

POSTS AS ENABLERS OF MSME PAYMENT DIGITALIZATION



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EXECUTIVE SUMMARY

Globally, formal and informal micro, small and medium enterprises (MSMEs) account for approximately 90% of all businesses and, on average, 70% of total employment and 50% of gross domestic product (GDP).¹ MSMEs are the backbone of domestic economies.

Accordingly, they are set to play an important role in the recovery plans put together by national governments to combat the impact of the COVID-19 pandemic. Moreover, in terms of the MSME contribution to the UN Sustainable Development Goals, increasing annual investment in MSMEs by 1 trillion USD would pay disproportionate dividends to all stakeholders involved.

In the aftermath of the pandemic, as businesses were forced to reimagine their operational models and overcome challenges in outreach and delivery of products and services across many contexts, the disruption led to the closure of entire businesses. This has been especially true for MSMEs, which experienced revenue shock owing to supply chain disruptions or severely reduced demand.

Equipped with the lessons learned over the past two years, merchants across the globe are now increasingly considering evolving their transactions with customers, to mitigate risks and shield themselves from shocks. Once considered inaccessible for merchants and their customers, “payment digitalization” is now the focus of fintechs and financial service providers (FSPs), which work to create cashless systems. Payment digitalization is a gateway for FSPs to secure a significant, untapped client base among merchants, offering more complex but tailor-made products, such as credit and insurance.

Overall, the payments landscape has changed irreversibly. According to the 2021 Global Payments Report, the COVID-19 pandemic accelerated the decline of cash-based transactions by over three years, reaching and exceeding estimates projected for 2023 in 2020. These trends have been supported by the increase in penetration of smartphones and Internet data, with future projections predicting that the shift in consumer behaviours is here to stay.

Despite this changed landscape and an uptick in the potential of the digital payment market, in most emerging economies, MSMEs remain largely underserved by payment providers, especially MSMEs which predominantly extend beyond urban and peri-urban markets. Such businesses are also characterized by their limited access to the information and infrastructure necessary to use and adopt digital payment solutions.

While there are significant advantages to digitalizing business processes – including shielding businesses from the aforementioned disruptions and improving operational efficiency –, there are, however, crucial infrastructural needs that must be addressed before these advantages can be enjoyed.

In emerging markets, these needs range from basic infrastructure (e.g. Internet connectivity) to robust financial infrastructure (e.g. payment solutions), which are usually a precursor to MSMEs’ access to other financial services, such as credit. Moreover, an enabling regulatory environment that incentivizes the formalization of MSMEs is also required.

In addition to these infrastructural needs, digital skills are also crucial for MSMEs to take advantage of the digital economy.

¹ United Nations, 2021. Micro-, Small and Medium-sized Enterprises Day, 27 June 2021. Available at: www.un.org/en/observances/micro-small-medium-businesses-day

How can Posts be enablers of MSME payment digitalization?

FSPs and fintechs with agile technologies offering tangible payment digitalization solutions have barely managed to scratch the surface of the market potential of MSME payments. They do not have the means or the required footprint to enable them to access the unserved and underserved MSME markets, especially beyond urban areas.

Posts can help bridge the gap between FSPs and MSMEs while creating a revenue opportunity for themselves

In this context, Posts can enter in with a value proposition to help bridge the gap, allowing both FSPs to reach a potential market and MSMEs to access cashless payment systems, while creating a revenue opportunity for themselves.

Among the 90% of Posts that offer some form of financial services, over 35% in emerging economies offer digital payment services, with Africa leading the way (39%) followed by the Asia-Pacific region (25%).² Overall, Posts have significant experience in offering retail payment solutions that range from traditional remittance products to the more recent digital solutions for utility payments, person-to-government (P2G) and government-to-person (G2P) payments, and in some cases merchant solutions using a range of technologies.

These services are also supplemented by physical touchpoints to access value-added services such as cash-in and cash-out (CICO), bill payments, and more.

What strengths can the Posts leverage to offer solutions for MSME payment digitalization?

Favoured as a key channel to deliver the national financial inclusion mandates, Posts boast around 660,000 branches, which are deeply embedded into communities across the world. Moreover, **this outreach is marked not only by its geographical breadth but also by its depth**, as the Posts reach far-flung rural areas where formal financial institutions are not able to scale their operations.

These branches are further augmented by 5.3 million field staff who can offer physical touchpoints to resolve information asymmetries, as well as offer recourse in the event of an adverse digital consumer experience. With these strengths, Posts are the ideal channel to enable payment digitalization solutions for MSMEs at a meaningful scale.

It should be recognized that the opportunity to tap into the MSME payment digitalization space is greatly reliant on the regulatory and policy regimes in the national contexts within which the Posts have to operate. That being said, regulatory authorities are quickly recognizing the value of digitalizing payment architecture in their respective markets, with competition in the payment space becoming fierce as regulations open up.

Posts **will have to display a high level of agility to ensure they are able to identify the right market segment**, partner with entities that boost their offering and offer customer management capabilities, while delivering quality and seamless services to ensure consumer loyalty and position the Post as a strong service provider in the country's digital payment ecosystem.

We find that Posts are already serving MSMEs using a mass-market approach, yet there is a clear need to segment and target this client base

² Universal Postal Union, 2019. The digital economy and digital postal activities – a global panorama. Available at: www.upu.int/en/Publications/Digital-services/The-digital-economy-and-digital-postal-activities-%E2%80%93-a-global-panorama

What digital payment solutions do Posts currently offer?

The study team interviewed Posts in 29 countries, as well as regional postal associations in Asia and Africa (restricted unions). To augment the postal perspective, the team consulted non-postal payment providers, FSPs and regulators in emerging markets. To gather additional insights, the team conducted mystery shopping and focus group discussions (FGDs) with small business owners in a number of countries.

