there is competition from other vehicles carrying passengers in Aimags where there is a high level of movement among residents.

Considering the volume of passenger demand and the state of the roads, there is a need to look into what steps can be taken in some areas (including, for example, modernizing and increasing the capacity of vehicles).

6.5.4. International Transportation of Mail

(1) Zamyn Uud

1) Vehicles for transportation use

Cross-border transportation of mail between Mongolia and China is performed on a rotating basis by the postal authorities. The vehicles used on the Mongolian side are aging and cannot carry large amounts, and as a consequence it is sometimes impossible to transport all mail bags without making several round trips when there is a large quantity of mail. This is of course not good from the point of view of cost and efficiency.

To handle mail more efficiently, it is necessary to introduce vehicles with a capacity of four tons. In order to prevent damage to mail, vehicles should at the very least have airtight mail compartments. If roll box pallets are to be used, then consideration should also be given to equipping vehicles with power gates.

2) Improvement of temporary warehousing facilities

Old 20-foot containers located in the railway freight handling area are currently used for temporary warehousing of mail transported between Mongolia and China during the interim between transfer from automobile transport to rail transport. Located in the middle of nowhere, they are difficult to manage. They are in addition sited on ground that is a level lower than the platform, which makes loading and unloading more difficult.

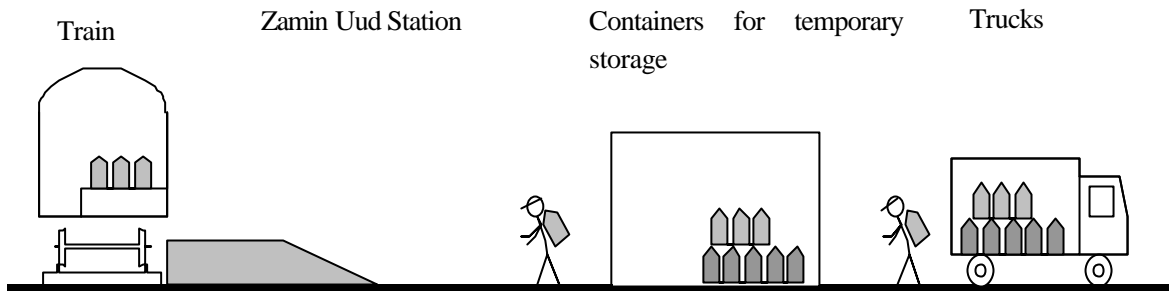
Providing warehouses in the rail freight handling facilities would remedy this situation. As local post office resources are insufficient for this purpose, action needs to be taken by MPC head office and by the State.

If this is impossible to achieve in the short term, an agreement could be signed with the MTZ providing space for warehousing next to freight handling facility buildings.

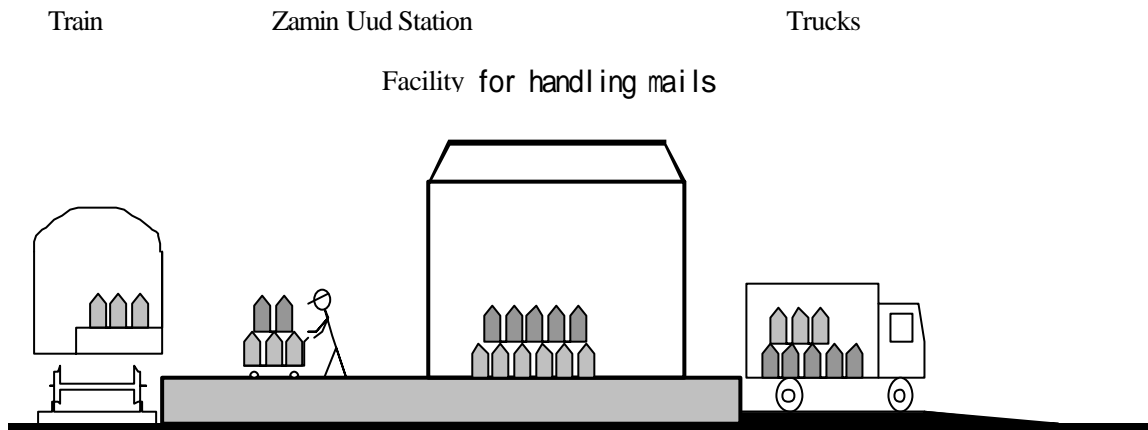
As shown in the figure 6-21, there is some facilities for handling freight in the Zamin Uud station, however it is not utilized to mail handling. There will be no change in the distance between trucks and a train, there will be some meaningful improvement of safety and reliability of handling mails.

Figure. 6-21 Status and Future Image of Mail Handling in the Zamin Uud Station

Current system



Example of future system



Source: JICA Study Team

3) Improvement of conveying equipment

At present, mail is carried by postal workers in mail bags from temporary warehouses to vehicles for loading. In order to prevent loss and damage of mail, it is necessary to introduce the use of conveying equipment. If the above warehousing problem can be solved and warehousing facilities put on the same level as the platforms, handcarts can be used for carrying mail.

4) Reconsideration of relations with the MTZ

There are at present no contracts between the MPC and MTZ concerning temporary warehousing facilities in Zamyn Uud. The situation in Zamyn Uud, which is an important node in the transportation of mail between Mongolia and China, is wretched. At the least, the MPC needs to convey its requirements concerning these facilities to the MTZ or MOI, and not leave dealing with the MTZ to the post offices on the ground.

(2) Ulaanbaatar

1) Transportation from stations

The majority of mail from overseas arrives at Ulaanbaatar Station by rail via Zamyn Uud from China. There are few trains from Zamyn Uud, and the process can be speeded up by timing trips to coincide with the arrival of trains. The volume of mail from China is frequently large, making it necessary to provide handcarts for transferring mail from freight cars in the station yard to post office vehicles.

This is difficult with current facilities. It would, however, be possible to use roll box pallets by ensuring that work areas in the station yard are all on the same level, especially for newspapers and international mails.

2) Non-MPC factors

In addition to normal transportation requirements, international mail must also go through customs. In Mongolia, customs officials are stationed permanently at the Central Post Office for this purpose, but they are insufficient in number when there is a large amount of mail to inspect. The number is small compared with the original quota of personnel.

The number of customs officials needs to be increased, and this requires the support of outside agencies such as the MOI.

6.5.5. Reduction of Transportation Costs

(1) Public transport agencies

The MPC presently has contracts with the MIAT, MTZ and ATD that lay down transportation charges and transportation conditions. Due to the fact that there is only one company providing each means of transport and there is no competition through contracts with other organizations, it is extremely difficult to judge whether these charges and conditions are appropriate.

In the case of transportation by air, charges are normally calculated depending on the weight of mail and distance transported. In the case of rail transportation, however, passenger seats have to be constantly blocked off, and so a flat charge is paid regardless of the actual quantity of mail transported. Likewise, the unit charge for transportation by bus is determined by distance (per kilometer), and a flat charge is levied for transporting any quantity of mail up to a certain maximum weight.

The charge structure used for rail and bus transportation is to the MPC's advantage if the same volume of mail is transported as at present. If the volume increases, however, it will be necessary to confirm that this system will continue to be used.

(2) Transportation by MPC

Standards (on distance) are laid down by the State concerning the consumption of expendable supplies for vehicles, and parts replaced before the specified distance has been traveled must be paid for out of pocket. These standards are the same for all areas and are uniform for each type of part. However, the cost of replacing such parts leads to an increase in costs.

The cost per item of mail is high given the current volume of mail transported, and would be difficult to bring down even with a several-fold increase in the volume of mail carried.

The reasons for not being able to reduce costs are the lack of choice due to the limited means of transport available, and the lack of competition in the transport market.

6.5.6. Transfer of Mail

(1) Improvement of handling

Loss and damage of mail in transit can reduce confidence in the postal system. That this is so is clear from the handling of mail bags used for transportation of mail at present. Mail sorted at individual post offices is handled in mail bags, which are sometimes dragged by hand due to the shortage of easy-to-use equipment. Loading and unloading from vehicles are also generally performed by hand.

It would be difficult to speed up the transfer of mail from vehicles to trucks with the current number of handcarts in use, even given the use of elevator conveyor equipment for loading and unloading of mail at stations. It is therefore necessary to consider introducing the use of powered conveying equipment and increasing the number of handcarts.

The loading and unloading of mail bags by hand can easily result in damage to mail, and makes it difficult to improve operating efficiency. One solution would be to load mail bags onto small containers and roll box pallets so as to be able to load mail in larger batches (i.e. by container or pallet rather than individually) and speed up the loading process.

6.5.7. Delivery to Bags

(1) Overview

It should be noted that delivery to Bags is already implemented to an extent, using traffics between the Soum centers and Bags. Mails are entrusted to those people to be delivered. Considering the mail volume, this is a cost effective and well working system, without becoming a burden to MPC. MPC should first try to collect various efforts and experiences that are taking place at each area, and try to pick a good practice to be introduced all over the country.

(2) Delivery by MPC Vehicle

To handle all the bag delivery by MPC's own resources alone would be a very difficult undertaking. As MPC has already calculated, to realize this through MPC owned vehicle and staff would be totally impossible. It would mean securing vehicles for each Soum. Current transportation cost would be more than doubled, without any increase in the revenue. Further, only one Bag per day can be served. Soum must hire additional delivery personnel to cope with 4-5 Bags within each Soum. These additional expenses would immediately drive MPC into the red, unless MPC can secure at least 120 additional mail items to deliver. The basis for the calculation is as follows;

Average distance from a Soum center to a Bag:	60km
Fuel Cost:	80Tg/km
Total Fuel:	4,800Tg
Depreciation and other cost:	26,000Tg
Labor Cost	5,000Tg
Total Cost for Delivery:	36,000Tg
Mail Revenue per item:	300Tg
Necessary Mail Volume per Delivery:	120 items

Currently, mails to Bags are extremely scarce. Even including various subscription, many residents of Bags simply do not have any postal communication with the outside world. Even in some of the active Bags, and even including publications, the number of items per month is about 20 at the maximum, 2-3 on the average.

Considering this situation, the delivery to Bags using dedicated vehicle is totally unthinkable. Combining Bags to increase efficiency would be difficult due to road conditions. Therefore, it must be concluded that this is impossible. Unless the government is willing to provide huge subsidies for this purpose, this is clearly not an option for MPC.

(3) Delivery by Part Time Hire

Another possibility is to hire a person (or several person) that already owns some means of transportation, whether it be a automobile or a horse, in each soum to make deliveries to Bags on a part time basis. Based on the GDP per capita of US\$420, US\$5 per delivery would be reasonable. In order to cover this, however, about 20 mails per delivery is needed to justify this cost.

This is a level that may be justifiable in some cases, since this level of mail volume does exist in some of the Bags. Further more, this idea has the additional advantage of a low (zero) capital investment, flexible cost structure. However, even this would be difficult under the current mail volume.

(4) Possible Strategy

Therefore, in order to implement Bag delivery at the moment, there are three things that MPC should consider.

1) Base the delivery on part time hiring of delivery staff

Practically speaking, owning a vehicle for delivery at the Soum level is out of the question unless there is some huge subsidy (which is unlikely). Even if the vehicle were to be given, the fuel cost would be too high to provide this service. Therefore, hiring the delivery staff that already owns some means of transportation would be the only option.

2) Charge for Bag Delivery

It should be noted that it is very unlikely for this service to pay for itself. Therefore, for the time being, it would be wiser to discourage the use of such service. The fee would probably not be able to recover the cost of delivery at any rate. However, charging a fee for this delivery, and making it prohibitively expensive would fend off actual use. How to set this charge is difficult, though, since in the long run, we would need to encourage the use of mail. The balance needs careful consideration.

3) Do not attempt full immediate implementation

Implement from areas with large enough mail/subscription volume, where there are more than 20 items per month. Do not make major announcements. This strategy can be used as an alternative to the above, or as a complimentary effort.

4) Make the delivery staff into a viable sales force

The delivery part timers should be encouraged to solicit usage of mail and subscription. Their pay structure should be part fixed, and part based on the amount of items that they deliver. Efforts such as group subscription of a single publication should be encouraged. Delivery part timers would probably have some knowledge about the potential communication needs of the residents of each Bag, which should be exploited.

The difficulty in Bag delivery would be to strike a balance between discouraging its use and on the other hand promoting use. This needs to be adjusted, and the strategy may differ from Aimag to Aimag, or even between Soums. In the long run, it would be possible to cross-subsidize the Bag delivery from the revenue generated from Ulaanbaatar. Till then, Bag delivery, if it is going to be implemented in the near future, needs to be implemented in a rather toned down fashion, in order to contain costs. Otherwise, it would either destroy the foundation of MPC through excessive costs, or would require a complete change of the role and position of MPC as an independent self supporting entity.

(5) Conclusion

It is clear that whatever method, the Bag delivery is an extremely difficult challenge for MPC. Hastily introduction would be very risky. Therefore, the best method would be to utilize the existing practices and learn from it, thereby improving the existing delivery to Bags. MPC should focus on the level of traffic instead of the level of jurisdiction, in order to focus on their main activity of moving mail.

6.6. Plans for the Organizational Setup and Human Resource Development

6.6.1. Organizational Setup

(1) Current Status

The MPC is under the jurisdiction of the Ministry of Infrastructure (MOI), and is owned by the State Planning Commission (SPC), which is in charge of appointing its director-general and approving its budget. In Ulaanbaatar, it operates the Central Post Office, 18 other post offices, and a quasi-central post office. Outside Ulaanbaatar, there are central post offices in the 21 Aimags and the city of Baganuur, and 317 post offices in Soums (including commission contracts). The head office in Ulaanbaatar is in general charge of all postal services nationwide. At the Aimag post offices, the heads and accountants appointed by the head office oversee the post offices in Soums in their respective Aimags. In 1999, the MPC employed 270 at its head office and post offices in Ulaanbaatar, 320 at Aimag post offices, and 370 at Soum post offices, for a total of 960.

(2) Issues

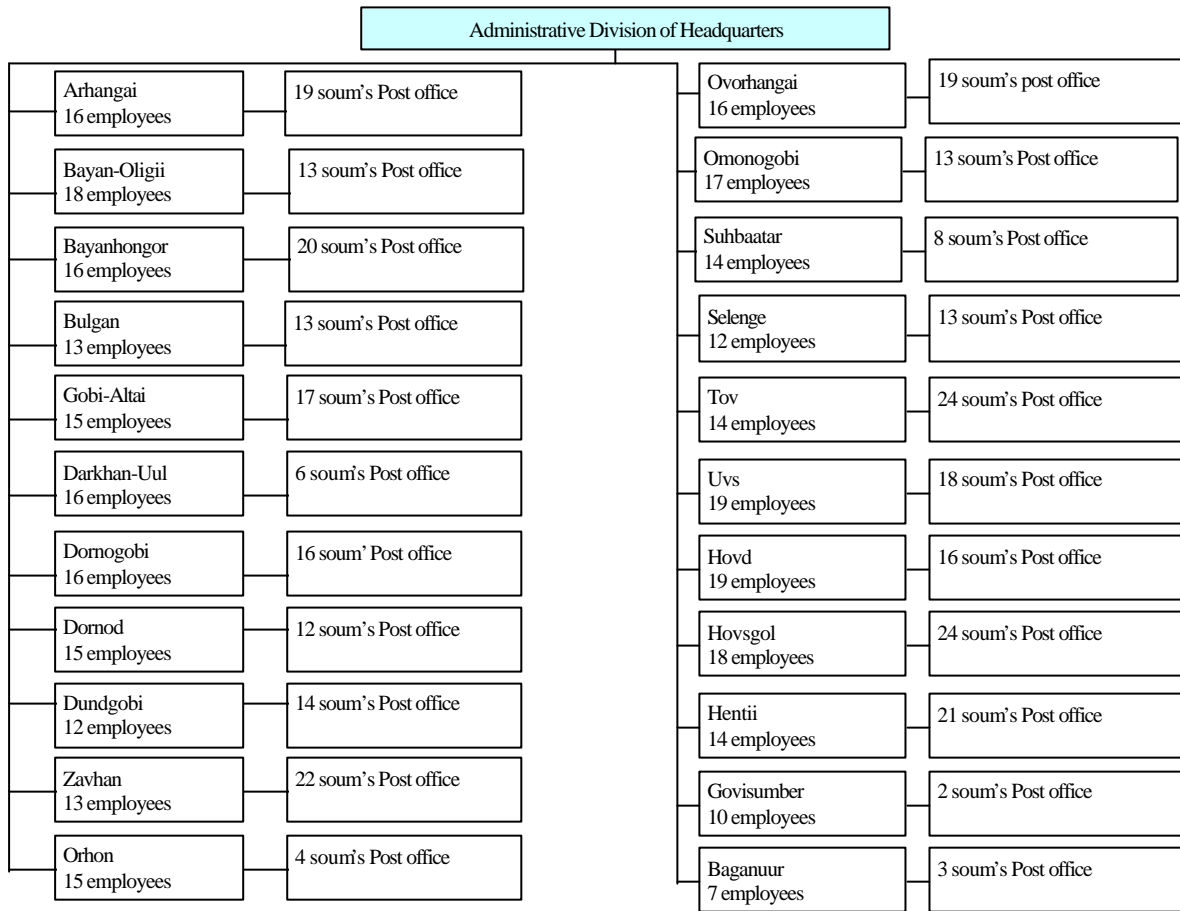
With a view to leading postal services in Mongolia to success, the organizational capacity of the MPC was analyzed from the standpoints of A) the clarity of the division of authority and roles, and B) the incentives (another factor to determine the organizational capacity is analyzed in 6.5.2). This analysis revealed the following problem areas.

