

# AID-FOR-TRADE: CASE STORY

BRAZIL

## “Exporta Fácil” in South America

### Postal export project for micro, small and medium enterprises

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## ISSUES ADDRESSED

Historically, small businesses have played a limited role in international trade in most countries, primarily on account of the excessive bureaucracy, the high costs of transporting their products and the lack of an export culture. Moreover, they have had difficulty in obtaining funding to develop a plan for entering international markets. From a logistical point of view, these enterprises have always been obliged to conduct their business close to the production area because of the complications associated with distributing and selling their products.

In recent years, the evolution of communication media has promoted the development of domestic markets and motivated many small businesses to explore international markets. These small businesses currently represent the vast majority of most countries' formal enterprises in the industry, trade and service sectors. In South America, these businesses account for increasing percentages of countries' GDPs and employ a large portion of the formal labour force.

However, in most countries, and especially developing countries, exports are highly concentrated among a few products and a few – almost always large – enterprises. Micro, small and medium enterprises (MSMEs) need tools to boost their competitiveness and their ability to participate in foreign trade or increase their exports, with a broader range of destinations and products, and this is where the postal sector comes into play.

## OBJECTIVES PURSUED

The postal export project for MSMEs in South America builds on the success of the “Exporta Fácil” project. This service was based on an initiative of Brazil's public postal operator (Empresa Brasileira de Correios e Telégrafos) and was promoted by the Brazilian government. It started as the logical follow-on from a raft of measures taken by the Brazilian government to foster exports by MSMEs. The Brazilian Post offered its comprehensive postal network containing 8,000 outlets to export goods at a cost that was much cheaper than the competition. Thanks to cooperation between the government, the post and customs, Exporta Fácil slashed the number of forms that had to be completed to dispatch parcels under 30 kg with a value of less than 10,000 US dollars (this threshold was subsequently raised to 50,000 US dollars). Exporta Fácil also freed exporters from dealing with other authorities involved in the export process, such as customs, health and environment agencies, exports agencies, etc., as the post took on this responsibility. The simplified export process in Brazil was shared with all public and private postal operators, which developed similar logistical

solutions for simplified export procedures.

The launch of this new service resulted in outstanding growth in postal exports, catching the attention of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), the Postal Union of the Americas, Spain and Portugal (PUASP) and Universal Postal Union (UPU) member countries, which all became interested in reproducing this success in their markets.

#### *About the IIRSA*

The IIRSA is a regional coordination and planning forum that, for the first time, brought together South America's 12 countries. The IIRSA aims to promote infrastructure development through a regional vision and seeks the physical integration of South America's countries in the areas of energy, transportation and communications, with a view to achieving fair and sustainable territorial development.

This initiative takes its origin in the meeting of presidents of South American countries held in Brasilia in 2000. The participants at that meeting discussed various topics of great relevance to the process of integration in South America, in particular the need to foster the "physical" integration of South American countries through infrastructure development. To give the IIRSA a flexible structure, it was decided that the initiative would be led by the governments of the 12 participating countries, and three regional financial institutions were invited to participate to provide technical advice, namely, the Inter American Development Bank (IDB), the Andean Development Corporation (CAF) and the Plata Basin Financial Development Fund (FONPLATA).

One of the main innovations introduced by the initiative involves the adoption of the "axes of integration and development": areas of territorial planning that seek increased efficiency in infrastructure development. This concept presupposes the implementation of a sustainable development strategy, built around economic, social, politico-institutional, environmental and technological dimensions.

#### *IIRSA postal export project for MSMEs*

The postal export project for MSMEs was selected from among over 350 projects by governments of South American countries for inclusion in the portfolio of 31 priority projects under the IIRSA. These 31 priority projects constituted the Implementation Agenda Based on Consensus (AIC) and benefited from special attention by the IIRSA countries.