Among the Posts interviewed for this study, **nearly two thirds offer e-wallet solutions, more than half offer financial services as agents, a little over a third offer traditional card-based payment solutions** (such as debit cards), and approximately one-fourth offer point-of-sale (POS) solutions to their customers.

With digital marketplaces gaining more importance since the pandemic, over a third of the Posts consulted by this study offer e-commerce platforms for local products manufactured or sourced by MSMEs, as well as for traditional philatelic products. Most of the e-commerce initiatives by Posts are at a nascent stage.

The role of the Post is to facilitate digital payments between MSMEs, their customers and suppliers

The following insights were gathered on current postal payment solutions for MSMEs:

Payment products are a strategic component of postal financial services and have been further prioritized owing to COVID-19-induced demand.

Posts have strong engagement, especially with the MSME business segment **as their trusted delivery partners.**

Postal offerings are mostly **focused on registered/formal MSMEs – the informal MSME segment is largely underserved**, even by Posts.

Postal **e-commerce offerings can be combined with digital payment solutions** to create an attractive value proposition for MSMEs.

Posts need to **enhance internal capacities and skills** in order to offer efficient digital payment solutions for MSMEs.

Partnership models are an effective way for Posts to offer digital payment solutions.

In short, the role of Posts should ideally be to facilitate digital payments between MSMEs and their customers and suppliers.

As a trusted member of the community, Posts serve both as ambassadors and customer support to foster MSME digitalization.

What are the UPU's key recommendations?

The UPU has developed the following non-binding, actionable recommendations for Posts and policymakers, which are explored in detail in this study.

RECOMMENDATIONS TO POLICYMAKERS:

ADVOCATE for the postal network to be made a part of national digital policy and national financial inclusion mandates.

BOLSTER postal capabilities to offer payment digitalization solutions.

STRENGTHEN interoperability in order to achieve meaningful scale.

FACILITATE and foster partnership building for Posts.

FOSTER regional collaboration to address contextual differences in emerging economies.

RECOMMENDATIONS FOR POSTS:

APPOINT an accountable leader as business owner.

DEVELOP concrete business plans and financial projections backed by customer-centric market research to make informed decisions.

USE partnerships to address skills gaps and regulatory requirements.

MAKE the customer king.

EMPOWER postal staff through capacity-building programmes.

INVEST in communications and branding.

BE LEAN AND AGILE.

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List of abbreviations

AML	Anti-money laundering
API	Application programming interface
B2B	Business to business
BC	Banking correspondent
CFT	Combating the financing of terrorism
CICO	Cash-in and cash-out
DFS	Digital financial services
FGD	Focus group discussion
FITAF	Financial Inclusion Technical Assistance Facility
FMCG	Fast-moving consumer goods
FSP	Financial service provider
G2P	Government to person
GSMA	Global System for Mobile Communications Association
ICT	Information and communications technology
KPI	Key performance indicator
KYC	Know your customer
MFI	Microfinance institution
MMP	Mobile money provider
MMRI	Mobile Money Regulatory Index

MNO	Mobile network operator
MSMEs	Micro, small and medium enterprises
MVP	Minimum viable product
OECD	Organization for Economic Cooperation and Development
P2G	Person to government
PCI DSS	Payment Card Industry Data Security Standard
POD	Payment on delivery
POS	Point of sale
PSP	Payment service provider
QIB	Qatar Islamic Bank
SaaS	Software as a service
TAT	Turnaround time
ToT	Training of trainers
UPI	Unified Payments Interface
USSD	Unstructured supplementary service data



Glossary

Agent managers	Individuals responsible for supervising the agents carrying out transactions	Peri-urban	Denotes an area immediately adjacent to a city or urban area
Card skimming	Illegal practice used by identity thieves to capture credit card data	POS	Point of sale, which can be for any payment means (card, app, etc.) to access wallet
Cash-in	Depositing money at POS	Real-time settlement	The merchant account/wallet gets funded/deducted in real time for all completed payments or CICO
Cash-out	Withdrawing money at POS	Reconciliation and settlement	All completed transactions are tallied with each record as to whether the payment made through the channel has reached the recipient
Digital payment acceptance	Receipt of payments made by digital means or online, with no physical exchange of money involved	Remittance	The action of sending money in payment or as a gift
Equity financing	Involves selling a stake in your business in return for a cash investment	Underwriting	The process through which an individual or institution takes on financial risk for a fee
Equity investing	Equity is used as capital raised by a company, which is then used to purchase assets, invest in projects and fund operations	Utility payments	Includes bill payments for mobile phones, electricity, water, etc.
Financial services agent	People who sell financial services and connect buyers and sellers in financial markets	White label	Products that are developed by a company but can be used by all as they are not owned or restricted by a sponsored partner
Float income	The net interest margin earned on deposits by deploying them via treasury	Working capital	The money required to run business operations
Formal/registered MSMEs	MSMEs that are registered with relevant government authorities and covered under the prevailing tax regime		
Frontline agent	Individual responsible for managing direct interactions with customers and providing services		
Informal MSMEs	MSMEs that are not registered with relevant government authorities and hence not covered under the prevailing tax regime		

INTRODUCTION

The neighbourhood post office has been an integral part of communities across the world since time immemorial. In recent years, the function and role played by Posts has transitioned from solely providing traditional mail and parcel services to now offering digital financial services (DFS) too, although the pace of this evolution has been slow.

In 2020, owing to global supply chain disruptions caused by the COVID-19 pandemic, postal carriers lost two to four years of mail volumes. The resulting change in postal revenue has made it more urgent for Posts to find new ways of remaining sustainable and generate profit.³

To overcome this loss of revenue, Posts have the possibility of providing financial services, which can prove to be a lucrative opportunity. In unserved and underserved markets, Posts⁴ have the particular advantage of over 660,000⁵ brick-and-mortar touchpoints and 5.3 million strong field staff, along with being deeply embedded in local communities.