1) The clarity of the division of authority and roles

A) The MPC director-general and deputy director-generals make decisions on all matters. The general managers, including leaders on the order of section head, are not given the authority to approve things themselves. In other words, this arrangement does not exhibit the usual division of roles whereby the top layer is in charge of management, and the general managers, of administration.

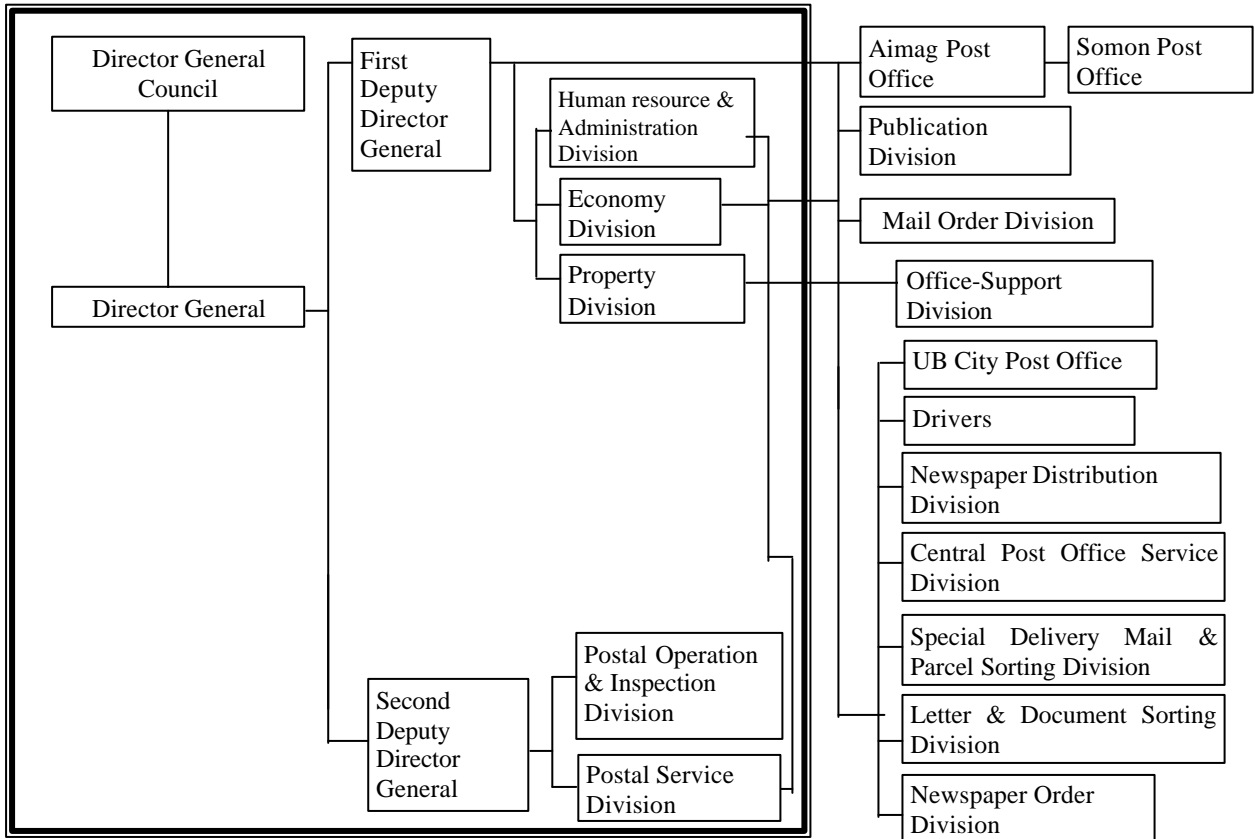
B) Following the reorganization of March 2000, the first deputy director-general also in effect served as leader of the human resource and administration group, and the second deputy director-general, as leader of the postal network group. However, the (first) deputy director-general duties were not reduced as a result of the reorganization. In this way, duty items that should be left to the lower levels have been assigned to the top.

Figure. 6-22 Aimag and Soum's Post Office



Source: MPC

Figure. 6-23 Organization Chart of MPC



Source: MPC

- B) There is a lack of conformance between the rules for executive posts following the reorganization and TOR for each managerial post (the TOR, which should have been revised along with the reorganization, were left as they were). As a result, there is a lack of agreement between executive and managerial duties, and some work items are not being executed.

- D) The abolition of executive posts and accompanying reallocation of duties after the reorganization caused considerable variation as regards the burden of work in administrative posts.

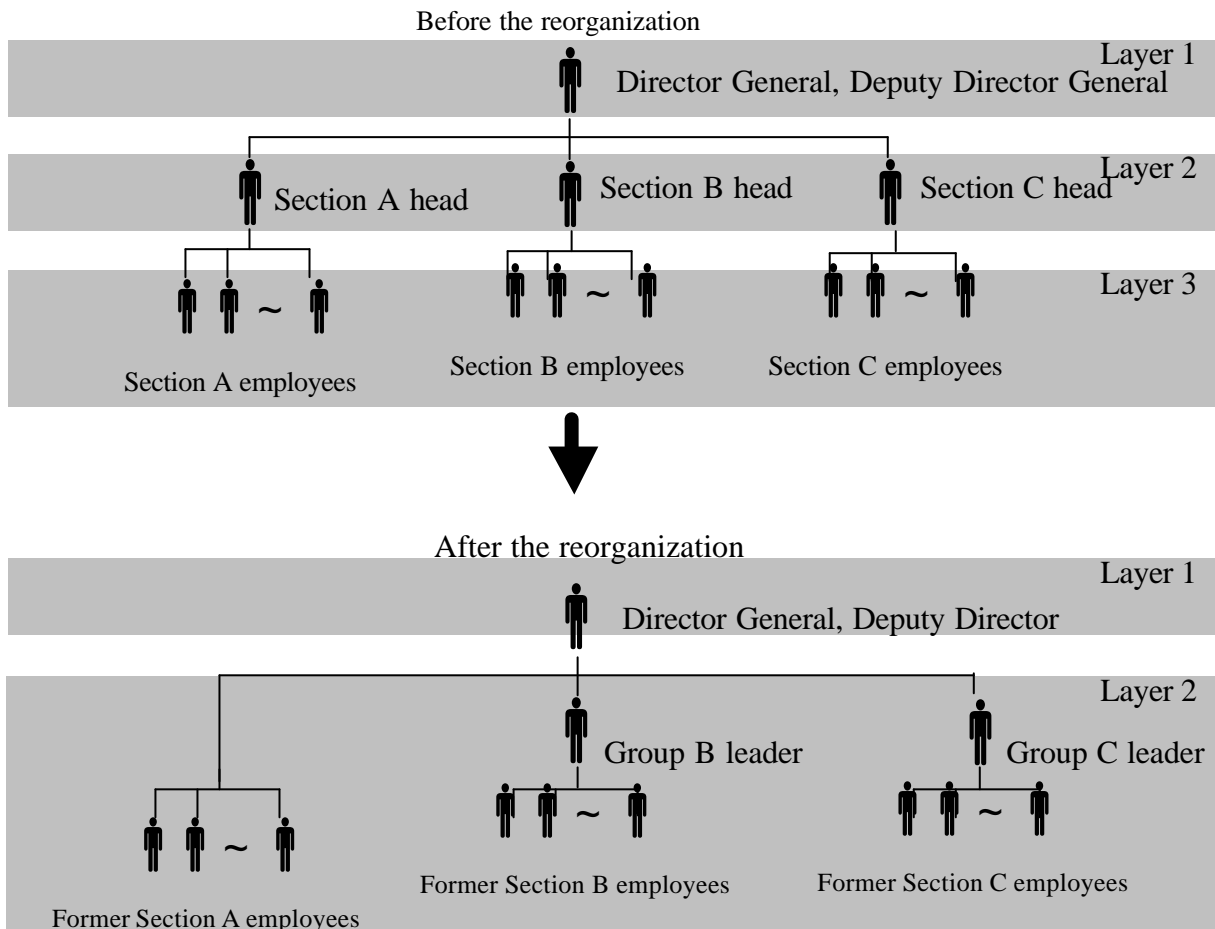
2) Incentive

At present, the MPC evaluates employee performance every quarter and reflects the evaluation results (ratings) in quarterly bonuses (which are paid in amounts up to the maximum monthly amount). At the end of the fiscal year, the wage level for the following year is a subject of evaluation. In certain Aimags, Soum post office heads who have succeeded in boosting sales are given a free trip by way of reward. Nevertheless, the standards of evaluation are not disclosed, and employees are merely notified of the results by their superior. As such, the system is not fully acting to heighten employee morale and spirit. One piece of evidence to this effect is the expression of dissatisfaction with the level of basic services at the MPC by the respondents to the customer questionnaire survey conducted by the JICA Study Team.

(3) Measures I - Perspectives on resolution

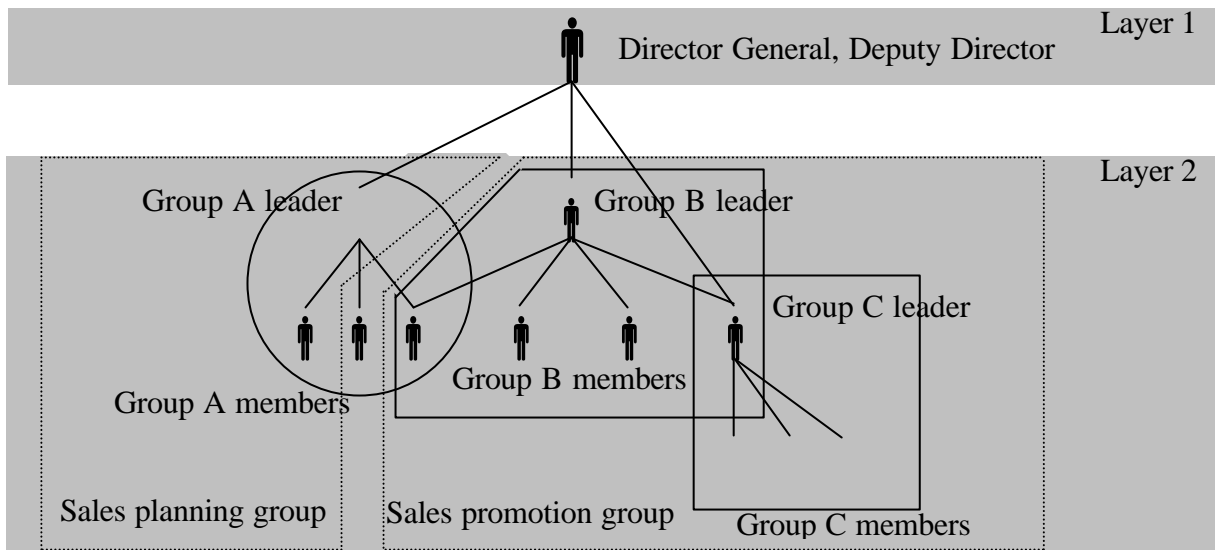
The reorganization of the MPC head office in March 2000 was aimed at improving the organizational capacity by introducing a flat system into line management. The process is described as follows. The former organization had five sections with just under 30 administrative staff. The reform of the head office organization was aimed at abolishing this layer of section heads and building a scheme in which the first and second deputy director-generals could directly supervise all administrative posts (see Figure 6-23). In reality, however, the problem is that a single manager can fully manage the work of no more than somewhere from five to ten subordinates. As such, the current situation in which executives at the top are each in direct charge of numerous subordinates holds the risk that management of much work will lag in areas other than those of most immediate concern. As viewed from the standpoint of subordinates, direct connection with the top layer in possession of all authority is liable to lead to communication that amounts to nothing more than asking for instructions, and would not provide incentives for execution of work with a sense of individual responsibility.

Figure. 6-24 Reorganization in the MPC Head Office Line (March 2000)



Source: JICA Study Team

Figure. 6-25 Advisable management setup



Source: JICA Study Team

The authority in question is the right of approval on the line. As pointed out in 6.5.1(2) 1) A) and B), the MPC has not made a clear division between management and administration, and the right of approval is concentrated in the top layer. To correct this situation demands the erection of a setup enabling the top layer to concentrate on management. In other words, the right of approval for administrative matters (excepting those directly connected to management) must be delegated to the group leaders, as far as possible. For example, group leaders could be allowed to decide matters such as the following entirely at their own discretion.

- Expenditures in amounts below a prescribed ceiling
- Division of duties in the group and coordination of member schedules (vacations, etc.)

Furthermore, it would be advisable for the group leaders not only to make oral presentations of the state of progress and measures in the work under their control at internal meetings but also to submit written reports in prescribed forms. This is because an increase in group leader accountability related to internal procedures will enhance the transparency of decision making.

2) Review and reallocation of service issues

With the respect to the points in 6.5.1 (2) 1) C) and D), the current situation of each managerial duty should be considered as urgent. In a review, it is necessary to understand how the managerial duty items, which are determined by managerial authority regulations, and the work items, which are determined in employment contracts, are actually fulfilled. In addition, managerial authority regulations and employment contracts should be reviewed based on actual situations, which distribute the duties equally (a system of payment, which reflects the amount of duties borne) through the reallocation of duties and allocate new duties.

3) Review of performance evaluation

With respect to the points in 6.5.1(2) 2), the existing performance evaluation system in MPC should be improved as follows:

In evaluations, it is important to establish clear standards and disclose them to the employees, and also to allow employees to rate their own performance and have the opportunity to discuss this rating (along with the superior's rating) with the superior.

The key factor in incentives is not the size of the reward but the sense of satisfaction felt by employees when they realize that their performance is being properly evaluated.

(4) Measures II – Organizational capacity improvement

The details of measures, which the central organization and local organizations should take for MPC organization capacity improvement are suggested as follows:

1) Central organization

A) Group management

The existing line management at the MPC is extremely distinctive. There is an unavoidable impression that the pre-reorganization sections have merely been replaced by groups, and the section heads, by group leaders. With its more flexible operation, the group system can make more effective use of limited human resources. For example, members may belong simultaneously to more than one group as the work demands, and a member of one group could even be the leader of another (see Figure 6-25). It must be understood that the groups are formed not for the purpose of executing functions in the line but for attainment of given tasks.