The purpose of the project is to enhance the competitiveness of MSMEs in IIRSA member countries, so that they can participate in regional and international markets, through the development of a simplified export service that uses the logistical infrastructure of the designated postal operators. The use of the Post to facilitate foreign trade is consistent with traditional postal activities, with the Post thus serving to foster the inclusion of small companies in the international market. National coverage, in the majority of countries, is offered only by the designated postal operator, which provides the broadest service coverage as it is present in more municipalities than other operators. This characteristic is directly associated with the universal service obligation and, for the purpose of the project, is closely linked to the need for geographically accessible exporting services. It should be noted that the fulfilment of Exporta Fácil's objective of reaching small businesses throughout the country involves, in addition to the commercial aspect, an important social aspect. Ultimately, supporting the growth of these businesses is an important means of promoting economic development, primarily in areas far from large centres.

The low cost of Exporta Fácil is not solely linked to the prices set by the designated operator; the export process involves other costs. For example, costs related to the exporter's trip to a major city, the contracting of a customs officer or foreign trade specialist, training courses, and certificates of origin must be minimized as part of the project. With regard to simplification, the objective is to provide the small exporter with easy access to the exporting process, without sacrificing the necessary control and security. Therefore, the project seeks to reduce the number of forms to be completed, to make the forms easier to fill out, and to prevent duplication of information (use of a single database).

Under the new system, in addition to the simplified data requirements (using data already entered) and the user-friendly interface for exporters, the postal operator helps with the administrative procedures. Finally, it must be said that simplified exporting involves not only streamlining postal and customs processes but also, above all, aligning the Exporta Fácil project with other public and private actions and projects to reduce

export costs, eliminate excessive bureaucracy and foster an export culture.

#### *Specific objectives*

- Create a simplified postal export process, as part of an export system that is easily accessible to MSMEs and that addresses the needs of the country.
- Develop the Exporta Fácil service within the designated operators of IIRSA countries.
- Strengthen relationships between the various governmental bodies and the agents involved in the export process.
- Enhance and modernize foreign trade processes in institutions connected to the project.
- Strengthen the role of the designated operators and Customs as agents for helping MSMEs participate in the simplified export process, so that they can contribute to changing the countries' export profile, with a focus on geographic and economic decentralization and product diversification.
- Widely disseminate information in the media about the simplified export process.
- Train and inform technical experts so that the general project objective can be achieved.

#### *Expected outcomes*

The main outcomes expected are as follows:

- increased participation of small enterprises in IIRSA countries' export activities;
- greater range of exported products and destination countries;
- visibility of the role of postal services in supporting the implementation of public policies.

## DESIGN AND IMPLEMENTATION

The IIRSA postal export project for MSMEs was approved in August 2007, with a pilot implementation in four countries (Uruguay, Peru, Colombia and Ecuador). The IDB's Multilateral Investment Fund (MIF) contributed to the order of 1.5 million USD, matched by 1.2 million USD provided locally. The MIF funds covered, among other things, the costs of the coordinating unit and of technical assistance (travel expenses), as well as training for the implementation of the simplified system. It is important to note that the expertise shared by Brazil and Peru with the other South American countries for the development of the project takes the form of technical cooperation, and that the experts' fees are paid by the government of the country offering the assistance. In addition to this funding, the IDB, FONPLATA and CAF covered the technical assessment and implementation visits to various IIRSA member countries, including Colombia, Argentina, Chile and Bolivia. It should be noted that Peru received extra funding from the World Bank for the development of the pilot project.

The financial coordination of the project was handled by PUASP, an intergovernmental regional organization headquartered in Montevideo, Uruguay and the technical cooperation provided by Brazil's Ministry of Communication.

An Executive Technical Group was set up in 2009 for the specific purpose of facilitating the development of the project's activities. The Group meets once a year to discuss the status of the project and to help develop a work plan and schedule for the countries to follow.

The project started in December 2007 and should be completed in January 2012. In each country, it will include 3 components.

#### *Component I: Raising awareness among public and private sector players involved in the model*

The objective is to provide public and private organizations in the area of international trade with tailored information about the opportunities in the foreign market for MSMEs, and the difficulties that those

businesses face in meeting the current procedures and requirements. As part of this component, the model implemented in South American countries is presented, making it possible to gain supporters for the project prior to and during implementation and facilitating understanding of the project.