Over 90% of Posts already provide some form of financial services to their clients, either directly or in partnership with other service providers.⁶ Within the bounds of their respective regulations, Posts provide a range of digital transactions and payment capabilities to their clients – from traditional money transfers to digital wallets, QR-enabled payment processing, POS transaction capabilities, and branded debit and credit cards.

Regionally, in line with their mandate of financial and social inclusion, Posts are the natural partner for enabling the financial capabilities of MSMEs, which are usually spread across urban and rural settings in their respective markets. This partnership also extends to enabling digital payment capabilities.

The market gap in financial services for MSMEs⁷ is well documented. Besides the estimated 5 trillion USD financing gap, more than 180 million MSMEs operate across the emerging markets, with pre-pandemic estimates showing that such businesses transact over 6.5 trillion USD annually with more than 4.5 billion customers on a daily basis.⁸

There is a clear case for using payment solutions as an entry point for FSPs (including Posts) to offer more complex products, such as credit, savings and insurance that require documentation and/or collateral to underwrite risks. Transactional history for MSME payments can help provide FSPs with the visibility needed to make informed decisions as they build adapted offerings for this important population segment.

Posts are uniquely placed with maximum outreach. Currently, they offer delivery services to MSMEs and their customers. Enabling digital payments will help Posts offer end-to-end service (delivery to payment) to MSMEs. Moreover, the Post will have opportunity for additional income through fees/service charges for digital payment services.

The COVID-19 pandemic has permanently changed the way businesses transact with their customers. Lockdowns and social distancing pushed them to rethink their business models, with many MSMEs moving online and incorporating digital solutions to remain operational, overcome supply chain disruption, and continue sales. This shift in behaviour provides a significant opportunity to offer adapted digital solutions, which can connect different actors in the business value chain – starting from the POS serving retail customers.

3 E. Beretzky, L. Hausmann, N. Predojevic, F. Simao, & M. Yee, 2021. Making banks from branch networks: Why financial services are still a good idea for postal carriers and retailers, McKinsey and Company. Available at: www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/making-banks-from-branch-networks-why-financial-services-are-still-a-good-idea-for-postal-carriers-and-retailers

4 Throughout this paper, the term “the Post” will refer to all postal organizations (i.e. private sector postal logistics operators and designated operators) that form part of the global postal industry, while “post” refers to letter- or parcel-post sent through mail services. When using the term “the Posts”, it will refer to all individual countries’ national postal institutions.

5 Universal Postal Union, [no date]. Postal Statistics. Available at: www.upu.int/en/Universal-Postal-Union/Activities/Research-Publications/Postal-Statistics

6 Universal Postal Union, 2016. Global Panorama on Postal Financial Inclusion 2016. Available at: www.upu.int/en/Publications/Financial-inclusion/Global-Panorama-on-Postal-Financial-Inclusion-2016

7 In this paper, we use “MSME” as an interchangeable term for micro, small and medium enterprises, merchants, and small businesses.

8 T. Carlberg, Y. Lien, M. P. Gomez, A. Nayar, J. Dougherty, A. Gugelev & E. Boll, 2016. Small Merchants, Big Opportunity. The Forgotten Path to Financial Inclusion, Dalberg, study commissioned by VISA, INC. Available at: globaldevincubator.org/wp-content/uploads/2016/11/Small-Merchants-Big-Opportunity.pdf

In order to understand the opportunities for Posts to enable MSMEs to grow and thrive in emerging economies, and to identify the policies, products and processes that the Posts will have to adopt to achieve this value proposition, the UPU commissioned this study with the following specific objectives:

SYNTHESIZE challenges and innovative solutions to facilitate digital payment acceptance by small businesses;

IDENTIFY cases where the Post has developed specific activities aimed at offering financial services to small merchants, shops and businesses;

ASSESS the current gaps and limitations of Posts;

RECOMMEND the best path forward for Posts to enable small merchants to accept digital payments.

Methodological approach

The study was conducted across **four segments covering distinct objectives** that shaped the formulation of the business models and value proposition for MSME payment digitalization to be proposed to Posts through this report.

The study team **interviewed Posts in 29 countries, as well as regional postal associations** in Asia and Africa (restricted unions).

To augment the postal perspective, the team consulted **non-postal payment providers, FSPs and regulators in emerging markets.**

To gather additional insights, the team undertook field exercises including **mystery shopping for postal payment products and FGDs with MSME merchants** in a focused cohort of eight countries.

These exercises were based on the consultant team's ability to mobilize on-the-ground resources and adapt to COVID-19-induced social distancing and lockdown restrictions.

The annexes to this study document the methodological framework used, as well as the filtering process employed to produce a representative sample of UPU member countries.

Study structure

This report explores the gaps in the current ecosystem and identifies exclusive opportunities for Posts to bolster payment digitalization solutions for MSMEs. It also examines how these insights can shape the Posts' competitive edge in offering these solutions to an otherwise largely untapped and underserved market segment.

This study draws upon insights gathered through a mixed-methodology approach of engaging with Posts in 29 countries

The results were augmented by broader stakeholder consultations with restricted unions, non-postal FSPs, and regulators

In five countries, the team also conducted mystery shopping exercises, as well as FGDs with small business owners

MSMEs are demanding agile and digital services that help provide access to working capital and markets within the boundaries of the new social distancing norms and supply chain disruptions.

THE CASE FOR DIGITALIZING MSMEs

The need for MSME payment digitalization

In the context of a growing global workforce, approximately 600 million jobs will be needed by 2030 to absorb the increase. In emerging economies, 70% of jobs are generated by MSMEs, while formal or registered MSMEs contribute up to 40% of national income (GDP). This number is significantly higher when informal or unregistered MSMEs are included.⁹

Micro enterprises also offer gainful employment to a significant proportion of the informal workforce, especially in emerging economies. As a result, MSME development is a key priority for many governments around the world.