There is one major prerequisite for flexible operation of the group system in line with the above: continuation of the necessary support and follow-up work upon clarification, by the top layer, of the group mission and period of activity.

If it is to provide services that meet the needs of customers, the MPC should add several capabilities (in the form of groups) to the current organization, as follows.

a. Personnel training group

Postal services depend greatly on human resources, and the quality of human resource development will have a big impact on the business result. The provision of training for the slightly under 1,000 employees will call for capabilities for the following kinds of activities.

- Administration (training program planning and evaluation)
- Guidance (lectures and practical training)
- Development (preparation and revision of programs and guidance)

These activities must be promoted through collaboration by the persons in charge of training in the human resources & administration group positioned below the first deputy director-general and the members of the operation and services group.

b. Sales planning group

To provide new customer-centered services, the MPC must ascertain customer needs, review the existing services, develop the right new services, and promote them. The determination of needs must not be limited to quantitative and qualitative market surveys; it must include inquiries and complaints received at post offices as the points of contact with customers. These latter are vital sources of information. Similarly, the review of existing services and development of new services should not be left exclusively to the managers in the head office; it might be advisable to have it assigned to an ad-hoc team (of

female employees?) at the Central Post Office, for example. Because of the direct linkage with MPC management strategy, activities should be conducted under the jurisdiction of the director-general.

c. Inspection group

At present, the setup for internal inspection in the MPC is as follows.

- Inspection of postal services is under the charge of the operation and services group.
- Inspection of inventories at the Office Support Division in the head office organization is under the charge of the leader of the property registration group.
- Inspection of accounts at Aimag post offices is assigned to the accountants in the human resource and administration group.

Coupled with the external surveillance by the watch-dog agency, the setup for inspection of the MPC is in order as far as the system is concerned. However, to maintain its competitiveness over the long term, the MPC must obtain and keep the trust of customers by bolstering its capabilities for crisis management in the event of injustice or irregularities. To this end, it must increase the inspection-related authority and, at the same time, make arrangements for centralization of information and its timely provision directly to the top layer. For this reason, it should consolidate the inspection work, which is currently spread among different principals, into a single group, and place this group, together with the legal advisors attached to the human resource and administration group, directly under the director-general.

Recovery of customer confidence will also require restoration of the system of inspectors in charge of examining irregularities (which posts were abolished by the March reorganization) and preparation of mechanisms for swift response to customer requests.

d. Document management group

The MPC is currently making efforts for sharing of information and the corporate vision through smooth communication among employees. More specifically, it holds regular meetings for managers, quality control conferences for employees of post offices in Ulaanbaatar, and conferences for the heads of post offices from Aimags around the country. Efforts should also be made for the conversion of in-house information and capabilities into documents. The preparation of information in written form can be expected to clarify in-house responsibilities and authority, and so lead to an improvement in the level of internal inspection and reinforcement of the setup for internal management. It can also be expected to help to elevate the level of services and, by extension, increase the degree of customer satisfaction. In addition, seeing that the MPC is the entity assigned to provide universal services, it can also be noted that such documentation will help to

ensure accountability to the higher administrative authorities. For these reasons, the MPC should clearly establish policy on compilation of information in document form, institute a group to monitor this compilation under the first or second deputy director-general, and set about the related activities.

B) Group activity

There are various prospective tasks for the MPC to address in keeping with its aim of ensuring long-term competitiveness and increasing the degree of customer satisfaction through a rise in the level of services. It would be advisable to form groups that cut across internal boundaries for the promotion of studies under the direction of the director-general and proposal of requisite measures. The following topics can be cited as examples.

a. Developing national culture of hand-written correspondence

E-mail is anticipated to find widespread diffusion as a means of communication. Under these circumstances, the MPC must identify value that only postal services are capable of delivering and take steps to promote it. This effort would assist the promotion of postal services. In Japan, post offices are at the center of campaigns to promote letter-writing by means including the formation of letter-writing groups in the community and local schools. They are also actively developing postal products (stamps, etc.) that encourage exchange of letters by individuals.

b. Improvement of the work environment (point of departure for cultivating the organizational culture)

- To boost employee morale, it is important to improve the work environment. Activity to this end may be exemplified by the measures taken by the Arvaiheer center post office in the Aimag of Ovorhangai, where employees who work the counter wear uniforms and name plates. A high morale is also important for preventing irregularities and mistakes as well as increasing the degree of customer satisfaction.
- The MPC should arrange the work space so that its emblem (logo) is always in the eyes of not only the customers but also the employees. With their visual appeal, emblems act as a backbone for sharing of the mission and action toward its attainment on the part of the employees.
- Proper arrangement and conditioning of the work space is one of the basics in all kinds of work. Nevertheless, efforts in this area could be negated if employees transplant their own habits into the work space. In Japan's manufacturing industry, companies systematically arrange and condition the work space as the starting point of productivity improvement.

c. Breeding of an organizational culture that respects communication

To increase productivity, it is also important for the MPC to promote a sharing of information. Group activity would run across boundaries in line management and promote information-sharing by breaking down interdepartmental sectionalism. However, there is some question about the degree to which information-sharing can be deepened and new value can be created. In this connection, studies must be made to determine the right approach on the level of routine communication and discussion among employees.

As the fundamentals of action, Japanese organizations stress the importance of reporting, notifying, and consulting. The proper practice of these three elements elevates the significance of information-sharing from the level of sharing mere facts to that of sharing goals, and further to that of sharing outlooks and conditioning the management setup through information. Discussion serves as the means of information-sharing and the pooling of knowledge to reach solutions for given problems. Discussions could be effectively pursued by establishing rules in advance and making use of aids such as whiteboards and cards.

d. Breeding of an organizational culture that respects documentation

The following can be cited as tasks for documentation that must be addressed at the initiative of the document management group.

- The group must clearly state the scope of document management and promote the sharing of information through documents. The specific tasks here are as follows.
 - Determination of the kind of documents that must be stored, and the place of storage (need for locked storage, etc.)
 - Establishment of standards for discarding documents
 - Establishment of a storage procedure facilitating reference (storage in files using serial numbers, etc.)
 - Preparation of internal documents in fixed forms corresponding with the type of use

In order to give as many employees as possible access to materials acquired through overseas training programs, for example, the MPC should establish a document room for loaning documents to employees.

- The MPC should publish a regular in-house newsletter. The newsletter would carry features on cases of improvement being made at various post offices, awards for outstanding achievements, and information including instructions from the head office, to be relayed directly to all employees, right down to the level of those in Soums.
- The preparation of work manuals must be promoted on a companywide scale. Through

coordination with all concerned parties, the MPC has already prepared a rule book setting forth postal work. It also must prepare manuals with clear explanations of procedures that will be understandable even by employees in Soums on their first day on the job. The following are key points in manual descriptions.

- Explanation of work procedures with illustrations and figures
- Avoidance of use of scholarly and legal terminology as far as possible
- Match with the actual circumstances at post offices in Aimags and Soums

In addition, manuals should be prepared not only for actual postal work but also for the work in managerial positions at the head office. This is because the presentation of all work in manuals will eliminate the necessity of having any particular employee assigned to any particular post, and thereby make it possible to post employees freely and flexibly. Furthermore, the process of preparation will assist discovery of needless work procedures and so help to streamline work.

e. Breeding of an organizational culture that respects customers

The sales activities promoted at the initiative of the sales planning group must be based on the premise that all employees are salespersons. This approach has two focal points. One is the promotion of a campaign to win customers as necessary for the widespread diffusion of the "Pigeon" services under study for future introduction. The other is a rigorous campaign to improve services in accordance with the "customer-first" orientation, in order to build and maintain a long-term competitiveness.

The sales activities must make it clear that the MPC's mission lies in provision of customer-first postal services, and see that this stance is put into practice through the new "Pigeon" services. For this purpose, each and every employee should, in addition to his or her daily routine, act as a salesperson and attempt to win customers through visits to government offices, companies, and private homes. Along with its nationwide network, the MPC's key advantage relative to competing carriers is its great number of employees. It should aim for service improvement in quantitative terms by having all employees be involved in the sales campaign for "Pigeon" services.

For this purpose, all employees in the head office and post offices must be instilled with a customer-first attitude and exhibit it in treatment of customers and efforts to improve the routine work. A campaign of this sort would aim at service improvement in qualitative terms and maintenance of competitiveness in the marketplace. The questionnaire survey conducted by the JICA Study Team on customer needs yielded a detailed picture of the target post office supplying the kind of services wanted by customers. The MPC should clarify the differences from the actual post office of today and mount an ongoing campaign to fill the gap through patient work by all employees.

2) Local organizations

The heads of the Aimag (center) post offices are appointed by the MPC director-general and conclude employment contracts that are renewed annually. They are given a fairly great discretionary power in the operation of postal services in their respective Aimags, in matters including appointments and the setting of salary levels at Soum post offices. It can also be noted that the Aimag post offices employ less than ten excluding the vehicle drivers and guards, and that the corresponding number on the Soum level is one. As such, the capabilities of post offices in Aimags may basically be equated with the level of competence (or motivation) and expertise on the part of the post office head and employees.

Based on these considerations, one of the key measures for improving the balance of payments at Aimag post offices is employment of the best available personnel through application of annually adjusted contracts. The MPC must also look into incentives to heighten employee motivation (such as measurement of performance with reference to the degree of attainment of targets) and training to boost levels of expertise. The achievements of outstanding post office heads and employees should not only be discussed at national conferences of post office heads and in training programs for employees in Aimags but also publicized nationwide through the newly instituted in-house newsletter. The director-general should instruct the incorporation of successful practices into other Aimags and have the sales planning group monitor the subsequent progress.

The employees of Soum post offices are not very pressed with postal work except after the one or two deliveries of mail from the Aimag center. In August 2000, the director-general issued instructions to the effect that wages for these employees would rise with the turnover (volume). This was done to give them more incentive for active promotion of sales during their free time. For the future, the MPC might also consider replacement of full-time employees with employees hired on a commission contract basis or as vehicle drivers, particularly in Soums with little demand for postal services.

(5) Plans for the organizational setup

The plans in the aspect of the organizational setup should basically be set in motion no later than 2005, when "Pigeon" services are anticipated to commence. The new organizational culture described above must have taken root by the time of provision of the new services.

(6) Proposals on Organization

Delegation of Authorities

Management and administration are not clearly separated in the organization of MPC, but the authorities of approval are centralized on the top management. All of the matters for approval come to the three top executives. Even the matters to be approved by middle management or group chiefs go to those three top executives. It is, therefore, necessary to change the current situation so that the top management can devote themselves to the management matters. For this purpose, it is necessary to

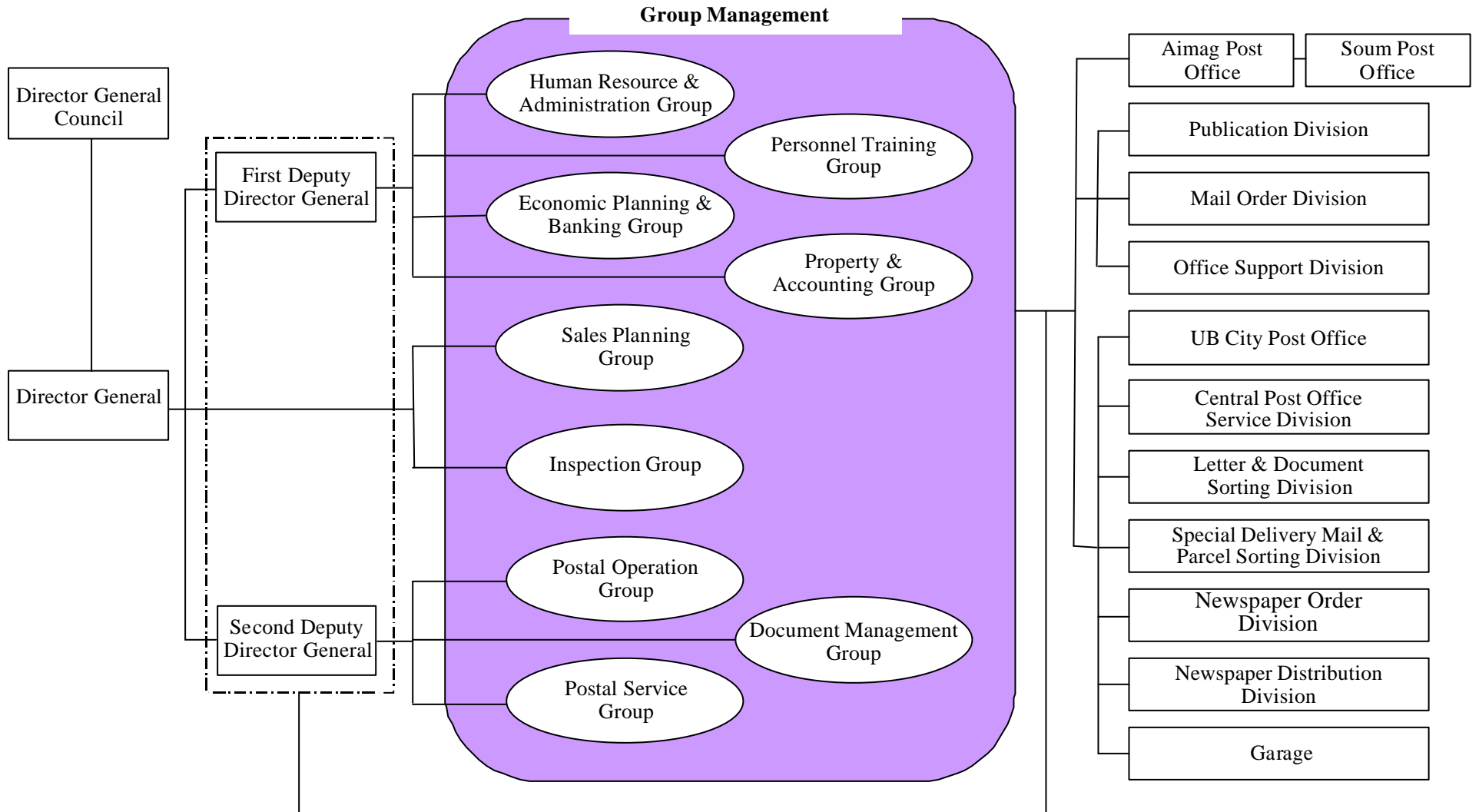
delegate the authorities to approve the matters concerned with the administration except those connected directly with the management as much as possible to group leaders.

In the central organization, it is recommended to reform as follows: first, the authority of group management must be defined. Though the group management system has been introduced, we cannot wipe out a thought that the names of sections were only replaced by those of groups and the section chiefs by the group leaders. For MPC to provide its services responding to the user needs, it is desirable to strengthen the function of group management.

Specifically speaking, the reform planning of organization should be implemented at least two or three years before the year 2005 when pigeon mail services are scheduled to start. It is particularly necessary to render the proposed new services under the organization where a new organizational culture has been settled. For example, Sales Planning Services should be reorganized. It is necessary for the Sales Planning Services to grasp the customer needs, address the review of the existing services and the development of new services, and promote the results obtained therefrom. If independence and delegation of powers are provided to them in reviewing the existing services and developing new services, it would produce good planning and make them active, which will raise the success rate of a business.

The above can be applicable to Personnel and Education Group. The group leader in charge should be responsible, and delegated the authority, for performing the works comprising 1) management work covering the planning and assessment of training, 2) guidance work covering lectures and on-the-spot training, and 3) developmental work covering the preparation and revision of training and guidance materials.

Figure. 6-26 Proposed Organization Chart of MPC



6.6.2. Human Resource Development

(1) Current Status

A variety of human resource development efforts have been made for the postal office staff to understand the services in MPC. The central office has dispatched managers to special courses in external organizations and conducted training programs by external instructors to gather updated information and expertise for postal services. The local offices are training staff for the operation of on time postal services. The human resource development details, which are divided into training and OJT, are shown as follows.