This component involves holding seminars and workshops in each participating country, and conducting a promotional and awareness campaign. The purpose of these seminars is to raise the awareness of the public and private sector players directly concerned by the project, so as to provide information on the importance of developing the MSME sector for the development of the country, and on the role of international trade in strengthening that sector. The seminars also aim to raise awareness of the need to simplify the current export process for MSMEs, and to provide information about the successes achieved in South American countries in terms of simplifying export regulations and about the results obtained through other postal export programmes.

#### *Component II: Diagnosis and simplification of the export process for MSMEs*

The objective is to simplify the current process for smaller exports (volume and value), to help MSMEs access foreign markets.

An inter-institutional working group was set up, along with a team of Brazilian experts, to identify the changes that need to be made to the regulatory frameworks in the countries selected, with a view to formulating the related recommendations. On the basis of the identified needs and recommendations, the regulatory frameworks and procedures are simplified, thus greatly benefiting MSMEs.

#### *Component III: Implementation of a new service by the designated postal operator based on the simplified postal export system*

The objective is to implement a service that uses the simplified postal export system. The project activities are centred on priority regions, sectors/products and destinations in terms of their export potential, according to the simplified model. It should be reiterated that the service is implemented by designated postal operators using the existing infrastructure, particularly their country-wide networks and logistical channels.

Concurrent with the implementation phase, the project seeks to foster cooperation between potential exporters to create and consolidate a critical mass of exporting companies and exportable products, which is why special emphasis is placed on achieving close coordination with the associations, trade unions and/or institutions whose activities are directly related to the MSME sector, and to foreign trade in that sector.

## PROBLEMS ENCOUNTERED and FACTORS FOR SUCCESS / FAILURE

Various issues have arisen during the implementation of the project in the various countries:

- Coordination: in each country, many institutions are involved in the export process and therefore need to be consulted before the service can get off the ground. Some of these institutions can feel threatened by the instauration of simplified procedures which make them less relevant. Private customs agents are also losing business with the introduction of this new service, which can create tensions and resistance to change;
- Access to key trade documents: the compliance with rules of origin in regional trade agreements and other preferential trade arrangements requires the issuance of certificate of origins that are usually produced by chambers of commerce located in a limited number of cities. This is why a solution must be found to ease the access to this certification process in rural areas and small towns. The use of a scanner in each post office appeared as a promising solution in Peru;
- It is a common result in trade economics that most exporters will only export a few times before disappearing or choosing to focus on other (domestic) markets. This is particularly true for small exporters targetted by Exporta Fácil programmes. Therefore to ensure the growth of the service, it is necessary to attract constantly new clients. To that end, investments have to be made to promote the service and ensure a permanent flux of new clients;
- Access to information about export opportunities is a challenge for small entrepreneurs; trade

literacy should be fostered among them and the potential of post offices should be better exploited in terms of communication and business centres for trade;

- International postal treaties define the standards in terms of size and weight of parcels that all postal operators in the universal postal chain can handle through the international postal system. Specific business solutions beyond the normal standards between Posts become necessary to take care of higher volume items. For the whole postal sector to facilitate trade worldwide, these customised business solutions designed to be more flexible should be part of a multilateral agreement amongst UPU member countries.
- Current Exporta Fácil services do not integrate end-to-end payment solutions aimed at facilitating financial transactions and transfers. Posts are ideally positioned to process domestic and international payments. Integrating simplified logistics and simplified payments solutions in easy export programmes are key for future easy trade development through this channel;
- Partner countries are not encouraged to simplify their import procedures; the principle that what is being “easily exported” should be “easily imported” should be generalized, particularly within regional trade agreements and in specific trade arrangements.
- The introduction of a new IT-based procedure can be disturbing to some postal, governmental or customs agents who are not used to using computers. Therefore, the organisation of training sessions is essential to ensure the good functioning of the system.