Improving accessibility to financial infrastructure for MSMEs is a focus for both the public and private sectors. There are opportunities for commercial gain and for addressing a key development need to generate remunerated employment for the workforce, thereby spurring on domestically driven economic growth.

Furthermore, the pandemic has forced the financial services community to rethink the supply-side ecosystem as MSMEs struggle to survive. **Increasingly, MSMEs are demanding agile and digital services that help provide access to working capital and markets within the boundaries of the new social distancing norms and supply chain disruptions.** In particular, the COVID-19 pandemic has reinforced the trend of digital adoption for payments and in retail commerce, across all payment types and demographics.

According to the 2021 Global Payments Report, the pandemic accelerated the decline of cash by over three years, achieving the projection for 2023 in 2020. Cash was used for 20.5% of global POS volumes in 2020, representing a 32.1% reduction in cash usage from 2019.¹⁰

For most of the above-mentioned challenges posed by the pandemic, **digital payments hold the key to responding to many of the current issues faced by MSMEs.**

Along with easing transaction processes and ensuring real-time settlement of dues and invoices, digital payments also allow businesses to access new markets – provided adequate logistical support is available to facilitate product delivery.

In addition, digital payments allow businesses to maintain a digital and auditable trail that can help them access credit from formal institutions, which would otherwise struggle to serve MSMEs' financial needs owing to the lack of requisite paperwork, among other issues.

A fragmented payment ecosystem for MSMEs

On the supply side, the type and depth of services offered by payment service providers (PSPs) depend on the regulations and policy regimes in place in different countries. In turn, this influences the price points and incentive structures, the availability of digital infrastructure, and the design of the supporting architecture to enable payment digitalization.

On the demand side, **merchant fees, evolving end-consumer behaviours, demand for digital payments, smooth user experience, and the ubiquity of payment solutions across merchants** are some of the key factors that influence the willingness of merchants to adopt digital payment acceptance.

9 World Bank, [no date]. Small and Medium Enterprises (SMEs) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital, World Bank SME Finance. Available at: www.worldbank.org/en/topic/sme/finance

10 Worldpay from FIS, 2021. The Global Payments Report – Rebuilding for a smarter world. Available at: worldpay.globalpaymentsreport.com/en

Because of such dependencies, and in spite of the growth in digital payment acceptance by merchants and their customers following the pandemic, **the digital payment ecosystem remains fragmented, especially in emerging markets.**

To ensure that the changing dynamics brought about by the pandemic and the challenges faced by different actors in the payment ecosystem are all recorded, we consulted directly with merchants¹¹ to try to understand their experiences and aspirations as to the way they transact with their customers and suppliers. Both elements were used to inform this study.

Figure A summarizes and highlights the various challenges underpinning the payment digitalization space for MSMEs.¹²

Payment service fees, evolving end-consumer behaviours, demand for digital payments, smooth user experience, and the ubiquity of payment solutions across merchants are key factors influencing the willingness of merchants to adopt digital payment acceptance

Across all of the small businesses we engaged with, the common challenges were:

Regulations exclude MSMEs from participating in the formal economy.

This is a particular issue for the micro and small business segments. Those that do formalize – by registering their businesses – find it difficult to access and/or afford financial products.¹³ Moreover, the lack of evolution and flexibility in regulations stifles innovation to develop need-based products.

For example, the onerous and expensive process of onboarding requires merchants to have formal ID, business registration/licence and supporting documents that expose them to compliances that they actively try to avoid because of the lack of any visible incentives.

This was echoed strongly during the FGD in Mexico, where merchants have apprehensions that digital transactions may attract income-tax-related issues.

Fragmented payment ecosystem and poor infrastructure excludes many segments of merchants and low resource populations.

Gaps in Internet connectivity and data networks along with a lack of equipment (hardware and software for authentication, validating transactions, etc.) persistently exclude certain populations from participating in the formal economy.

Poor Internet connectivity was one of the deterrents pointed out by merchants in India and Tunisia. At the same time, broken links in the digital payment value chain do not provide a seamless experience for merchants.

For example, **suppliers or distributors demand cash from retailers, which in turn has a cascade effect on the way merchants set their own preferences while transacting with their consumers.**

¹¹ FGDs were conducted in India, Mexico, Senegal and Tunisia with 32 merchants. Additional expert opinions were collected through a rapid survey of 14 countries. More details can be found in Annex III.

¹² A detailed list of challenges identified for different levels of the ecosystem with a direct bearing on payment digitalization for MSMEs can be found in Annex IV.

¹³ T. Carlberg, Y. Lien, M. P. Gomez, A. Nayar, J. Dougherty, A. Gugelev & E. Boll, 2016. Small Merchants, Big Opportunity. The Forgotten Path to Financial Inclusion, Dalberg, study commissioned by VISA, INC. Available at: globaldevincubator.org/wp-content/uploads/2016/11/Small-Merchants-Big-Opportunity.pdf

Figure A: Different challenges in payment digitalization in an emerging market

ECOSYSTEM CHALLENGES	CHALLENGES IN MERCHANT EXPERIENCE	CHALLENGES IN END-CONSUMER EXPERIENCE
Regulatory barriers	KYC, Tax Implications, Transaction and hidden costs	Hesitation to bear transaction fees outweighs benefits
Infrastructure barriers	Fragmented digitalization in business value-chains	Lack of ubiquitous access to digital channels
Lack of tailored products for MSMEs	Initial and ongoing investments to maintain digital payment channels at point of sale	Low access to formal financial services and preference for cash
Lack of consumer protection	Lack of handholding support and limited recourse for grievance redressal; concerns around data privacy	Poor user experience
Underdeveloped demand side dynamics	Psychological barriers leading to low perceived value of payment digitalization, exacerbated by low digital exposure and literacy	Abstract concept of digital payments exacerbated by low digital and numeracy skills

Ecosystem challenges lead to a fragmented experience for merchants and end-consumers. Demand side characteristics also determine merchant motivation to adopt digital payment solutions.