1) Training areas

A) Training in other countries

- Each year, the MPC sends two employees to take part in the postal training program conducted by the Asia-Pacific Postal Training Center (APPTC, located in Bangkok). The training is for those in administrative positions.
- The MPC also invites instructors from the APPTC to make presentations related to training for those in administrative positions.
- It sends employees to take part in training programs conducted by the Ministry of Posts and Telecommunications in Japan.
- The heads of Aimag center post offices (in Darkhan, for example) accompany missions to Germany for the purpose of inspection.

B) Head office

- Training is provided by external instructors (on a non-regular basis).

Examples:

- Five-day course of training on the economy, postal operations, new sales, and banking services
- Two-day course of training for employees of Ulaanbaatar post offices in various fields of expertise

- The MPC sends employees to take part in special courses conducted by external organizations.

Examples:

- Dispatch of six employees to the training course in finances conducted by the Ministry of Finance
- Dispatch of employees for special courses at economics universities, courses in financing at private graduate schools, and short-term language courses at liberal arts universities.

C) Aimag post offices

- The MPC holds conferences for the heads of Aimag post offices throughout the country (for three days every February). The conferences include the following instructional activity: a) presentation of any changes in related laws/regulations and work, b) explanation of ways of

stimulating human resources, and c) reports on the current international political and economic situation.

- The MPC holds conferences for accountants at post offices throughout the country (for about three days once a year). The conferences include the presentation of new software for financial analysis, etc.
- The MPC dispatches employees outside the Aimag for training.

Examples:

- Dispatch of accountants for training at specialized institutes in Ulaanbaatar
- Dispatch of employees in charge of banking services to Ulaanbaatar for three-month training courses

D) Soum post offices

- Aimag center post offices hold conferences for Soum post office employees (for about three days once a year). The conferences include the following instructional activity: a) presentation of any changes in related laws/regulations and work, and b) presentation of banking services and other new services.
- The MPC arranges programs of training by head-office specialists. The head office dispatches these specialists to provide training on subjects requested by Aimag post office heads (such as postal operations). In addition, the operation and services group, planning/economy/banking and financial service group, and property registration group conduct practical tests in the Aimag once every three years, and provide training at the same time (for about two days). In the area of remittance services, training is provided by personnel from the MPB using manuals. Furthermore, when visiting Soums, personnel in charge of accounting at Aimag post offices furnish counterparts at Soum post offices with guidance.

2) OJT

On site training is conducted about once a week for newly assigned staff.

(2) Issues

MPC organizational capacity depends on the expertise level of staff. The expertise is determined based on a human resource development policy and training details. The issues of the existing human resource development policy in MPC are pointed out as follows:

1) Training

- A) Since there are financial restrictions for training overseas, staff members are dispatched to training programs, in which course fees are exempted by APPTC. Staff members, who are fluent in English, are eligible to participate in the training programs. The number of

eligible staff for dispatch is limited. Under the current system, the needs of the participating staff are not completely met by the training programs.

- B) Regarding training programs overseas, reporting the details only to the director-general is required. Although meetings by returning trainees from abroad are held, it is difficult for the participants to find a connection between their daily duties/services and their training experience. Therefore, trainees' experiences are not reflected in their actual duties or services. The training programs have not contributed to the reinforcement of the PMC organizational capacity.
- C) MPC training programs focus on providing useful expertise regarding practical services for post offices. It functions successfully in terms of maintaining levels of duties/services at local post offices. On the contrary, not many training programs are provided to raise the management abilities, in this case staff may be in positions of management as a result of seniority but not necessarily as a result of skills acquired. The training programs for skill development are not planned to coordinate with the career paths of staff.
- D) The main training method is via lecture. There is no expert, who has mastered the training method such as case studies, role playing and business games. In addition, a follow up system has not been adopted to analyze and use training results for future training.
- E) The know-how of marketing, quality control and risk management, which are essential to promote future services and secure competitiveness with private delivery service business, has not been actively compiled.

2) OJT

OJT, which tends to be considered as a short-term training program for new operations, is not considered as a skill development method deployed by all post offices based on concrete guidance development guidelines. There is an office regulation handbook and not an operational manual.

(3) Measures

To strengthen the institutional ability of MPC against its private competitors, MPC's training system should be directed not only for providing necessary business knowledge to its employees, but also for nurturing them as "human capitals" that are expected to contribute to MPC in the long run. "Human capitals" in this case mean that they are qualified and trained sufficiently not only to pursue postal services, but also to manage the MPC through their entire careers according to their professional backgrounds. The institutional ability of MPC will be heightened by such expertise of its employees.

The following is the concrete measures for building new training system in MPC based on the issues noted in 6.5.2 (2).

1) Establishment of personnel training group and training plan

As pointed out in 6.5.1(4) 1), the planning and provision of training for the slightly under 1,000 employees will call for collaboration by the person in charge of training in the human resources & administration group and the members of the operation and services group under the direction of the first deputy director-general, who is directly responsible for human resource affairs. The first step of their collaboration is to prepare the general architecture of training system that includes the goals of each career step of its employees, which is deduced from the long-term objective of MPC. Then they can move forward to take measures in order to achieve these goals of its employees. Such “feed forward” method is important to create training plans that is down to earth. Figure 6-27 is the example JICA Study Team prepared for the personnel training group.

2) Utilization of the outcome derived from training programs overseas

As pointed out in 6.5.2(2) A) and B), trainees’ experiences in overseas have not been made most of in the present domestic postal services. Considering the cost incurred for the training, there is much room to improve the performance. Since the knowledge and techniques they learned in the courses are the most advanced ones in the field of world postal service, some measures should be taken to implant them in other employees. The following are examples to make the best use of their experiences.

- Trainees are expected to become instructors in the domestic training courses in which related subjects are taught for employees.
- The materials trainees have brought home should be translated into Mongolian and stored in a document room for public use.

Some items trainees learned abroad should be treated as subjects handled in project group activities mentioned in 6.5.1 (4) 1) B).

3) Expertise coordinated with career development paths of each employee

As pointed out in 6.5.2(2) 1) C), future training programs should be planned to include a variety of subject combinations in order to attain career step goals that are defined in the training plans for its employees. In general, employees who serve with MPC for longer period deserve training courses that aim at promoting their management abilities. To enrich the training programs especially for those skilled employees as well as administrative staff in the head office, theories and practices of business administration courses, such as marketing, organization management, data control, risk management and quality control, should be taught by outside experts. As a long-term strategy of human resource development, it is necessary to train up in-house instructors who can teach those courses with the assistance of outside experts.

4) Diversification in training methods

As pointed out in 6.5.2(2) 1) D), staff in the personnel training group are expected to develop training skills by introducing various training methods into present lecture-style courses so as to enhance participants' ability to cope with practical matters. For this purpose, staff should be well acquainted with those training methods as well as know-how to develop training materials with the assistance of outside experts.

It is also important to do a questionnaire survey after the course is over so that participants' suggestions are reflected on training course development.

5) Better pay / position in accordance with the achievement in training courses

The performance of general employees in practical training courses for postal services can be reflected to their salaries to some extent, as a motivation to make their efforts. The employees who had good records in those staff training courses can be promoted as specialists who are regarded as leaders in their work places.

6) Better pay for in-house instructors

The staff training is currently offered by administrative staff in the postal operation & inspection / postal service divisions. Better pay is suggested to evaluate their contribution toward those training courses, since no extra allowance is paid at this moment.

7) Establishment of the special training course for "Pigeon" services

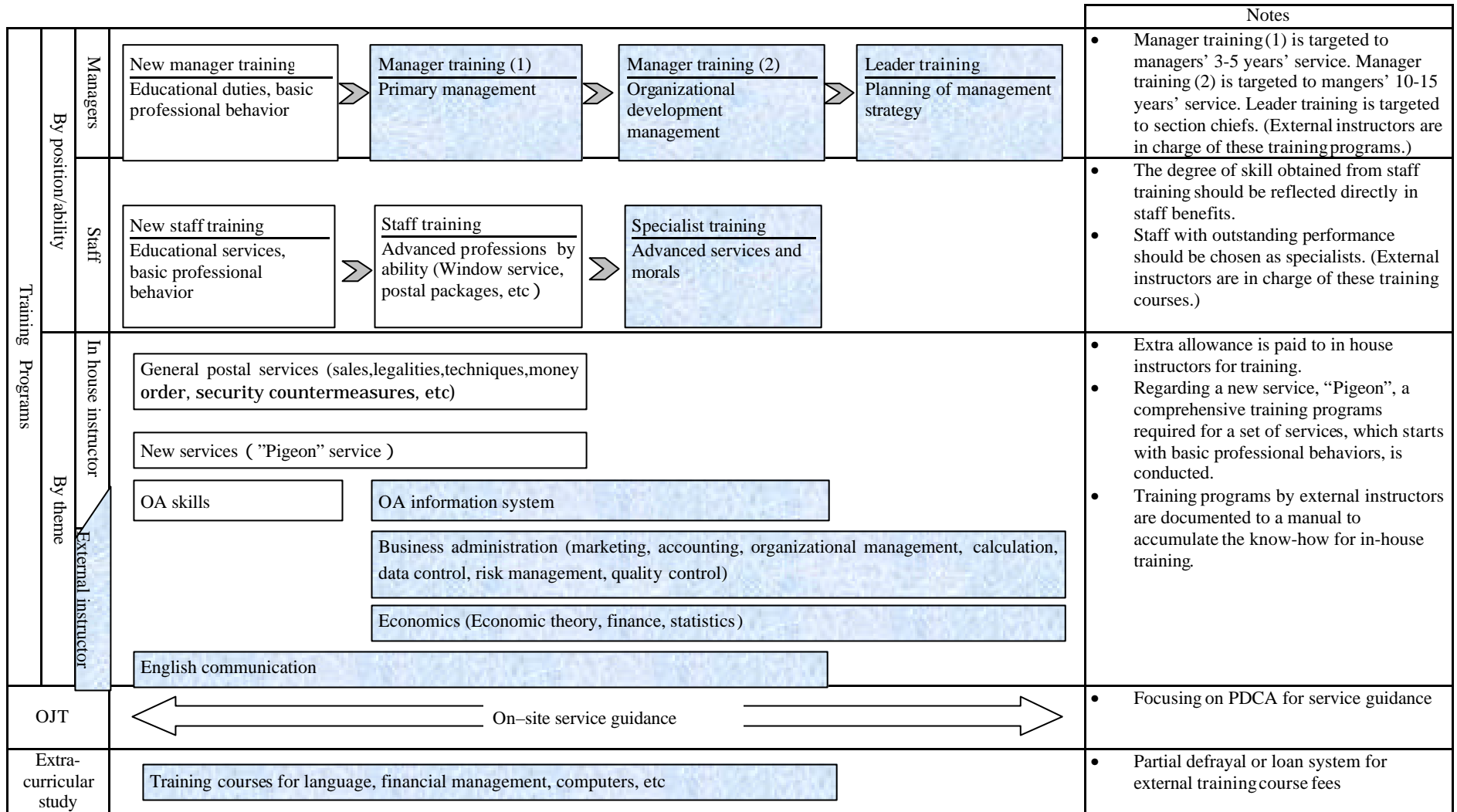
To support the sales campaign for "Pigeon" services, it is important to offer the special training course that provides all employees who work in Ulaanbaatar post offices with comprehensive training (including business manner practice) to handle the service. The annex building that is currently used by the publication / mail order divisions of MPC will be the suitable place for training instructors to provide the course.

8) Improvement of OJT activity

As pointed out in 6.5.2(2) 2) A), the way in which OJT activities are performed should be improved by introducing following steps.

- Setting each employee's achievement goal in the work place by mutual agreement with superiors
- Preparing a check list to attain each step goal
- Consulting with superiors to follow PDCA (Plan – Do – Check – Action) cycle

Figure. 6-27 MPC Human Resource Training System



6.7. Financial Conditions

6.7.1. Current Conditions

MPC is reporting an increasing level of profit since 1998, which attests to its operational efforts to date. Profitability is increasing and costs have been contained, and cash at hand is increasing, which all indicate improving financial health. Considering the general hardship of the quickly transitioning Mongolian Economy, this is a great achievement.

6.7.2. Issues

It should be noted, however, that several issues remain under this achievement of apparent financial health, including some problems concerning the financial records itself.

(1) Limited Investment

Current investment is limited to occasional purchases of PC and other small items. They do not hold any property of their own, and replacement of delivery vehicles rely on the government. Although MPC claims that they receive no subsidy from the government, these give-aways of vehicles serve effectively as subsidy. This in turn provides justification for government intervention in all aspects of MPC operation, and the inability to provide it's own resource often hinders effective operation.

(2) Lack of internal auditing

One of the largest problems of MPC's finances is that there is virtually no proper auditing process to assure the accuracy of its books. As a result, the MPC's sales figure does not match the figures that derives from the actual mail volume. Statistics show that volume for some mail services declined between 1998 and 1999 but their sales figure shows an increase without any change in the postage. Therefore, the accuracy of the MPC financial data leaves some room for doubt.

It has also been confirmed that no checks are performed on the data from Aimags. The accounting department simply assembles the data from each center, without any system of verifying it against actual inventory or sales figures. This needs to be corrected through the installation of a proper auditing process.

(3) Others

The increase in cash at hand in 1999 has actually been achieved through a sharp increase in the payables, which now amounts to more than 50% of the total expenses. This is not a desirable condition, and should be rectified over the coming years. Also, the current accounting system handles data from Aimag centers manually. This should easily be moved to a computer system, which should save huge amount of time and effort which can readily be utilized in other areas.

6.7.3. Future Prospects

Although MPC is showing profits at the moment, it is still thin, and achieved without any major investments on its own. The maintenance level of various resources is rather low. Another point is that Ministry of Infrastructure, who has provided delivery vehicles on behalf of MPC up to now, expressed its intention to stop further provision of vehicles. This means that MPC itself must make investments out of its own pockets from now on. The current level of business and profits will not be able to sustain such level of investment.

In order to improve this condition, MPC needs to expand its business and grow into a more profitable position. This would only be achieved through the various improvements and services that are proposed in this plan.

The salient points to keep in mind concerning the finances are as follows;

(1) Achieve Financial Independence and Financial Health

Maintain Profitability

MPC has an obligation to provide a certain level of universal service. It needs to maintain many services that are difficult to achieve profitability. However, this should not be a justification to operate at an overall loss. It will provide the justification for intervention and the independence of MPC will be compromised. Overall profitability must be maintained.

Business Growth to Lead Mongolian Economy

The Mongolian Economy is expected to show sustained growth, once its transition to the market economy has stabilized. Various demands for infrastructure services, such as communication and transportation, are known to grow faster than the growth of the overall economy. For example elasticity of the demand for electricity is said to be around 1.2-1.3 worldwide, and this figure is higher in communications.

MPC today suffers from low growth in mail volume despite the fact that the overall economy is growing. Since it is highly questionable that the communication and transportation demand is shrinking under a growing economy, it should be concluded that MPC's service is not considered adequate, or its resources cannot meet the demand. Either way, the situation must be changed. MPC should grow with the Mongolian economy, and ideally lead that growth through a reliable postal service.

Better Investment

Currently, MPC is trapped in a vicious cycle. Mail volume is declining, and the resources (delivery vehicles etc.) are deteriorating, which lowers the service and further reduces the mail volume. In other words, it is basically under contraction. Certain level of investment is necessary in order to improve the current situation and provide new services. Management must plan for this investment.

Focus on Ulaanbaatar, Aimags should

In Mongolia, the majority of the socio-economic activity is concentrated in Ulaanbaatar. More than 60% of the MPC sales is in Ulaanbaatar. As for Aimags other than Ulaanbaatar, 17 out of 23 has showed a loss in 1999, and the profit from Ulaanbaatar operation is virtually cross-subsidizing these areas

It should be noted that non- Ulaanbaatar Aimags are showing improvements in general, with the amount of loss decreasing in most of the Aimags between 1998 and 1999. The field trip by the JICA study team has also revealed that in many Aimags, Postmasters with strong entrepreneurship has managed to show significant improvements through various sales efforts and cost conscious introduction of services.