Two critical factors have been identified to ensure the success of the project:

- Access to funding: this is one critical issue. Without funding, the technical assistance and the necessary improvements to the postal networks (acquisition of computers, scanners and internet access in post offices for example) cannot be provided. In that regard, the selection of the project as an IIRSA priority project helped secure funding from various partners and ensured that the necessary resources would be available. For the replicability of the project in other regions of the world, one important pre-requisite would be to obtain the support of national governments and regional institutions. In the case of South America, this support was fundamental in securing the necessary financial and technical resources;
- Ownership of the project: it is essential to underline the fact that Exporta Fácil is not a postal project. Even though the service will rely on postal services, it must be part of a government program aimed at supporting MSMEs that wish to export. Therefore the coordination of the project should not come from the postal operators but from governments themselves, which are the only ones who have enough power to ensure the good coordination between the various institutions involved in the project.

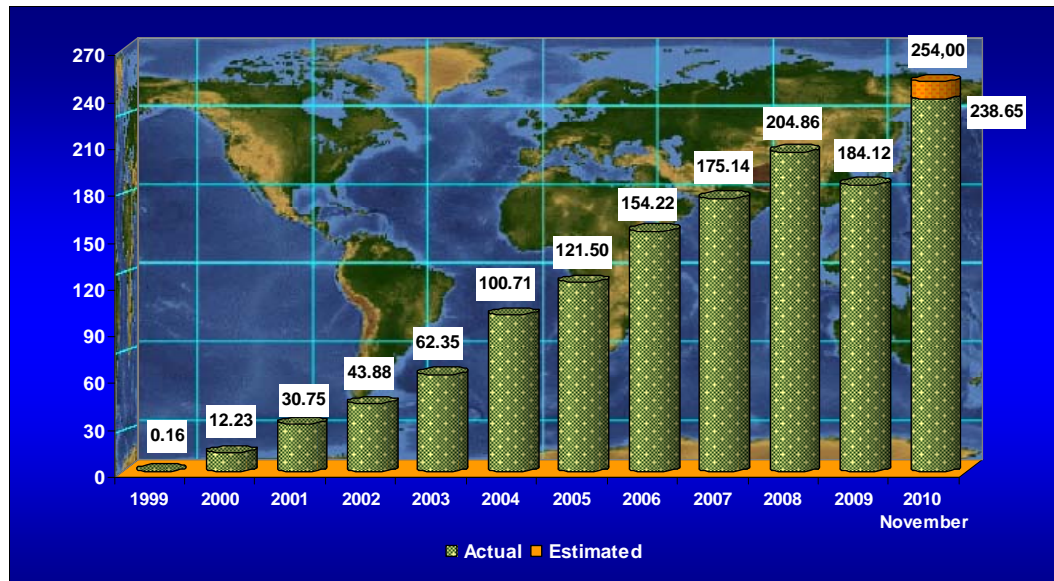
## RESULTS ACHIEVED

As mentioned in graph 1, four countries have already implemented the Exporta Fácil service: Brazil, Peru, Uruguay and Colombia.