Figure B: COVID-19 induced Opportunities and risks for MSME payment digitalization



This was voiced strongly by the merchants we interviewed in Tunisia, who explained that **90% of their suppliers do not accept digital payments**. Therefore, it makes little business sense for them to accept payments digitally.

Traditional digital payment systems and business models are not designed to serve MSMEs and their needs.

Acceptance infrastructure – such as POS terminals – is expensive and the costs of inducting a new merchant are significant. On the merchant side, there are concerns about **the level of investment required to adopt payment digitalization** (e.g. hardware costs, process changes, training time).

In India, Senegal and Tunisia, we found that the merchants are reluctant to adopt POS-based solutions owing to higher initial investment and ongoing monthly rentals for POS devices.

Merchants have also expressed frustration stemming from the digitalization process, which often lacks adequate support both during onboarding and through day-to-day operations.

Regulations to ensure consumer protection are not implemented robustly.

Despite the possible appeal of the solutions on offer, MSMEs have concerns about the handling of sensitive information with potential exposure to fraud on the digital platform. This is further exacerbated by **the absence of strong grievance redressal mechanisms**, which leads to low usage and adoption of digital financial products.

Merchants in Tunisia echoed this sentiment during our FGDs, adding that it could also translate to poor user experience for their customers and be a reputational hazard.

Underdeveloped demand-side dynamics has a direct impact on the ability of payment solutions to operate at scale.

Low digital, business and financial literacy, especially among micro and small merchants, are major challenges to scaling up digital payment acceptance solutions.

In addition, digitalization of payments can bring efficiencies to medium and large enterprises; however, for very small merchants, the potential increase in efficiency is unlikely to cover the initial investment required for setting up the solution. Even when offered for free, payment digitalization alone is unlikely to improve their income prospects or their livelihood.

These challenges help rationalize the payment digitalization solutions that Posts can offer and the role that they can play (detailed in Part III of this report).

In addition to these considerations, the COVID-19 pandemic has accelerated the need for payment digitalization and the opportunities it offers. However, it is not without its risks as shown in the Figure B.

According to a study carried out by the Organisation for Economic Cooperation and Development (OECD),¹⁴ MSMEs in the retail trade business (one of the biggest use cases for digital payments) have been hit the hardest by the pandemic, especially in non-essential trade and services, with businesses shutting down in the months immediately following the start of global lockdown.¹⁵

Now, nearly three years since the outbreak, some resilience can be observed among businesses striving to sustain against the backdrop of various levels of lockdown and curfews in their respective countries. In this context, digital rails for payments have been seen to take a more important place in the ecosystem.

Some countries have also witnessed the rapid evolution of regulations targeted at encouraging digital payment uptake.

14 OECD, 2020. Coronavirus (COVID-19): SME Policy Responses, OECD Policy Responses to Coronavirus (COVID-19). Available at: www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/

15 Apedo-Amah, M. C., Avdiu, B, Cirera, X, Cruz, M, Davies, E, Grover, A, Iacovone, L, Kilinc, U, Medvedev, D, Maduko, F. O., Poupakis, S, Torres, J, Tran, T. T., 2020. Unmasking the Impact of COVID-19 on Businesses: Firm Level Evidence from Across the World, World Bank. Available at: openknowledge.worldbank.org/handle/10986/34626

Benefits for MSMEs as a part of the digital payment ecosystem

Insights from our field research show the steady value proposition that payment digitalization offers to MSMEs in emerging markets.

Based on our primary data collection,¹⁶ some key advantages and benefits for MSMEs being part of a DFS ecosystem are:

Lower risk of theft and robbery with less cash involved (strongly emphasized in interviews with small business owners).

Contactless payment options from the merchant contributes to customer convenience in pandemic times (major takeaway from the FGDs held in all four countries).

Risk of counterfeit currency is reduced.

Money credited directly into the merchant's bank account **reduces cash management burden** and saves time.

Purchases on small credit/borrowing owing to insufficient cash is remarkably reduced (a major boost for Indian small merchants).¹⁷

Merchants **are not required to maintain cash in various denominations** for the balance amount to be returned to the customer (exact amount transactions are very low in cases of cash payment).

Encouraging regulatory outlook for payment digitalization

Recent trends and the pandemic-induced shifts in consumer behaviour have driven a lot of activity in the fintech space and in the business-to-business (B2B) sector.

Amid catastrophic disruptions, the payment industry's B2B services for MSMEs are seen as a target area for investors (significant market size and underserved), especially given the needs of small businesses in terms of liquidity, funding, money movement and access to other banking services.

Regulators **recognize the need for a more agile ecosystem and efforts to strengthen the payment rails has gathered momentum since the pandemic.**

For the purposes of this study, it is important to view regulations as part of the larger response of policymakers and regulators to stabilize and fortify the MSME sector, especially following the pandemic and its impact on the sustenance of MSMEs.

Regulators are now pushing to embed digital payments as part of their national financial inclusion and outreach strategies.

Digital payments have therefore **become an important part of business continuity plans for the banking sector and, by extension, for regulators and governments.**¹⁸

A national financial inclusion strategy, developed and implemented in many countries, also lays emphasis on the role of digital payments in connecting individuals and businesses to formal financial services. This has also provided governments with the required canvas to formulate payment-specific guidelines and policies.

With these tailwinds showing a positive regulatory movement towards boosting digital payments systems globally, **the time is right for well-situated players – like the Posts – to carve a niche for themselves.**

Posts can do so by leveraging their strengths, partnering with the right agencies to offer an optimal value proposition to end customers, and identifying market gaps where they can create the most impact for the MSME segment.