Because of the volume and the business opportunities, MPC should focus on the improvement of their Ulaanbaatar operations, while encouraging efforts by these Postmasters.

6.7.4. Forecast

Major Assumptions

Sales and Expenses:

1) Sales of Mail Services

(MPC's books does not distinguish between international mail and domestic mail. Here, we will treat them as one.)

It is assumed that the volume of mail should increase significantly through stronger sales effort, public relations and improved services. However, improvement of services may not prove to be sufficient, since the current level of postage is perceived to be too expensive. At some point, reduction of postage should be considered in order to boost sales.

The basic assumptions for future growth in mail volume is explained in the previous sections. We assume here that is as follows. However, there are no sufficient data on the price elasticity of demand for mail services. Therefore, the growth assumed in 2005 is largely guesswork.

- 2000 2% increase in volume, same postage
- 2001 3% increase in volume, same postage. Prepare for introduction of new services.
- 2002 3.5% increase in volume, same postage.
- 2003 10% increase in volume. Introduction of new services and focus on sales.
- 2004 23% growth in volume. With the current low level of mail usage, this level of growth should be possible through sheer sales effort.
- 2005 50% growth, achieved through 50% decrease of postage and the new facility coming into operation
- 2006 42% growth in volume.
- 2007 32% growth in volume.
- 200 and after 22% growth in volume.

Inflation is fixed at 5% based on the estimates of IMF and MOF of Mongolia. Postage is not expected to change during this period except in 2005, which should gradually make the mail services relatively cheaper.

2) Assumptions on the Labor cost

Labor costs increases along with inflation. Because of the low mail volume now, increase in mail volume should not lead to much increase in the staff. New services should utilize existing staff as much as possible without resorting to hiring new staff.

As mentioned before, the new services would be concentrated in Ulaanbaatar. At the Soum level and the Aimag level, staff is abundant. 10 or twenty fold increase in the mail volume should have very little impact, both in terms of labor and cost.

Even in Ulaanbaatar, new services should not require new personnel. The model assumes that the average mail per day will grow to become about 3 times as the current level. This means that the maximum amount of mail, even in the peak period, should be around 5,000 per day. The number of destination address would probably be around 1,500, which is a number that can easily handled by 20 people. Efficient use of current staff and extensive use of part timers should provide enough manpower.

For the past several years, MPC's number of staff has added about 100 new staff each year, which is a significant increase for an organization of 1,000. This trend, however, reflects a transition during the separation from the telecom sector. Once this stabilized, there should be no need for any significant staff increase.

3) Human Resource Development

This will require training and other costs. The training cost will triple.

4) Delivery Cost

Delivery cost will show a significant increase due to the introduction of door-to-door delivery and the increase in mail volume. Efficient workflow and the use of part timers should contain the cost at a manageable level.

6.7.5. Forecast and Analysis

A financial forecast was made based on the above assumptions. For comparison, another forecast was made based on the assumption that the current condition will continue, with only the purchase of new vehicles and IT facilities as the investment.

If the current condition continues, the revenue from mail items is assumed to grow slightly higher than the GDP (6% annual growth). The investment for vehicles will immediately start to eat into the cash at hand. This situation will not improve. Expenses rise with inflation, and after 2004, MPC will slide back into an ever increasing loss. After 2005, MPC will run out of cash. Since no profit can be expected in the future, no borrowing would be possible. MPC will have to rely on subsidy and capital injection from the government.

On the other hand, the assumed scenario of new services and growth will change the picture significantly. Under this outlook, the only years of loss would be 2005 and 2006 where MPC will try to boost sales through postage cuts. After that, it shall move back to increasing profits.

This will, however, require some level of investment. Under the current model, MPC shall also aim to improve its financial health, such as lower rate of payables. Therefore, cash outflow will increase between 2001 and 2007. Especially in 2005, the cash outflow will peak at about 4300 million Tg.

After that, the cash requirement will diminish. From 2008, cash inflow will continue to increase.

In this model, no outside financing is assumed. All investment will be managed from internal cash. Therefore, MPC will face a cash shortage after 2004 for several years. Even in 2003, the cash at hand will be less than the total cash outflow, which is a risky level.

Therefore, a total of 1 billion Tg in cash would be needed, which needs to be acquired through borrowing, aid or increase in equity. Since MPC is expected to turn a profit in the near future, borrowing would be an option here.

The total asset of MPC is about 2.7 billion Tg. Under the current model, it shall become 4 billion. If the whole 1 billion Tg is secured through borrowing, this will introduce a significant change in MPC's financial structure. Investment schedules and other matters should be approached with caution.

Explanation of Financial Reports

There are following features in financial aspect.

- In accordance with expansion of business, accounts receivable tend to increase, but in certain period in middle term, due to shortage of fund, collection of receivables and decrease of stock (items requiring most fund among running capital) are to be done to the utmost.
- Growth of accounts payable as a measure of raising fund is restricted in comparison with the expansion of sales. Business plan has set a policy not to raise funds from outside easily by way of increase of payables and outstanding account.
- In the aspect of income, in the year 2010 compared with the year 1999, 2.2 times increase of income and 4.7 times increase of profit are expected.

Table. 6-14 Balance Sheet (With New Services)

(Unit: 1,000Tg)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets													
Total Cash assets	312,188.5	532,013.1	563,943.3	493,091.5	398,273.5	201,520.2	(63,172.1)	(468,426.6)	(701,333.0)	(840,811.7)	(808,072.1)	(578,646.6)	(232,919.8)
Total receivables	383,043.7	337,691.0	306,759.3	314,103.0	324,609.4	347,509.8	384,555.4	356,081.1	412,870.9	476,073.5	535,453.3	601,133.2	678,535.5
Total inventory	727,814.4	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6
Prepaid expenses	-	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5
Total working capital	1,423,046.7	1,600,562.3	1,601,560.8	1,538,052.6	1,453,741.1	1,279,888.1	1,052,241.4	618,512.6	442,396.0	366,119.9	458,239.3	753,344.8	1,176,473.9
Fixed assets													
Total fixed assets	1,327,526.7	1,476,564.7	1,642,024.4	1,867,024.4	2,092,024.4	2,317,024.4	2,542,024.4	3,227,024.4	3,552,024.4	3,877,024.4	4,202,024.4	4,427,024.4	4,652,024.4
Accumulated depreciation	(239,520.2)	(346,604.6)	(454,654.0)	(567,703.5)	(685,753.0)	(808,802.5)	(936,851.9)	(1,069,901.4)	(1,207,950.9)	(1,351,000.3)	(1,499,049.8)	(1,652,099.3)	(1,810,148.7)
Net balance of fixed assets	1,088,006.4	1,129,960.2	1,187,370.3	1,299,320.9	1,406,271.4	1,508,221.9	1,605,172.4	2,157,123.0	2,344,073.5	2,526,024.0	2,702,974.6	2,774,925.1	2,841,875.6
Investment													
Total investment	19,955.3	15,459.6	-	-	-	100,000.0	300,000.0	-	-	-	-	-	-
Total assets	2,531,008.5	2,745,982.1	2,788,931.1	2,837,373.4	2,860,012.4	2,888,110.0	2,957,413.9	2,775,635.6	2,786,469.5	2,892,144.0	3,161,213.9	3,528,269.9	4,018,349.5
(Unit: 1,000Tg)													
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Equity and liability													
	Total						At end						
Short-term liability													
Total short-term payables	801,798.7	1,009,519.5	976,753.2	979,050.2	981,542.3	983,978.7	983,349.7	959,502.0	956,238.7	948,209.3	1,022,330.4	1,104,296.7	1,196,325.2
Long-term payables													
Long-term liability	-												
Share holders' capital													
Paid in capital	883,477.8	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5
Accumulated profit	181,553.4	119,992.1	203,970.3	279,686.3	325,831.6	345,978.5	371,639.7	441,572.5	283,641.9	297,739.2	411,443.0	606,391.8	891,481.5
Profits during the period under review	24,423.5	83,978.3	75,716.0	46,145.3	20,147.0	25,661.2	69,932.8	(157,930.6)	14,097.3	113,703.8	194,948.8	285,089.7	398,051.1
Changes after revaluation	66,142.0	66,142.0	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3
Stamp adjustment	573,613.0	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9
Share-holders' total capital	1,729,209.8	1,736,452.7	1,812,177.9	1,858,323.2	1,878,470.2	1,904,131.3	1,974,064.2	1,816,133.6	1,830,230.8	1,943,934.6	2,138,883.4	2,423,973.1	2,822,024.3
Total assets and liability	2,531,008.5	2,745,972.1	2,788,931.1	2,837,373.4	2,860,012.4	2,888,110.0	2,957,413.9	2,775,635.6	2,786,469.5	2,892,143.9	3,161,213.9	3,528,269.9	4,018,349.5

Table. 6-15 Income Statement (With New Services)

(Unit: 1,000Tg)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sales:													
Telecommunication services	21,320.5	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7
Mail Items	533,482.7	676,697.8	690,231.8	712,319.2	737,250.4	840,465.4	1,033,772.5	785,667.1	1,099,933.9	1,451,912.8	1,771,333.6	2,125,600.3	2,550,720.3
Stamps	324,005.0	302,167.0	302,167.0	317,275.35	349,002.89	383,903.17	422,293.49	464,522.84	510,975.12	562,072.64	618,279.90	680,107.89	748,118.68
Passenger Transportation	146,387.0	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5
Periodicals	265,485.8	101,986.0	109,669.1	117,931.1	126,815.4	136,369.1	146,642.4	157,689.7	169,569.3	182,343.8	196,080.7	210,852.5	226,737.1
Banking Services	3,252.9	47,500.0	64,500.0	68,000.0	72,500.0	77,500.0	82,500.0	87,500.0	93,500.0	99,000.0	105,500.0	112,500.0	119,500.0
International Mail Settlement and others	265,388.4	670,127.2	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23
Non-operating revenue	29,018.7	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8
Amounts to be deducted from VAT	(27,341.5)												
Total sale	1,539,678.9	1,991,999.3	2,045,062.1	2,094,019.8	2,164,062.9	2,316,731.9	2,563,702.6	2,373,873.9	2,752,472.6	3,173,823.4	3,569,688.4	4,007,554.9	4,523,570.3
Operating expenses													
Labor Costs (Wages and Bensefits)	519,997.9	694,561.4	725,816.65	758,478.39	792,609.92	828,277.37	865,549.85	904,499.59	945,202.08	987,736.17	1,032,184.30	1,078,632.59	1,127,171.06
Direct Sales Expenses	217,528.0	217,685.9	217,685.9	228,570.2	251,427.2	276,570.0	304,227.0	334,649.6	368,114.6	404,926.1	445,418.7	489,960.5	538,956.6
Expenses for security guards and fire-prevention services	384.7	6,328.7	8,593.74	9,060.06	9,659.63	10,325.81	10,991.99	11,658.17	12,457.59	13,190.38	14,056.42	14,989.07	15,921.73
Rental expenses	42,041.2	103,421.5	108,592.57	114,022.20	119,723.31	125,709.48	131,994.95	138,594.70	145,524.43	152,800.66	160,440.69	168,462.72	176,885.86
Gross Transportation cost	276,095.3	329,746.6	346,233.93	363,545.63	381,722.91	400,809.05	420,849.50	441,891.98	463,986.58	487,185.91	511,545.20	537,122.46	563,978.59
Expenses for postal service delivery	43,299.7	44,269.9	46,483.40	69,725.10	97,615.14	126,899.69	152,279.63	182,735.55	219,282.66	263,139.19	315,767.03	378,920.44	454,704.53
Services sub-contracted by other entities	5,235.5	4,580.6	4,901.22	5,244.31	5,611.41	6,004.21	6,424.51	6,874.22	7,355.42	7,870.30	8,421.22	9,010.70	9,641.45
Publicity and advertising expenses	3,141.8	5,114.3	5,370.03	11,277.06	11,840.91	12,432.96	13,054.61	13,707.34	14,392.70	15,112.34	15,867.96	16,661.35	17,494.42
Foreign consultant and training expenses	10,541.5	6,282.0	6,596.12	13,851.85	14,544.44	15,271.67	16,035.25	16,837.01	17,678.86	18,562.81	19,490.95	20,465.49	21,488.77
Insurance premium	4,528.2	3,617.8	3,617.8										
Transport and tax expenses	85,461.2	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1
Other Expenses	23,487.4	23,056.3	24,670.28	26,397.19	28,245.00	30,222.15	32,337.70	34,601.34	37,023.43	39,615.07	42,388.13	45,355.29	48,530.17
Depreciation of fixed assets	104,498.0	108,049.5	108,049.5	113,049.5	118,049.5	123,049.5	128,049.5	133,049.5	138,049.5	143,049.5	148,049.5	153,049.5	158,049.5
Total operating expenses	1,489,962.1	1,818,362.7	1,883,964.33	1,995,838.41	2,121,196.99	2,262,133.64	2,414,909.32	2,531,804.48	2,722,478.38	2,931,900.50	3,154,903.64	3,400,981.01	3,676,652.96
Operating income	49,716.8	173,636.6	161,097.8	98,181.4	42,865.9	54,598.2	148,793.3	(157,930.6)	29,994.2	241,922.9	414,784.8	606,573.8	846,917.3
Fluctuation of exchange rate & profits/losses	3,907.8	2,687.4											
Total non-operating revenue	3,907.8	2,687.4											
Before tax revenue	53,624.6	176,324.0	161,097.8	98,181.4	42,865.9	54,598.2	148,793.3	(157,930.6)	29,994.2	241,922.9	414,784.8	606,573.8	846,917.3
Income tax expenses	29,201.1	92,345.7	85,381.83	52,036.15	22,718.92	28,937.06	78,860.43	-	15,896.92	128,219.16	219,835.92	321,484.14	448,866.19
Net income	24,423.5	83,978.3	75,716.0	46,145.3	20,147.0	25,661.2	69,932.8	(157,930.6)	14,097.3	113,703.8	194,948.8	285,089.7	398,051.1

Source: JICA Study Team

Table. 6-16 Statement on Cash Transaction (With New Services)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	(Unit: 1,000Tg)
Basic operating cash transactions													
Net revenue	26,828.0	83,978.3	75,716.0	46,145.3	20,147.0	25,661.2	69,932.8	(157,930.6)	14,097.3	113,703.8	194,948.8	285,089.7	398,051.1
Changes in accumulated profit (increase)	313.7												
Net profit	27,141.7	83,978.3	75,716.0	46,145.3	20,147.0	25,661.2	69,932.8	(157,930.6)	14,097.3	113,703.8	194,948.8	285,089.7	398,051.1
Non-cash income /losses & profits/													
Growth:													
Decrease in advance and receivable	181,157.6	24,740.2	30,931.7	(7,343.7)	(10,506.5)	(22,900.3)	(37,045.6)	28,474.3	(56,789.8)	(63,202.6)	(59,379.7)	(65,680.0)	(77,402.3)
		17,568.7											
Depreciation expenses	10,168.7	107,071.7	108,049.5	113,049.5	118,049.5	123,049.5	128,049.5	133,049.5	138,049.5	143,049.5	148,049.5	153,049.5	158,049.5
Increase in accounts payable	42,029.4	207,730.8	(32,766.3)	2,297.1	2,492.0	2,436.4	(629.0)	(23,847.7)	(3,263.3)	(8,029.3)	74,121.1	81,966.3	92,028.5
Total	233,355.6	357,111.4	106,214.9	108,002.9	110,035.0	102,585.6	90,374.9	137,676.0	77,996.4	71,817.5	162,790.8	169,335.8	172,675.6
Decline:													
Increase in goods and materials	38,270.4												
Total	(38,270.4)												
Basic operating cash transactions	222,226.9	441,089.6	181,930.9	154,148.2	130,182.0	128,246.7	160,307.7	(20,254.6)	92,093.6	185,521.3	357,739.6	454,425.5	570,726.8
Investment cash transactions													
Net investment cash transactions	581.6	(144,529.7)	(150,000.0)	(225,000.0)	(225,000.0)	(325,000.0)	(425,000.0)	(385,000.0)	(325,000.0)	(325,000.0)	(325,000.0)	(225,000.0)	(225,000.0)
Financing cash transactions													
Increase in paid in capital	49,399.2	9,249.6											
Reduction in paid in capital	130,764.1												
Net financing cash transactions	(81,364.8)	(76,735.4)											
Total changes in Cash	141,443.7	219,824.6	31,930.9	(70,851.8)	(94,818.0)	(196,753.3)	(264,692.3)	(405,254.6)	(232,906.4)	(139,478.7)	32,739.6	229,425.5	345,726.8
Initial balance of Cash	170,744.2	312,187.9	532,012.5	563,943.3	493,091.5	398,273.5	201,520.2	(63,172.1)	(468,426.6)	(701,333.0)	(840,811.7)	(808,072.1)	(578,646.6)
Final balance of Cash	312,187.9	532,012.5	563,943.3	493,091.5	398,273.5	201,520.2	(63,172.1)	(468,426.6)	(701,333.0)	(840,811.7)	(808,072.1)	(578,646.6)	(232,919.8)