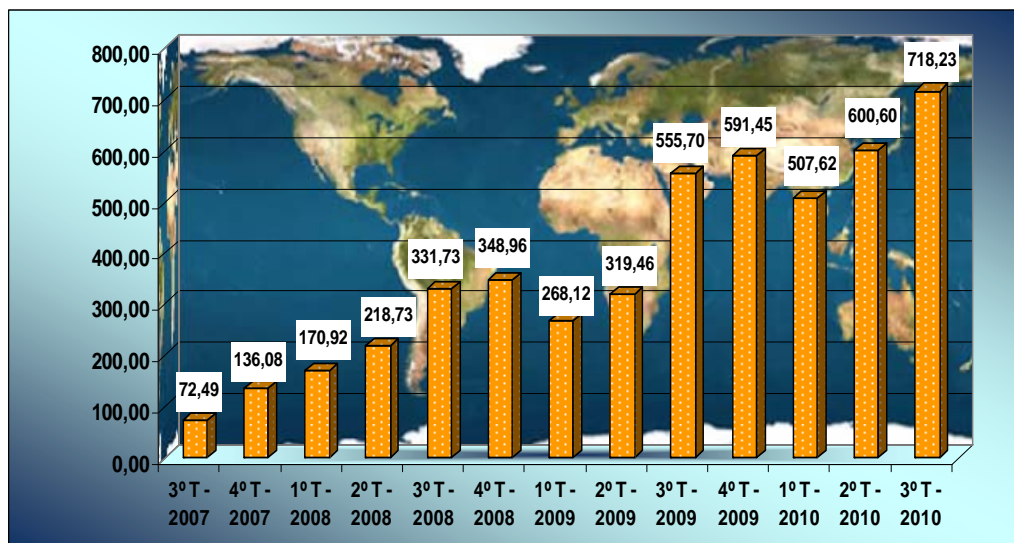


Graph 1: status of implementation of the project in South America

The Exporta Fácil service was launched progressively in Brazil from 2000 to 2002 while the service in Peru was launched in early 2008. The service is too recent in Colombia and Uruguay (2009-2010) to evaluate the first results. The first results in terms of exports volume have been extremely positive, as mentioned in graph 2 and 3 below.



Graph 2: export volumes using Exporta Fácil service in Brazil (all operators, in million USD)



Graph 3: export volumes using Exporta Fácil service in Peru (all operators, in thousand USD)

In Brazil, Exporta Fácil enhanced the competitiveness of MSMEs and facilitated their access to international trade. Their participation in export activities increased and the project resulted in a greater variety of Brazilian products being exported to more destinations. According to an impact study<sup>1</sup> led in 2008 by the Universal Postal Union (UPU), from 2002 to 2008, about 10,000 businesses that had never exported before were able to access external markets by using this service. The UPU study also shows that in 2005, one in ten Brazilian exporters would have been unable to send their products abroad without this service. Clearly, the significant increase in the volume of postal exports has meant greater participation of Brazilian companies in regional and international trade.

Another key finding of the study led by the UPU was that the extended coverage of the postal network was paradoxically not the biggest success of Exporta Fácil. Economic analysis shows that one of the main interests of the service is that comparatively, it is more widely used in poorer, less service-oriented communes. It is therefore a perfect tool for economic development as it caters to those who are more in need of such a service.

It is also important to highlight that this initiative is linked to intergovernmental processes that are supported by financial development institutions, and that these institutions became interested in prioritizing and funding a postal sector project. The visibility of the project led to the inclusion of postal infrastructure in the discussion forums for public policies aimed at integration within the continent.

## LESSONS LEARNED

The main lessons learned in the Latin American experience are the following:

- **Cutting cost and reducing the burden of administrative paperwork:** cost and administrative complexity are amongst the main barriers for SMEs to access international markets. Posts acting as customs broker can alleviate such a burden.
- **Exporting from anywhere to anywhere:** with 660,000 branches worldwide, the physical network of Posts provides unequalled reach in the remotest areas of every single country. The postal network

<sup>1</sup> Trade facilitation through postal networks, Justin Caron, José Ansón, 2008

can fulfil the needs of small exporters who are struggling to access new markets and interact with potential customers.

- **Limits of national easy export solutions and processes:** efforts to boost export at a national level can be hindered by actions in other countries if there is no adherence to an end-to-end easy export solution from country of dispatch to country of destination via countries of transit.
- **Enabling both exporters and national export actors:** a joint effort by all stakeholders – including strong coordination by the government – is a key for success. Capacity development programmes aimed at enabling SMEs to export are not sufficient. Customs and logistics companies should also be trained and supported to provide easy solutions and tools.
- **Harnessing the three dimensions of the export business:** a sustainable easy export process should provide solutions that integrate the physical handling of export items, data exchange and processing as well as the facilitation of financial transactions.

### CONCLUSION (applicability to other programs)

The postal sector's participation in the IIRSA reaffirmed that postal services can constitute an important facet of countries' social and economic development, and highlighted the relevance of developing and strengthening South America's postal infrastructure so that governments can use it to support regional integration and the implementation of public policies for inclusion.

The UPU is currently working on retooling and replicating worldwide this postal exports model, taking on board the lessons learned in South America, to ensure that the postal sector continues to play a vibrant socio-economic role, as a key vehicle for economic development and of poverty reduction.