¹⁶ Insights from merchants interviewed across India, Mexico, Senegal and Tunisia between September and October 2021.

¹⁷ Citing lack of small change or cash at hand, many customers used to buy goods/services on small credit. In such cases, merchants had to follow up later on to recover their money. After enabling digital payments, merchants can now ask customers to pay digitally if they do not have sufficient cash at the time of purchase.

¹⁸ Buehler, K, Conjeaud, O, Giudici, V, Samandari, H, Serino, L, Vettori, Webank, M Laura & White, O, 2020. Leadership in the time of coronavirus: COVID-19 response and implications for banks, McKinsey and Company. Available at: www.mckinsey.com/industries/financial-services/our-insights/leadership-in-the-time-of-coronavirus-covid-19-response-and-implications-for-banks

POSTAL PAYMENT SERVICES FOR MSMEs

Current postal payment solutions for MSMEs

Postal services are strategically positioned to provide e-government, e-commerce and DFS to underserved populations, such as women, the poor, the less educated, and small businesses in the informal economy.

MSMEs are a traditional part of Posts' customers for B2B services. In contexts where postal banks are present, digital payment solutions for MSMEs are already available. However, we find that while most Posts in emerging economies offer a range of DFS to MSMEs, these need to be adapted in order to remain relevant and compete with digitally native companies.

Swiss Post offers customized solutions for MSMEs to cater to their digital and in-store payment requirements. In several countries, such as Fiji, Tanzania (United Rep.) and Zimbabwe, there are government and UPU initiatives to link the Posts with relevant line ministries that work with MSMEs. The latter have also been part of the postal agent network and act as a conduit for financial services, including payment services to the larger community, while also using such services for their in-store transactions. In France, many small shops also offer pick-up and delivery services on behalf of the Post.

From a postal DFS perspective:

E-wallets are the most common financial product offered by Posts;

This is followed by **agency services** for other FSPs and **card-based payment solutions**;

Lastly, **digital marketplace offerings are slowly gaining traction** given the pandemic-induced push to recognize demand for e-commerce platforms.

Many of these products are at a nascent stage of roll-out and have not been scaled up enough to prove commercially viable or operationally sustainable.

Owing to the extensive capillarity of the postal network, its proximity to markets beyond urban areas, and its logistics capabilities, **Posts can offer competitive payment digitalization solutions to MSMEs**. However, to achieve a goal of increased uptake of DFS, Posts need better insight into MSME requirements, the landscape of current services, and how they might fall short of the needs and expectations of MSMEs.

Posts in emerging economies need to adapt their products and services to remain relevant to MSMEs and compete with digitally native companies

Insights into postal payment solutions for MSMEs

INSIGHT 1: PAYMENT PRODUCTS ARE A STRATEGIC OPPORTUNITY FOR POSTS

Posts have made concerted efforts to digitalize the services they offer, including payments to MSMEs and other retail customers. Institutionalizing this commitment initiated systemic change to increase preparedness for offering more digital products. For example, as part of its digital transformation strategy, Vietnam Post aims to become a major player in the electronic payment space.¹⁹

Posts recognize the importance of providing digital payments for MSMEs. Such services focus on digitalizing cash-based payments for various business services, including postal delivery services, payment on delivery, and e-commerce. However, they also concede that it remains an underexplored and underserved segment of postal financial services. Postal digital payment services for MSMEs seem to be more commonplace in advanced economies than in emerging ones.

Digital payments for MSMEs can contribute to additional revenue for Posts, including float income from partner FSPs and transactional revenue. When offered at scale, these income drivers can augment the revenue from financial services, which currently stands at an average of 27% of total revenue earned.²⁰

The ubiquity of Posts, especially in remote, rural and underserved areas, provides them with an added advantage to serve MSMEs that may not have easy access to information and digital infrastructure. In particular, when serving lower-income groups and non-urban areas, this “physical + digital” approach can prove to be indispensable to democratizing access to payment solutions.²¹

Postal payment solutions are an underexplored segment that holds high potential to expand revenue from postal financial services

19 Vietnam Post, [no date]. Keeping pace with the beat of 4.0. Available at: www.vnpost.vn/en-us/chuyen-trang/gioi-thieu/id/89725/key/vietnam-post-keeping-pace-with-the-beat-of-digital-transformation

20 Revenue from financial services for sampled countries. Source: Analysis of UPU database.

21 United Nations, [no date]. World Post Day – 9 October: Innovation, Integration and Inclusion. Available at: <https://www.un.org/en/observances/world-post-day>

INSIGHT 2: POSTS MUST DEVELOP A STRONGER UNDERSTANDING OF MSMEs AS A DISTINCT CUSTOMER SEGMENT

Posts are using a mass-market approach with no clear segmentation of the MSME client base.

From our analysis, we find very little evidence of concerted efforts made by Posts to segment MSMEs into a distinct customer category. This distinction would allow Posts to apply data intelligence to inform the design of DFS products and channels catering to this customer segment. Most financial products and services currently offered are mass-market oriented.

Existing MSME transactional data can provide Posts with information to improve their understanding of this segment.

Such data analytics can help profile MSMEs and lead to a more inclusive approach when tailoring financial services, including DFS, for this segment.

Examples of such data are the usage of other postal services (such as parcel and delivery services), tax payments made by businesses, insurance premiums/claims, the value of parcels booked and paid for including locations for such deliveries, etc.

Posts have a natural focus on underserved areas where MSMEs face added challenges to access payment digitalization. Some Posts are mandated by the government to focus on peri-urban and rural areas to fulfil their financial inclusion mandate. This presents an opportunity for the Posts to bring MSMEs into the fold of formal financial services by offering digital payments. For example, in Viet Nam, the Post is mandated to develop comprehensive financial services for rural areas.