Source: JICA Study Team

Table. 6-17 Investment Plan (With New Services)

(Unit: 1,000Tg)

Investment Plan	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Delivery Vehicle	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0
Facility Improvements and others	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0
IT (bank) related Investment					100,000.0	100,000.0	100,000.0	100,000.0		
New Workspace			100,000.0	200,000.0	60,000.0					
Total Investment	225,000.0	225,000.0	325,000.0	425,000.0	385,000.0	325,000.0	325,000.0	325,000.0	225,000.0	225,000.0

Table. 6-18 Balance Sheet (Low Case)

(Unit: 1,000Tg)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets													
Total Cash assets	312,188.5	532,013.1	564,221.2	498,111.4	413,893.7	309,241.4	174,235.3	(104,212.8)	(431,718.2)	(816,122.1)	(1,176,393.7)	(1,499,303.1)	(1,895,733.2)
Total receivables	383,043.7	337,691.0	306,759.3	317,001.9	330,353.5	344,751.5	360,199.8	376,783.9	394,746.8	413,964.6	434,771.9	457,213.0	481,342.5
Total inventory	727,814.4	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6	710,245.6
Prepaid expenses	-	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5	20,612.5
Total working capital	1,423,046.7	1,600,562.3	1,601,838.6	1,545,971.5	1,475,105.4	1,384,851.1	1,265,293.2	1,003,429.2	693,886.7	328,700.7	(10,763.7)	(311,232.0)	(683,532.6)
Fixed assets													
Total fixed assets	1,327,526.7	1,476,564.7	1,642,024.4	1,867,024.4	2,092,024.4	2,317,024.4	2,542,024.4	2,867,024.4	3,192,024.4	3,517,024.4	3,842,024.4	4,067,024.4	4,292,024.4
Accumulated depreciation	(239,520.2)	(346,604.6)	(454,654.0)	(567,703.5)	(685,753.0)	(808,802.5)	(936,851.9)	(1,069,901.4)	(1,207,950.9)	(1,351,000.3)	(1,499,049.8)	(1,652,099.3)	(1,810,148.7)
Net balance of fixed assets	1,088,006.4	1,129,960.2	1,187,370.3	1,299,320.9	1,406,271.4	1,508,221.9	1,605,172.4	1,797,123.0	1,984,073.5	2,166,024.0	2,342,974.6	2,414,925.1	2,481,875.6
Investment													
Total investment	19,955.3	15,459.6	-	-	-	-	-	-	-	-	-	-	-
Total assets	2,531,008.5	2,745,982.1	2,789,208.9	2,845,292.3	2,881,376.8	2,893,073.0	2,870,465.7	2,800,552.2	2,677,960.2	2,494,724.7	2,332,210.9	2,103,693.1	1,798,343.0

(Unit: 1,000Tg)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Equity and liability													
	Total						At end						
Short-term liability													
Total short-term payables	801,798.7	1,009,519.5	978,663.2	983,914.0	989,161.2	990,413.8	984,832.7	975,949.3	963,314.9	946,145.4	1,013,199.1	1,087,153.0	1,168,929.0
Long-term payables													
Long-term liability													
Share holders' capital													
Paid in capital	883,477.8	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5	892,727.5
Accumulated profit	181,553.4	119,992.1	203,970.3	278,054.1	328,886.7	359,723.9	370,167.5	353,141.3	292,111.3	182,153.7	16,087.6	(213,479.9)	(515,951.6)
Profits during the period under review	24,423.5	83,978.3	74,083.7	50,832.6	30,837.2	10,443.7	(17,026.2)	(61,030.0)	(109,957.6)	(166,066.1)	(229,567.5)	(302,471.7)	(387,126.1)
Changes after revaluation	66,142.0	66,142.0	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3	66,151.3
Stamp adjustment	573,613.0	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9	573,612.9
Share-holders' total capital	1,729,209.8	1,736,452.7	1,810,545.7	1,861,378.3	1,892,215.5	1,902,659.2	1,885,633.0	1,824,602.9	1,714,645.4	1,548,579.3	1,319,011.8	1,016,540.0	629,414.0
Total assets and liability	2,531,008.5	2,745,972.1	2,789,208.9	2,845,292.3	2,881,376.7	2,893,073.0	2,870,465.7	2,800,552.2	2,677,960.2	2,494,724.7	2,332,210.9	2,103,693.1	1,798,343.0

Table. 6-19 Income Statement (Low Case)

(Unit: 1,000Tg)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sales:													
Telecommunication services	21,320.5	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7	14,845.7
Mail Items	533,482.7	676,697.8	690,231.8	731,645.7	775,544.4	822,077.1	871,401.7	923,685.8	979,107.0	1,037,853.4	1,100,124.6	1,166,132.1	1,236,100.0
Stamps	324,005.0	302,167.0	302,167.0	317,275.35	349,002.89	383,903.17	422,293.49	464,522.84	510,975.12	562,072.64	618,279.90	680,107.89	748,118.68
Passenger Transportation	146,387.0	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5	163,789.5
Periodicals	265,485.8	101,986.0	109,669.1	117,931.1	126,815.4	136,369.1	146,642.4	157,689.7	169,569.3	182,343.8	196,080.7	210,852.5	226,737.1
Banking Services	3,252.9	47,500.0	64,500.0	68,000.0	72,500.0	77,500.0	82,500.0	87,500.0	93,500.0	99,000.0	105,500.0	112,500.0	119,500.0
International Mail Settlement and others	265,388.4	670,127.2	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23	670,127.23
Non-operating revenue	29,018.7	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8	29,731.8
Amounts to be deducted from VAT	(27,341.5)												
Total sale	1,539,678.9	1,991,999.3	2,045,062.1	2,113,346.3	2,202,356.9	2,298,343.5	2,401,331.8	2,511,892.6	2,631,645.6	2,759,764.1	2,898,479.4	3,048,086.7	3,208,950.0
Operating expenses													
Labor Costs (Wages and Bensefits)	519,997.9	694,561.4	729,289.45	765,753.92	804,041.62	844,243.70	886,455.89	930,778.68	977,317.62	1,026,183.50	1,077,492.67	1,131,367.30	1,187,935.67
Direct Sales Expenses	217,528.0	217,685.9	217,685.9	228,570.2	251,427.2	276,570.0	304,227.0	334,649.6	368,114.6	404,926.1	445,418.7	489,960.5	538,956.6
Expenses for security guards and fire-prevention services	384.7	6,328.7	8,593.74	9,060.06	9,659.63	10,325.81	10,991.99	11,658.17	12,457.59	13,190.38	14,056.42	14,989.07	15,921.73
Rental expenses	42,041.2	103,421.5	108,592.57	114,022.20	119,723.31	125,709.48	131,994.95	138,594.70	145,524.43	152,800.66	160,440.69	168,462.72	176,885.86
Gross Transportation cost	276,095.3	329,746.6	346,233.93	363,545.63	381,722.91	400,809.05	420,849.50	441,891.98	463,986.58	487,185.91	511,545.20	537,122.46	563,978.59
Expenses for postal service delivery	43,299.7	44,269.9	46,483.40	69,725.10	97,615.14	126,899.69	152,279.63	182,735.55	219,282.66	263,139.19	315,767.03	378,920.44	454,704.53
Services sub-contracted by other entities	5,235.5	4,580.6	4,901.22	5,244.31	5,611.41	6,004.21	6,424.51	6,874.22	7,355.42	7,870.30	8,421.22	9,010.70	9,641.45
Publicity and advertising expenses	3,141.8	5,114.3	5,370.03	11,277.06	11,840.91	12,432.96	13,054.61	13,707.34	14,392.70	15,112.34	15,867.96	16,661.35	17,494.42
Foreign consultant and training expenses	10,541.5	6,282.0	6,596.12	13,851.85	14,544.44	15,271.67	16,035.25	16,837.01	17,678.86	18,562.81	19,490.95	20,465.49	21,488.77
Insurance premium	4,528.2	3,617.8	3,617.8										
Transport and tax expenses	85,461.2	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1	57,478.1
Other Expenses	23,487.4	23,056.3	24,670.28	26,397.19	28,245.00	30,222.15	32,337.70	34,601.34	37,023.43	39,615.07	42,388.13	45,355.29	48,530.17
Depreciation of fixed assets	104,498.0	108,049.5	108,049.5	113,049.5	118,049.5	123,049.5	128,049.5	133,049.5	138,049.5	143,049.5	148,049.5	153,049.5	158,049.5
Total operating expenses	1,489,962.1	1,818,362.7	1,887,437.13	2,005,191.83	2,136,745.88	2,276,122.95	2,418,358.05	2,572,922.67	2,741,603.19	2,925,830.19	3,128,046.90	3,350,558.39	3,596,076.01
Operating income	49,716.8	173,636.6	157,625.0	108,154.5	65,611.0	22,220.6	(17,026.2)	(61,030.0)	(109,957.6)	(166,066.1)	(229,567.5)	(302,471.7)	(387,126.1)
Fluctuation of exchange rate & profits/losses	3,907.8	2,687.4											
Total non-operating revenue	3,907.8	2,687.4											
Before tax revenue	53,624.6	176,324.0	157,625.0	108,154.5	65,611.0	22,220.6	(17,026.2)	(61,030.0)	(109,957.6)	(166,066.1)	(229,567.5)	(302,471.7)	(387,126.1)
Income tax expenses	29,201.1	92,345.7	83,541.24	57,321.87	34,773.86	11,776.91	-	-	-	-	-	-	-
Net income	24,423.5	83,978.3	74,083.7	50,832.6	30,837.2	10,443.7	(17,026.2)	(61,030.0)	(109,957.6)	(166,066.1)	(229,567.5)	(302,471.7)	(387,126.1)

Source: JICA Study Team

Table. 6-20 Statement on Cash Transaction (Low Case)

(Unit: 1,000Tg)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Basic operating cash transactions													
Net revenue	26,828.0	83,978.3	74,083.7	50,832.6	30,837.2	10,443.7	(17,026.2)	(61,030.0)	(109,957.6)	(166,066.1)	(229,567.5)	(302,471.7)	(387,126.1)
Changes in accumulated profit (increase)	313.7												
Net profit	27,141.7	83,978.3	74,083.7	50,832.6	30,837.2	10,443.7	(17,026.2)	(61,030.0)	(109,957.6)	(166,066.1)	(229,567.5)	(302,471.7)	(387,126.1)
Non-cash income /losses & profits/ Growth:													
Decrease in advance and receivable	181,157.6	24,740.2 17,568.7	30,931.7	(10,242.6)	(13,351.6)	(14,398.0)	(15,448.2)	(16,584.1)	(17,963.0)	(19,217.8)	(20,807.3)	(22,441.1)	(24,129.5)
Depreciation expenses	10,168.7	107,071.7	108,049.5	113,049.5	118,049.5	123,049.5	128,049.5	133,049.5	138,049.5	143,049.5	148,049.5	153,049.5	158,049.5
Increase in accounts payable	42,029.4	207,730.8	(30,856.2)	5,250.8	5,247.2	1,252.6	(5,581.1)	(8,883.4)	(12,634.4)	(17,169.4)	67,053.7	73,953.9	81,776.0
Total	233,355.6	357,111.4	108,125.0	108,057.7	109,945.1	109,904.0	107,020.1	107,581.9	107,452.1	106,662.3	194,295.8	204,562.3	215,696.0
Decline:													
Increase in goods and materials	38,270.4		-	-	-	-	-	-	-	-	-	-	-
Total	(38,270.4)												
Basic operating cash transactions	222,226.9	441,089.6	182,208.7	158,890.3	140,782.3	120,347.7	89,993.9	46,551.9	(2,505.5)	(59,403.8)	(35,271.6)	(97,909.4)	(171,430.1)
Investment cash transactions													
Net investment cash transactions	581.6	(144,529.7)	(150,000.0)	(225,000.0)	(225,000.0)	(225,000.0)	(225,000.0)	(325,000.0)	(325,000.0)	(325,000.0)	(325,000.0)	(225,000.0)	(225,000.0)
Financing cash transactions													
Increase in paid in capital	49,399.2	9,249.6											
Reduction in paid in capital	130,764.1												
Net financing cash transactions	(81,364.8)	(76,735.4)											
Total changes in Cash	141,443.7	219,824.6	32,208.7	(66,109.7)	(84,217.7)	(104,652.3)	(135,006.1)	(278,448.1)	(327,505.5)	(384,403.8)	(360,271.6)	(322,909.4)	(396,430.1)
Initial balance of Cash	170,744.2	312,187.9	532,012.5	564,221.2	498,111.4	413,893.7	309,241.4	174,235.3	(104,212.8)	(431,718.2)	(816,122.1)	(1,176,393.7)	(1,499,303.1)
Final balance of Cash	312,187.9	532,012.5	564,221.2	498,111.4	413,893.7	309,241.4	174,235.3	(104,212.8)	(431,718.2)	(816,122.1)	(1,176,393.7)	(1,499,303.1)	(1,895,733.2)

Source: JICA Study Team

Table. 6-21 Investment Plan (Low Case)

(Unit: 1,000Tg)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Delivery Vehicle	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0	75,000.0
Facility Improvements and others	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0	150,000.0
IT (bank) related Investment					100,000.0	100,000.0	100,000.0	100,000.0		
New Workspace				-	-	-				
Total Investment	225,000.0	225,000.0	225,000.0	225,000.0	325,000.0	325,000.0	325,000.0	325,000.0	225,000.0	225,000.0

6.8. Estimated Operation Expense

As the estimated operation expense, the following 6 investments for MPC are required.

(1) Improvement of Mail Handling

This program aims at improving the mail handling operations within MPC. The investments in this program will reduce the loss and damages of mails, contributing to improving the reputation of MPC. The investment is not so high in amount, but it will produce great effects that will result from the recovery of reliability.

Fixtures, small conveyor equipment.

By employing push cart, roller conveyor, etc. in central post office and Aimags post office, this investment is for the improvement of trust aspect.

The amount of investment is as follows. Total 30 sets are estimated for central post office, Ulaanbaatar city and 20 Aimags

- 1) Roll box pallet (equipped with casters for transfer of parcel of 1 cubic meter)

\$1,000 x 30sets=\$30,000

- 2) Push cart

\$500 x 30sets=\$15,000

- 3) Roller conveyor (equipment for hoisting parcels from cart or steps)

\$800 x 30sets=\$24,000

- 4) Post bag (durable post bags \$10)

\$10 x 500 bags=\$5,000

Total \$74,000 (above sum (1)-(4)).

