Trade finance and the postal system

Building on the three-dimensional postal network

Background of this presentation

- MSMEs in developing countries face many barriers to access international markets, some of them linked to financial services aspects.

- The three-dimensional postal sector can provide solutions to facilitate trade for MSMEs (specially for low-value trade).

- Postal operators are key financial services players, yet are almost absent of the trade finance arena. There is an important untapped potential to explore.
Structure of this presentation

- Trade and the postal sector
- Easy Export: a postal trade facilitation programme
- The financial dimension of postal trade
The postal sector: an introduction

- The biggest retail network worldwide: 810,000 post offices, 80% of them being in the developing world

- 5.5 million employees worldwide

- Universal Postal Union: the UN specialized agency for the postal sector

- The UPU was established in 1874 to create a “single postal territory”: this is now part of the UPU Treaty on postal services:
  - Letters, parcels sent in any of the 192 countries that are part of the UPU are processed and delivered by the postal operators of the other members of the UPU
Why Posts are still relevant? The 3-dimensional postal network

- Posts are not only delivering mail, they form a 3-dimensional network:
  - Physical network: post offices are present everywhere (in SSA, 81% of POs are located outside the 3 main cities of each country)
  - Financial network: 160 Posts provide some sort of financial services
  - Electronic network: more than 160 Posts are linked by an electronic network (Post*Net), accessible to customs and airline companies

- E-commerce or MSME trade: Posts bring various assets to the table:
  - Take care of the physical aspects of the transaction
  - Can process international payments
  - Linked with other key partners in the trade process (Customs, airline companies)
Posts are increasingly key actors of trade for MSMEs

- Parcels and logistics services represent 17% of postal revenues worldwide, or USD 54 billion

- 6.1 billion parcels sent in 2010 worldwide, but only 1% is international. Strong growth in LAC, Europe and Asia-Pacific

- Posts focus on parcels up to 30kgs: ideal partners for e-commerce but many barriers remain (customs costs, international return service)

- Many Posts are implementing projects to support trade for MSMEs through postal networks: USPS is part of the NEI, agreements USPS/Japan Post for e-commerce, Brazil’s “Exporta Fácil”
Structure of this presentation

Postal networks have the potential to be key trade facilitation actors

Easy Export: a postal trade facilitation programme

The financial dimension of postal trade
Brazil response to SMEs’ challenges: leveraging the postal network

- Based on an initiative of Brazil’s Correios, a policy response to these challenges by the Brazilian government: “Exporta Fácil”

- The concept:
  - Foster cooperation between all postal operators, customs, government, export agencies, health and environment agencies, etc.
  - Develop a simplified export process for low-value exports (initially less than 10,000 USD, now less than 50,000 USD)
  - Implementation within postal operators – including the public operator, Correios, and its 8,000 outlets – of a simplified procedure
  - Clients just have to go to the post, which takes care of all the paperwork

- The project was launched in 2000 and has seen some minor evolutions (such as amount of exports) since then
Initial results of Exporta Fácil and replication in the LAC region

- According to UPU research:
  - From 2002 to 2008, 10,000 MSMEs have been able to access international markets using Exporta Fácil.
  - About 85% of these were new exporters
  - Exporta Fácil users are concentrated in poorer, less service-oriented municipalities

- Based on this success, a project was launched in the LAC region to replicate the model

- Funding was obtained from IDB and national projects were launched in Peru, Uruguay and Colombia. More projects are being implemented in Argentina, Ecuador, Venezuela, Bolivia and Chile.
A key limitation of the current EF: the financial dimension

- Payments between importer and exporter are currently arranged outside the Post

- No trade finance products offered to MSME clients

- However, the Post, through Banco Postal, processes billions of payments yearly and extends loans across the country to individuals

- Banco Postal is a department of the Post offering financial services through the postal network on behalf of Banco do Brasil

  ⇒ Lots of untapped potential in terms of financial services
Structure of this presentation

Postal networks have the potential to be key trade facilitation actors

Easy Export: a first step in the right direction...

The financial dimension of postal trade
Financial services issues for MSMEs

- Financial exclusion: part of MSMEs in developing countries are unbanked or underserved
- Outside of main economic areas: lack of financial infrastructure
- Trade finance gap for SMEs: trade finance products focus on big actors and are not adapted to small businesses
What can Posts offer in terms of financial services for small traders?

- **Payments:** Posts are processing billions of payments yearly. Importers could pay exporters through the Post (lower cost).

- **Lack of guarantee / trust:** the option of cash on delivery.

- **Trade finance products (credit, guarantees):** some Posts are already active (Vietnam, Tanzania, Bulgaria, Mauritius) but in most countries, Posts are not allowed to do credit. Options are available but require regulatory support:
  - Set up postal banks (only when certain conditions are met)
  - The correspondent banking model
The financial services potential: share of network (banks+POs)

Source: UPU and CGAP (2010)
Mobile payment systems – opportunities & challenges

- Mobile payments are getting extraordinary attention
  - M-Pesa: 15M users and more than 30,000 agents

- A powerful tool for domestic micro-payments, even though very few countries have had the same success as Kenya

- For international operations: lack of regulatory protection as well as security issues hamper the development

- Posts can address these challenges:
  - A regulatory framework for international payments
  - An already-established agent network
  - Possible link with other financial products
In summary

Postal networks have the potential to be key trade facilitation actors

Easy Export: a first step in the right direction...

... yet the financial dimension of Posts has to be fully leveraged to reach potential