Posts are not making concerted efforts to segment MSMEs into a distinct customer category

CASE STUDY 1: INSIGHTS FROM MYSTERY SHOPPING OF POSTAL MSME PRODUCTS

To better understand the demand perspective of MSMEs when accessing postal products, the study team conducted mystery shopping exercises in five countries to verify **ease of access to postal services that are of interest to MSMEs**, as mentioned during interviews.

Details on methodology and observations gathered through the mystery shopping exercise are available in the Annex. Experience from the field exercise and insights derived cannot be extrapolated to all of the 192 postal members of the UPU; however, they can help identify areas that could be strengthened.

From our first-hand experience, an MSME's journey while engaging with postal payment products can be summarized as:

AWARENESS

We found that marketing materials were not always available or easily visible. Where marketing materials did exist, they often did not adequately cater to vernacular languages.

CONSIDERATIONS

Information had to be sought by a potential MSME. Where found, the quality of information was not adequately compelling to push for product uptake. For example, in an Arab country, the mystery shopper had to go through customer service representatives before finding relevant information.

PURCHASE AND UPTAKE

Most postal financial services use a "push" marketing strategy, since demand is not very significant and requires substantial behaviour shifts, especially among end customers.

MSMEs shared concerns about the low uptake of their digital payment services by their customers, who still show a clear preference for cash. This is especially true in emerging markets, whereas in advanced economies, many MSMEs ask for digital payment solutions to meet high end-customer demand. For example, in Morocco, postal sales representatives visit merchant locations to push digital payment solutions and influence digital financial behaviours.

INSIGHT 3: POSTS FOCUS ON FORMAL MSMEs, OVERLOOKING THE INFORMAL SMALL BUSINESS SEGMENT

Informal small business segments are usually excluded from postal DFS. This is largely because merchants that sign up for postal financial services are usually those that are formally registered into government identification and tax systems. This excludes a large swathe of informal small businesses, which are chronically underserved.

Some MSMEs are not clearly identified. There are cases where MSME owners register their businesses as individual users on payment platforms. This might be because of ease of registration, lack of formal documentation, or for tax purposes. This makes this particular segment of MSMEs invisible to Posts and remain unserved as businesses – although they might be treated as individual customers by Posts.

Posts have huge potential to expand into the informal MSME business segment, given that they are already serving formally registered small businesses

INSIGHT 4: PAYMENT DIGITALIZATION FOR MSMEs CAN COMPLEMENT EFFORTS TOWARDS DOMESTIC E-COMMERCE GROWTH

Posts can combine their e-commerce offerings with digital payment solutions to create an attractive value proposition for MSMEs. E-commerce brings together the strengths of the Post by providing MSMEs with access to a wide catchment area – allowing connectedness beyond urban areas – and to international markets and logistics support for product delivery.

Payment solutions that offer multiple payment options to end customers and that settle invoices for MSMEs on a real-time basis can potentially provide a commercially viable revenue stream for Posts.

The pandemic has nudged MSMEs to use digital marketplaces in line with end customers' preferences. The COVID-19 pandemic and the accompanying social distancing requirements have seen a significant consumer shift to digital platforms for accessing and paying for goods and services. This represents an opportunity for Posts as they develop and roll out their e-commerce plans.

For example, Mi Correo, the e-commerce platform offered by Argentina Post, recorded a 100% increase in digital payments between 2020 and 2021. This also led to benefits for MSMEs, such as the real-time settlement of invoices and access to a larger geographic area to market and sell their products.

Posts can cash in on the e-commerce revolution – digital payment enablement along with their reach makes them the most suitable partners for e-commerce players

Posts can focus on digitally excluded business value chains. Owing to their wide networks, Posts have the opportunity to address the delivery and payment needs of MSMEs no matter where they are based. In sectors like agriculture in particular, MSME visibility and business/sales can be improved through e-commerce platforms and the facilitation of digital payments for real-time payment acceptance, as well as the associated delivery of purchased products. Posts in countries such as Thailand and Viet Nam have focused on identifying and onboarding MSMEs working in the agriculture sector as a priority.

INSIGHT 5: POSTS NEED TO DEVELOP THEIR HUMAN RESOURCES TO OFFER PAYMENT SOLUTIONS FOR MSMEs

Posts need to develop their core technical capabilities to offer competitive digital payment solutions. Consultations with Posts in emerging markets showed that there is a strong preference to outsource the technology relating to the development and maintenance of digital payment solutions to third-party vendors owing to a lack of in-house technical capacity.

In order to drive their DFS aspirations, it is key for Posts to recruit senior-level technology executives who can build and expand relevant teams, while also working with external vendors and outsourced teams to build payment solutions.

There is a strong need to upskill staff, particularly on the frontline, to better serve MSMEs. Clients of MSMEs, particularly in peri-urban and rural areas, need hand-holding support and assistance in order to consider digital payment solutions and fully realize their utility and application.

If frontline postal staff are not empowered with the tools and skills needed to provide this assistance, significant opportunities to support MSMEs in adopting digital payments and other financial services are lost.

There is a clear need to upskill postal staff across all levels – this can include new talent acquisition as well as focused, needs-based upskilling and training

INSIGHT 6: PARTNERSHIP MODELS HAVE ENABLED POSTS TO OFFER SOLUTIONS TO MSMEs, BUT HAVE RESULTED IN OPERATIONAL RISKS

Posts can overcome regulatory challenges through partnerships.

In countries where Posts are not licensed to offer digital payment solutions, partnerships with specialized firms and entities like mobile money providers (MMPs), DFS providers, banks and licensed fintechs have allowed Posts to offer a wide suite of digital payment products to their clientele (including MSMEs).

Posts add substantial value for FSPs aspiring to reach last-mile customers. Being responsible for customer acquisition, product sales and customer management, the Post is on the frontline engaging directly with customers through its wide and deep postal network. This provides opportunities for the partnering entity to reach a critical mass for their outreach and product uptake in a cost-effective way.