(2) Investment for improvement of post delivery

For the post vehicles for collection and delivery, the following investments were planned, in which the vehicles are assumed to be jeeps of Russian make considering the road condition, topography and weather of Mongolia. It is thought that Russian vehicles are most suitable for post vehicles in terms of prices and ease of repairing.

Actual post vehicles in running are 102sets. The life of vehicles is 7 years, although it varies depending on road condition. Therefore 15 sets will have to be replaced yearly. The annual investment amounts to 15sets x \$5,000=\$75,000(75 million Tg).

(3) Investment plans for management support system

Introduction of accounting software costs ca.\$30,000 for the size of 1000 employees and 20 branches (cost varies with the sizes). So MPC will invest for this size. For the security of remittance service and increase of deal in Soum, it is planned to purchase ca.200 sets of PC in the year 2005. By introduction of the PCs, remittance service can be well organized and increase productivity and security. The implementation of this investment will strengthen the foundation of remittance and payment services. In particular, MPC will be in a position to undertake the role of remittance and payment in local areas associated with the withdrawal of banks from local areas. The improvement of the whole financial position of MPC including those of branches will be accelerated, and the decision of the management will be improved, which would exert the great effects on the cost consciousness of the employees. IT investment is estimated as total 400 million Tg (\$400,000).

It is to be noted, however, that this master plan does not cover the discussion of construction of the Internet, an intranet and other information network.

(4) Training project

There are three types of training programs necessary.

Training for the staff of administration division of Ulaanbaatar city and Aimag center:

1) Ulaanbaatar and Aimag centers

Trainee: MPC executives and city post office chiefs (50 persons), Aimag center chief , accounting staffs(50 persons). Total of 100 persons.
Place: Ulaabaatar city
Frequency: Semiannual (3 days each)
Cycle: 3 years as 1 cycle
Expenses: A total of 2.52 million Tg (\$2,520) per year (estimation of expenses for meeting places, hotel charges, traveling expenses and expenses for foods/beverages at parties)

2) Training at the work site in local areas

Trainee: City post chiefs and Aimag center chief staff (20 persons)
Place: Each Aimag center
Frequency: Semiannual (3 days each)
Cycle: 3 years as 1 cycle
Expenses: A total of 4.77 million Tg (\$4,770) per year (estimation of expenses for meeting places, hotel charges, traveling expenses and expenses for foods/beverages at parties)

The higher training cost in local areas is due to the training of ca.500 local employees. Training total cost amounts to \$7,300 in 3 years.

3) Domestic and international seminars

The budget for information gathering for domestic and international seminars and their promotions (i.e. translation of the publications) within MPC would be one million Tg per year (\$1,000 per year).

(5) Delivery facility

The current post office is already proving to be inadequate for handling mail. To meet with increasing mails, new mail handling facility will be required. Estimated facility size is as follows.

Facility:	ca. 360,000,000Tg (\$360,000)
Site area:	800 m ²
Building area:	600 m ²
Floor area:	1,200 m ² , 1F 600 m ² , 2F 600 m ²
Floor :	2 F (ceiling height of 1F is 3.5 m)
Volume:	4,200 cubic meters
Other facility:	elevator 1 set truck berth 2 places

(6) New services

To improve the “pigeon express” service, it is advisable to add 3-4 vehicles to the present 1 vehicle for EMS. Post vehicle for EMS runs in Ulaanbaatar city, therefore Japanese light car can be used and investment amount is ca.30 million Tg (\$30,000.)

Above 6 investment amounts to total 980 million Tg (\$0.98 million). In short terms, main investments remain as training, fixtures, small conveyor equipment and the burden is small. But from the year 2005, when “Pigeon Mail” service starts, investment as vehicles and PC will be added and expand.

6.9 Evaluation

Here, six programs proposed in the “Estimated Operation Expenses” were evaluated from technical, economic and social points of view.

6.9.1. Technical Evaluation

Among the six programs, into which the survey results were put together, there are three programs presented as the short-term measures, i.e. Mail Handling Improvement Program, Collection and Delivery Improvement Program, and Education and Training Program. As mentioned before, Mongolia has many problems for handling mails at the present time. It is an urgent issue to improve such problems, and this report presents the proposal to meet such requirement. There is currently not so much volume of mail in Mongolia, but the contents suggested in those proposals can be said to match the actual status of Mongolia in the light of improvement of quality and creation of sense of service. The proposals for improvement practicable and easy to implement and for fostering the personnel to support it can be evaluated as reasonable.

For the long term programs, the Management Supporting System Implementation Program, the New Mail Handling Facilities Set-up Program and the Pigeon Mail Vehicles Investment Program draw a clear line from the existing services and intended to aim at the development of advanced country type modern mail services, in which were incorporated the measures for door-to-door delivery and cost reduction. Since the programs were prepared from the standpoint of improving the existing services and implementing it with the preparatory period provided in order to realize it in Mongolia, although there are some necessary investment, it has high probability of realization from technical point of view. Furthermore, recommendation is made to the improvement of MPC’s structure such as the reorganization of management and the improvement of speed of management decisions, which can be evaluated to be reasonable. The addition of the fostering of personnel to the new services including Pigeon Mail and the reorganization of management would mean the provision high-quality services.

And the procedures for introduction of the measures of starting it from the area where demand for mail is most promising like the Ulaanbaatar city can also be evaluated to be reasonable in order to effectively utilize limited resources. As for Pigeon Mail, the volume is forecast to increase rapidly and exceed the level of 3 million in 2010, which is never an unrealistic forecast. According to interviews conducted by the study team, MobiCom, a cellular phone company, said that they had a membership of 35,000 and its contemporary, SKYTEL has 20,000 membership. If 60% of them are the type which the monthly invoices are sent to customers, the mail will reach about 400,000 in a year. If there will be around 10 companies of such type (for example, financial institutions, distribution enterprises, utilities companies and so on) in the country, the forecast can be reasonable.

6.9.2. Economic Evaluation

Initially, it was decided to assess economic effect based on analysis of benefit versus cost (B/C). For the reasons noted below, however, it was decided to make the assessment mainly from the financial perspective.

As already described, postal services in Mongolia are saddled with many difficulties, and the establishment of services that will restore the confidence and trust of customers is an urgent priority. The JICA Study Team proposed six programs for resolution of problems such as mail loss, delay, and non-delivery. The total investment required for these programs is estimated at 980 million tugrik, as described in the section on project cost. Nevertheless, the profit deriving from these services would be difficult to estimate, owing to the numerous factors of uncertainty surrounding the MPC's position, i.e., exposure to competition in UB, where private firms have a big share of the market, and obligation to maintain services in rural districts. In addition, it is thought that, at the present stage, emphasis should be placed more on the MPC's ability to maintain financial self-sufficiency and ensure a sustained profitability and prospects for investment with its own funds in establishing the quality services resulting from these programs than on assessment of the direct benefit to users. For this reason, the Study Team decided to conduct a financial assessment, i.e., one based on an estimate of the prospective return on the investment required for the programs, rather than an economic assessment.

On this basis, the total facility investment of 980 million Tg may be expected to have a great effect for improving earnings and services. For example, the sales of 2,040 million Tg in 2000 (estimated) are expected to increase by 2.2 times to 4,520 million Tg in 2010, while the profits are expected to increase from 76 million Tg to 400 million, a remarkable improvement. This is based on the positive implementation of investment that is expected to be greatly effective for the operation of MPC as mentioned in the section of "Estimated Operation Expenses".

First, IT investment and the investment for accounting software will contribute to the improvement of management and the cost reduction of remittance-related service particularly. The improvement of the whole financial position of MPC including those of branches will be accelerated, and the decision of the management will be improved, which would exert the great effects on the cost consciousness of the employees.

IT investment will also be utilized for improvement of information system, in particular, the sales management and the business process audit. IT may be useful to the exploitation of new customers and the customers management, which will contribute to the sales increase and accordingly to the profit improvement.

The investment for the improvement of mail handling will reduce the loss and damages of mails contributing to improving the reputation of MPC. Specifically, it includes the investment for introduction of carts, roller conveyors, etc. at the Central Post Office and the Aimag Post Offices. The investment is not so high in amount, but it will produce great effects that will result in the

recovery of reliability.

The mailing business is a labor-intensive, typical service industry. It is therefore very important to invest for the training/education of employees that motivates them to work for MPC. Training/education is intended for practical improvement of operations and the compliance with technological innovation. The proposed training/education program aims at improving the productivity based on such a concept. Since the proposed operation plan is to seek the improvement of productivity while preventing the number of employees from increasing, importance is attached to training/education programs. As mentioned in the section of Organization Plan, this plan covers the delegation of authorities to a lower class and the feedback to the assessment of employees' performance, and can be evaluated to be a highly practicable project.

It is planned to provide the new mail handling facilities in 2005. The implementation of the investment for such a project and the introduction of Pigeon Mail as a new mailing service are the prerequisite for the intended improvement of profitability. If the quality of service is improved, this can be evaluated to be a highly realizable project. It is true, however, that the finance is expected to become tight due to the investment for an installation of new mail handling facilities, IT investment, etc. in 2005. To cope with this problem, it is needed to carry out the government's tentative supports such as (1) partial exempt of taxes, (2) reduction of rental rate, etc. and the procurement of funds from domestic and overseas (it is not allowable under the present legal system, and the revision of legal system is required.), since it is expected to facilitate the improvement of financial position in the long run by the increase of profits.

6.9.3.Social Evaluation

The mailing service is a basic infrastructure for promoting the market economy. It is essential for pushing forward the market economy that the mailing services work efficiently. In the six programs that are the concentrates of the survey results, the proposals such as the mail handling improvement program, the mail collection and delivery improvement program and the training program are presented as the short-term measures to cope with the current status. Those proposals come from the current situation where the existing services are not relied upon by the existing customers who are complaining of the loss and damages occurred on their postal items. It is most important as one of the infrastructures for promoting the market economy to solve those problems as early as possible. To improve them can be primarily evaluated to be important, and can also be evaluated to be reasonable from the political and social points of view of providing a universal service to the public. Since this proposal is based on the prerequisite that the delivery to Soums should be maintained at the level of at least once a week.

In the long term, the management supporting system implementation program, mail handling

facilities set-up program and pigeon mail vehicles investment program are presented for the development of advanced country-type postal service. The pigeon mail that is anticipated to realize the advanced country-type door-to-door delivery can be said to be essential for Mongolia to achieve the market economy and make further development in Ulaanbaatar, and so is the management organization to realize it. In this proposal, it is shown that MPC should, after recovering the reliability in the short term, develop its real mailing services such as the realization of house-to-house delivery in the market economy. In this sense, this proposal can be evaluated to be a proposal of construction of an infrastructure essential for the development of Mongolia.

Table. 6-22 Evaluation of Six Proposed Programs

	Technical Evaluation	Economic Evaluation	Social Evaluation
1. Mail handling improvement program	Proposal which meets the situation in Mongolia from the viewpoint of improving the quality.	Investment for improving MPC's evaluation and eliminate loss and damage of mail.	It is the most important task to solve this problem rapidly as one of the national important infrastructure for promoting the market economy.
2. Collection and delivery improvement program		Although the amount of investment is not much high, economic effect is large by improving the reliability and expanding the demand and so on.	
	Proposal for the improvement which is able to be executed immediately based on the existing services.		As an assumption, the delivery to Soum at least once a week should be maintained.

3. Education and training program	<p>Proposal which meets with the situation in Mongolia from the viewpoint of cost reduction and increasing sense of service.</p> <p>Proposal for promoting human resources training which is able to be executed soon based on the existing services.</p>	<p>Training is based on the improvement of actual services and technological reformation. Therefore, the investment for MPC's training enables the improvement of productivity.</p> <p>For the long term, that distributes to earnings improvement directly by adding new services trainings.</p>	<p>We also evaluate as important from political and social viewpoints as MPC offer universal service.</p>
4. Management supporting system implementation program	<p>Proposal which refers to MPC's improvement, such as the modification of management organization and the improvement of management judgment speed.</p>	<p>It enables to utilize in the area of information management, particularly in sales side and audit side.</p> <p>Especially, since sales side is useful for acquisition of new customers and management of customer database, it contributes to improvement of profit.</p>	<p>The pigeon mail service, which realizes door-to-door delivery of advanced-country type within UB city, is an essential service for pulling Mongolia a market economy and its development. Also, management organization, which is required in order to realize these goals is essential, too.</p>
5. Mail handling facility set-up program	<p>Strategic proposal for constructing advanced-country typed mail services with door-to-door delivery and decrease of cost and so on.</p> <p>Based on moderate assumption for demand.</p>	<p>Although the cost will be gotten stringent by new construction plan for mailing facilities and the investment for pigeon-mailing vehicles, at middle term these actions will contribute to the profit improvement</p>	<p>It will contribute to pulling Mongolia a market economy by expanding major cities after succeed in Ulaanbaatar .</p>
6. Pigeon mail vehicles investment program			

(Source) JICA Study Team

6.10. Phased Implementation Plan

The whole implementation process can be divided into 2 phases; the first phase from 2001-2005 and the second phase from 2006-2010. The first phase will focus on the improvement of the current system to prepare for the introduction of the new services, and based on that achievement, the second phase will come into effect.

The phasing itself is not absolute. There is no problem in moving some of the items a year ahead or behind. However, the general scope should be maintained.

(1) New Services

The essentials of the phased implementation plan of Pigeons Express Mail Service are firstly, planning of how to deliver and pick-up, responsible area of each post office, how to transport mails between post offices and how to sales and marketing, and secondary, preparation of sales and marketing materials. Through use of such materials, the contents will have to be improved with gradual experience. In middle terms, by setup of new facilities for mail handling next to the central post office, productivity of mail delivery and pick-up will have to be raised. The new facility will help to improve reliability and speed, and work environment of MPC employees. This will also lead to the decrease of mail damages and raise reliability in Pigeons Express Mail Service.

(2) Remittance and Payment Service

In the short term, remittance service is planned in Aimags center and some profitable Soums. As to profitability, evaluation of the post offices, which are already in this service, is to be made and withdrawal of non-profitable post offices must be taken into consideration. By the year 2005, PC will have to be purchased for the improvement of productivity in payment services. This is especially required in local areas for the strengthening of the base in payment service. In order to meet with clients' need, diversification of remittance and payment means is required. Tie-up with large banks will have to be studied. Especially the base in payment service in local area must be strengthened.

(3) Post Office Services

In post office services, it is required to study and exchange information of the successful case studies in some post office, and to build up cooperation strategy with other companies. In order to provide better services, MPC reviews the contracts periodically.

(4) Information System Infrastructure

Contents of communication between Aimags and Ulaanbaatar are limited currently. For better communication, PCs will have to be used more and effectively.

(5) Mail Handling and Postal Delivery Improvement

As mail handling and postal delivery improvement, followings can be pointed out.

*Continue home delivery to subscribers

*Create delivery directories and maps

*Improvement based on the post boxes for each house and delivery

Together with investment for new facility, new services are promoted.

(6) Transportation System Improvement

Concerning improvements of transportation in Ulaanbaatar, this is to be based on demand. While transportation from central post office to destined post office must be decreased, setup of separate routes in affiliate offices is required. Private transport companies can be partly introduced for the improvement of main routes. In case delivery to Bags is profitable, consignment to private operators is introduced.

(7) Organizational Setup

The scope of duties must be revised in early stage. In order that the top layer can concentrate on management matters, the right of approval for administrative matters must be delegated to the group leaders. At the same time, establishment and disclosure of job evaluation standards of the employees shall be introduced and put in practice. Project groups as personnel training group, sales planning group and inspection group should be introduced. In the year 2005, campaigns for “Pigeon” services should involve all employees to nurture the mind of “customer-first” to all of them.

(8) Human Resources Development

In the year 2001, personal training group is established and for the planning and provision of training courses, the professional group consisted of members from the human resources & administration / postal operation & inspection divisions should be set up. Thereafter training in accordance with the carrier development of the employees is performed. More concretely theories and practice of business administration courses shall be instructed for skilled employees as well as administrative staff. These courses should be taught by outside experts in the initial stage and in-house instructors are to be trained. It is important to have this training in long term. In the year 2002 to 2003, training of “Pigeon” services should be introduced and training for the employees of post office in Ulaanbaatar should be performed.

(9) Finances

In the early stage of planning, improvement of internal auditing system should be undertaken. Utilize the existing IT resources at each Aimags and Ulaanbaatar offices in order to ensure quick and effective data handling. Start from the creation of a template for financial data entry to facilitate standardization and effectiveness. Aiming effective introduction of new service, this starts as planned from year 2005. Since new tasks and financial positions are affected, it is required to make forecast model and to be prepared to take any strategy corresponding to the start-up speed of the new service.

The To-Do items for each phase are summarized in the table 6-23.

Table. 6-23 Summary of the Actions for MPC

New Services

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
1. Pigeons Express Mail Services					
Planning of the Pigeons Express Mail Services	Planning of how to deliver and pickup, responsible area of each post office, how to transport mails between post offices, how to sales and marketing, etc.	■			
Introduction of door to door delivery/pick-up services in UB	Door to door delivery and pickup services will be introduced gradually.	■	■		
Sales and marketing of existing mail services by visiting customers actively (with expansion of delivery service)	Retrieval and expansion of customers and input in the customer database.	■	■		
Preparation of marketing materials	For sales/marketing persons, tools will be prepared and updated with gradual experience.	■	■		
Preparation of work manuals for employees	For sales/marketing persons and other staffs (mail carriers, etc.), organizational business flow, etc. will be prepared and updated with gradual experience.	■	■		
Setup of new facilities for mail handling near the central post office	For reliable and speedy services as well as good work environment, new facilities will be introduced. This facility is one of the key factors for Pigeons Express Services.			■	
Replace of existing mail services with new Pigeon Express Services	Gradually switch existing services to Pigeons Express Services and establish universal service in Mongolia				■
2. Remittance and Payment Services					
Planning and evaluation of Remittance and Payment Services	Planning of Remittance/Payment Services in all Aimags and some profitable Soums as well as evaluation of achievement by post office and setup of profitable business model.	■			
Investment and expansion to other post offices	Expansion of services in other post offices with careful examination of market needs and profitability.		■		
Modification and /or diversification of payment means and business model	With experience up to 2005, new business model and additional means of payment will be planned and executed in cooperation with MOF, BOM, etc.				■

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
3.Post Office Services					
Planning of other new services	New services such as mail order, retail, business center, e-mail, government entrusted services, etc. will be planned. Clear definition of business model and flow should be defined.	■			
Study and exchange of information for the successful case studies in some post offices	To promote how to introduce new services in each post office especially in Aimag level, it is a good source.	■	■	■	
Preparation of marketing materials	For sales/marketing persons in many post offices, tools will be prepared and updated with gradual experience.	■	■	■	
Preparation of work manuals for employees	For sales/marketing persons and other staffs (mail carriers, etc.), organizational business flow including among UB, Aimags and Soums, etc. will be prepared and updated with gradual experience.	■	■	■	
Expansion/Abolishment of cooperation with private companies, etc. to provide profitable and/or attractive products/services	In order to expand products and services in post offices, MPC will arrange necessary partnerships with various possible companies. In order to provide better services existing partnership should be re-examined periodically.	■	■	■	
Proposal to government and arrangement of agreement to provide entrusted services	For the universal service, post office should play the important role to be the outlet of national government to provide their services on their behalf. Arrangement of subsidies or other benefits will be negotiated by and between MPC and Mongolian governments	■	■	■	
Modification and /or diversification of payment means and business model	With experience up to 2005, new business model will be established and such services will be expanded in the standardized manner.				■
4.Information System Infrastructure					
Promotion of using existing PCs	Contents of communication between Aimags and UB are limited currently, and need to train and promote for better communication.	■	■	■	

Planning Items		Key explanations	Stage			
			2001	2003	2005	2010
	Preparation of standardized format to report and communicate within MPC	For daily business process, many reports and statistics are processed by hand, and need to create simple and standardized format by such as spread sheet.				
	Introduction of advanced systems such as track and tracing systems of mails, etc.	With careful examination of mail volume, investment vs effect, etc. new information systems will be planned and introduced.				

Source: JICA Study Team

Table. 6-23 Summary of the Actions for MPC (Cont'd)

Collection, Delivery and Sorting Work Improvem

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
Improvement of the Internal Operation	- Abandon unnecessary procedures (the postmarking of via dates, recording of unnecessary mail, etc.) - Establishment of better work Procedures in the Central Post Office - Establish operational hours for P.O.Boxes				
Improve Delivery	- Continue home delivery to subscribers - Create delivery directories and maps - Improvement based on the post boxes for each houses				
Recover trust to the service	- Introduce internal auditing process - Introduce clear responsibility				
Improve The Working Condition of Delivery Staff	- Create manuals and documents				
Reconsider Publication Handling	- Continue home delivery to subscribers - Create delivery directories and maps				
Planning of New Facility	- Planning for new facility for mail handling - Completion of new work flow				
New Facility Operation	- Starting new facility operation above mentioned				
Improvement of the Postal Code	- based on the new jurisdiction				
Efforts for New Service	- Create manuals and documents - Promote new service				

Transportation System Improvement








Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
Restructure Transportation within UB	- Reorganize based on demand - Improve and possibly increase delivery				
Restructure Transportation between Aimag	- Reorganize based on demand - Reassign vehicles				
Improve International Transport	- Improve transferring of items(UB & Zamyn Uud)				
Restructure trunk routes	- Improvement based on demand - Possibly utilize private operators				

Source: JICA Study Team

Table. 6-23 Summary of the Actions for MPC (Cont'd)

Organizational Setup

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
1.Revision of the scope of duties	The right of approval for administrative matters must be delegated to the group leaders so that the top layer can concentrate on management matters. Revision of the executive post rules (defining the scope of duties for group leaders) is needed.				
2.Revision of work burdens	Proper revision of the executive post rules and the terms of reference for each employee (defining the scope of duties for each employee) is needed so that work is apportioned in a manner that prevents unbalanced burdens in administrative posts.				
3.Establishment and disclosure of evaluation standards	Establishment and disclosure of job evaluation standards are needed according to each job criterion. A job evaluation process that allows employees to rate their own performance and has the opportunity to discuss it with their superior should also be established.				
4.Establishment of project groups	The following project groups should be added to the current organization so as to undertake given tasks efficiently: (1) Personnel training group (2) Sales planning group (3) Inspection group (reallocation of present staff) (4) Document management group				
5.Establishment of standards for document management	The sharing of information is effectively pursued by establishing the following standards for document management: (1) Document storage / storage procedure (2) Document abolishment (3) Document preparation in fixed forms corresponding to the usage				
6.Improvement of the work environment	Proper arrangement and conditioning of the work place, as well as employees wearing uniforms and name tags, are important to improve productivity and consumer satisfaction.				

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
7.Preparation of work manuals	Work manuals should be prepared on a company-wide scale to assist in the posting of employees freely and flexibly under the project group management system.				
8.Improvement of the information-sharing activities	Proper practice of reporting, notifying, and consulting should be introduced as the means of information-sharing and pooling of knowledge to reach solutions for given problems.				
9.Issue of regular in-house newsletters	The newsletters are a good measure for sharing information and goals among all employees (including those in Soums).				
10.Promotion of letter writing activities	Campaigns for letter-writing activities by various means including the formation of letter-writing groups in the community and local schools should commence to assist the promotion of postal services.				
11.Change in Soum personnel	Staff at Soum post offices can be replaced by the best available personnel through application of annually adjusted contracts so as to improve the financial status of each office. The achievements of outstanding offices should be publicized nationwide through in-house newsletters.				
12.Change in the status of Soum personnel	Full-time staff at Soum post offices and drivers in Aimag offices can be replaced by employees hired on a commission contract basis.				
13.Promotion of campaigns for "Pigeon" services	Campaigns for "Pigeon" services should involve all employees to nurture the mind of "customer-first" to all of them, which enables MPC to improve its services in quantitative terms.				

Source: JICA Study Team

Table. 6-23 Summary of the Actions for MPC (Cont'd)

Human Resources Development

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
1.Establishment of personnel training group	For the planning and provision of training courses, the professional group consisted of members from the human resources & administration / postal operation & inspection divisions should be set up.	■			
2.Establishment of training plan	Drafting the general architecture of training system, which is deduced from the long-term objective of MPC, is the first step to take necessary measures.	■			
3.Establishment of training courses learned in the program overseas	The knowledge and techniques learned in the program overseas should be taught by the participants of the program in order to share their experiences with other employees.	■■■■■			
4.Documentation of the training contents learned in the program overseas	The materials participants of the program overseas should be translated into Mongolian and stored in a document room for public use	■■■■■			
5.Provision of training courses in accordance with career development path of each employee	Theories and practices of business administration courses are important for skilled employees as well as administrative staff. These courses should be taught by outside experts in the initial stage and in-house instructors are to be trained.	■■■■■			
6.Diversification in training methods	Staff of the personnel training group should learn the training skills, such as case studies, role playing and business games, as well as know-how to develop training materials with the assistance of outside experts.	■■■■■			
7.Better pay / position in accordance with the achievement in the courses	The achievement in the staff training courses can be reflected to participants' salaries or promotion as a motivation to make their efforts.	■■■■■			
8.Better pay for in-house instructors	Better pay is necessary for the contribution of in-house instructors in the current staff training courses, since no extra allowance is paid.	■■■■■			

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
9.Improvement of OJT activities	The way in which OJT activities are performed should be improved by introducing following steps. (1) Setting each employee's achievement goals (2) Preparing a check list to attain each step goal (3) Consulting with a superior to follow PDCA cycle				
10.Establishment of comprehensive training courses for "Pigeon" services	Provision of the special comprehensive training course for employees in Ulaanbaatar post offices is needed to support the sales campaign for "Pigeon" services.				

Source: JICA Study Team

Table. 6-23 Summary of the Actions for MPC (Cont'd)

Finances

Planning Items	Key explanations	Stage			
		2001	2003	2005	2010
1. Improve Internal Systems	Utilize the existing IT resources at each Aimags and UB offices in order to ensure quick and effective data handling. Start from the creation of a template for financial data entry to facilitate standardization and efectiveness. Along with it, create an internal auditing system to ensure proper match between various data.	■			
2. Plan for New Investment	Investment level of MPC needs to increase, which should become a financial burden. Make clear plans to deal with the financial situation. Plan for the source of funds, and weigh various options carefully in order to avoid unnecessary risk.	■			
3. Maintain Financial Health	Create a warning system for your finances, based on various finaancial ratios, such as profit ratio, level of cash at hand and others. Try to create a target for various ratios, and make efforts to maintain them.	■			
4. Maintain Profitability	The new operation will temporary create a tough situation for the MPC finances. Using the ratios and financial checks that were developed earlier, maintain profitability and financial health, although do not sacrifice long run benefits for short term profits.				■
5. Effective Handling of New Service Introduction	The new services will introduce new challenges and financial conditions to MPC, especially if it should grow as fast as planned. Make forecast models to think through the various implications that the fast growing new service will create, and create a strategy to deal with the situation.				■

Source: JICA Study Team

6.11. Recommendation

It is most important for MPC to show its firm leadership by strong will in promoting the improvement of services. However, in connection with the leadership, there is a necessity of clear understandable planning that is possible to implement. And furthermore, such planning should be penetrated in the whole MPC.

We can raise five points important for MPC to promote the short-term planning as follows:

(1) Improvement of the existing mailing services: clear targets and its implementation

It is important to promote the use of mail prior to the introduction of pigeon mail. The present status is unacceptable that the mail volume has been decreasing contrary to the economical growth. MPC should concentrate its energy on sales promotion by utilizing its existing resources (both personnel and physical). According to the analysis, there will be no need to increase fund for expenses and the human resources for its implementation will suffice in the short term.

MPC is required to take the measures to make the possible best use of the human resources by clear targets and incentives. It is important to carry out sales promotion on all of the services rendered by MPC.

In parallel to the efforts mentioned above, it is also needed to make the internal work process smoother than ever. The statistics and audit will play an important role in assessment of the implementation of the plan.

1) House-to-house delivery: an important means for customer development

MPC should expand the area of house-to-house delivery as much as possible before introduction of new services (pigeon mail). It would increase the opportunity to contact the customers and lead to the effective survey of customer needs, which will also serve to the improvement of services and marketing activities.

2) Important roles of the post offices in the Ulaanbaatar city

When the above two points are considered, the roles of the post offices in the Ulaanbaatar city are very important. It is because they can be the better contact points with customers. As for the post office boxes, there will be no need to address it in the short term, and the ZIP codes is regarded as the long-term issue as well.

In the proposed introduction of pigeon mail as a new service, the role of the post offices in the Ulaanbaatar city will become far more important.

(2) Compliance with the market economy

It is important for the management and the employees to be fully aware of how to comply with the market economy, take out the market needs and create the market. It is not a matter of difficulty, but needs the reform of senses. For example, there is a need for mail in settlement of cellular phones (once a month), that is, a method of mailing the invoices for settlement to customers. It will be possible to take the potential customers into MPC. Specifically, a project team should be organized in MPC to draw up a plan to put it into practice. As pointed out in this report of the study team, the mailing business in relation to such settlement will be an important source of customers.

(3) Establishment of self-paying system

Even if the mailing business is of public nature, it is not allowed to run an unprofitable operation neglectful of the profitability of services. Therefore, MPC must pursue the profitability and the operation in which MPC can achieve an appropriate investment and business planning. For this purpose, the management with a clear managerial policy and meeting the market needs should be established. In order to restructure an enterprise toward the growth accompanied by profits, there are necessary 1) flexibility matching the customer needs and the services 2) training of human resources, 3) transparency of organization, and 4) accountability of the enterprise. In order to promote market development positively, it is necessary to motivate the employees by delegation of authorities, openness of the enterprise and fair assessment to enhance the activity of the enterprise.

In the long term, there are three important points involving the services as follows:

(4) Development of pigeon mail

MPC should realize the house-to-house delivery in the Ulaanbaatar city for the time being, and provide the facilities for handling the mail in the city equipped with the devices not to damage or destroy the mail, whereby a mail service is provided with such level of reliability and serviceability as those provided by other competitors. It can be said to be a new service from the point of view of business models.

Pigeon mail will occupy an important position in the light of influence and development on future service development. In the Ulaanbaatar city, since you can promote high value-added dispatch service and EMS services for money-related mails, direct mails, official documents to big customers such as enterprises and government agencies and international institutions, MPC should aim at early realization of house-to-house delivery with the pigeon mail as a core

business. At the same time, as the mails will increase from those corporations, the house-to-house delivery for individuals should also be realized.

(5) Expansion of new services

Based on the forecast of remittance and money supply and the MPC's market share, Table 6-4 shows that of remittance and settlement business. At the first stage, the contract between MPB and MPC should be reviewed and the necessary burden for MPC should be reduced.

Remittance and settlement services should be promoted step by step separating the planning by the short term and the long term. Profitability and extension should be prioritized in the short term, while the rationalization measures associated with the reduction of fees should be taken in the long term. In the long run in and after 2005, services should be diversified focusing on new services such as the transmission into bank accounts, cash payment, easy payment, etc. classified by remittance methods.

(6) New services

As the new services, it is suggested that services should be extended to those areas which are possible to commercialize from among 1) retail service (foods, daily necessities, 2) other good for institutional use, 3) government-related services, and 4) services relating to the national development projects. The introduction of new services will facilitate 1) the operating ratio of mailing routes by adding up the new services and 2) the higher profitability of mail-related ancillary business.