Posts need risk management frameworks to drive and manage partnerships effectively. While the partnership model is used extensively by Posts to offer digital payment solutions, the structure of engagement may also play out unfavourably in some markets, especially when the partner entity enjoys a monopoly or if there are regulatory restrictions. Similarly, there is also the risk of skill gaps in leading technical discussions to shape favourable outcomes for the Posts.

In discussions, we found that some Posts have terminated partnerships with mobile network operators (MNOs)/tech providers owing to an uncompetitive pricing structure or to disagreements on product design and ownership.

Posts need to partner cautiously, based on a win-win value partnership to deliver products and services targeting MSMEs

INSIGHT 7: ADVANCED ECONOMIES HAVE SUCCESSFULLY DESIGNED AND DEPLOYED MSME OFFERINGS WITH FOCUSED, COHERENT STRATEGY

We found that Posts in advanced economies²² with a strong MSME offering have the following in common: they **invest in infrastructure and personnel**, **encourage innovation**, benefit from an **enabling regulatory regime**, and provide **solutions that are in tune with customer demands** and operational contexts.

Specifically, we found that:

Swiss Post has invested extensively in delivering MSME products. The Swiss Post subsidiary, Post Finance (a postal bank), offers MSME customers physical invoicing, payment collection and digital payment services for both physical and online stores.

Post Finance has a team of dedicated account managers covering 50% of total MSMEs in Switzerland.

These account managers visit MSMEs where they work to offer and deliver Post Finance products. Post Finance explained that a seamless, reliable experience was key to acquiring and retaining customers. Accordingly, they invested in research and development to create simple but efficient systems catering to the needs of their MSME customers.

Swiss Post has focused on offering card-based digital payments for its existing MSME clients. Since bank payment cards are prevalent and the regulatory environment supports card interoperability, this approach helps end customers through the more ubiquitous use of issued cards.

In Switzerland, card penetration per capita stands at 1.95. To push card-based payment methods, card payment companies combined their forces and developed the ep2 standard²³ in 2003 – an open network allowing different acquirers to access merchants, to which Swiss Post is also connected. This offers convenience to both MSMEs and their customers, encouraging the use of card transactions.

Investment in infrastructure and personnel along with change management strategy has helped Posts in developed economies to successfully deploy their MSME solutions

²² As part of this study, we interviewed Posts in developed economies to understand their approach to MSME payment digitalization.

²³ The Swiss system allows for multi-brand and multi-acquirer card transactions using a common terminal. The ep2 standard provides unified infrastructure that guarantees interoperability and leads to a high-level of investment protection for all participants. Available at: www.ep2.ch

INSIGHT 8: POSTS REQUIRE TECHNICAL ASSISTANCE TO DESIGN AND IMPLEMENT SUCCESSFUL DIGITAL PAYMENT OFFERINGS

In most of our conversations with Posts in emerging economies, we found that Posts request technical assistance to build their DFS capabilities and help them to better target customer segments such as MSMEs.

Key areas of support solicited by Posts are:

Facilitation of the procurement of configurable **IT platforms**;

Provision of templates for a **legal framework** for financial services, especially when setting up partnership agreements;

General guidance on **customer data protection**;

Awareness-raising of the risks and benefits of emerging technologies such as digital ledger technologies (e.g. blockchain);

Assistance in **branding and marketing**, especially for non-traditional postal services;

Assistance in **fundraising for ICT infrastructure**.

To this end, some notable ongoing technical assistance programmes include:

The UPU Financial Inclusion Technical Assistance Facility (FITAF) programme: countries covered under the programme receive expert advice and guidance to develop and roll out DFS products, allowing such knowledge to be institutionalized.

The Asia-Pacific Postal College offers a course on DFS for postal staff in the region.

Posts need technical and financial assistance for implementing successful digital payment offerings to a range of end customers, including MSMEs

OPPORTUNITIES, PATHWAYS AND BUSINESS MODELS TO SERVE MSMEs

Window of opportunities

Combining insights gathered from our discussions, an assessment of current postal payment solutions for MSMEs, and postal capabilities, an assessment can be made of postal payment services.

The fact that Posts are well positioned to fulfil national **financial inclusion mandates for businesses and individuals** is an obvious starting point to identify areas of opportunity for MSME-specific products and services for payment digitalization.

The vast physical network, especially in rural and unserved/underserved locations, positions Posts to adopt the **“touch tech approach” that can help solve critical adoption-related challenges** faced by merchants – such as information asymmetries, low digital capabilities, and limited recourse for grievance resolution.

As an immediate precursor to defining the business models that Posts can potentially adopt, the following SWOT analysis lays down a balanced review of the approach, preparedness and risk management capabilities required by Posts to advance their aspirations in the payment digitalization space.

Posts can adopt the “touch tech approach” to help solve critical DFS-adoption-related challenges for MSMEs

Recommended pathway for Posts to better serve MSMEs

Based on the SWOT assessment, the need and opportunities for digitalizing MSME payments, and views from expert consultations, we have produced the following **guidance to inform the development of viable product and service offerings for MSMEs.**

Leverage postal strengths to fill niche/unmet MSME needs

Using postal workers' hard-to-acquire knowledge of local culture and language, a "human touch" can be provided in serving unserved and underserved MSMEs.

Posts enjoy the unique advantage of having a physical and human resource network that would be hard to replicate, making them an ideal partner for product distribution and support. This is especially important in serving micro entrepreneurs and small enterprises that require hand-holding in adapting to digital payments.

Bundle payments with delivery service

Instead of offering standalone payment digitalization, Posts could integrate payment solutions into existing business models for parcels and logistics, increasing the value proposition for the businesses with which they engage.

Reduce required capital and human investment with partnerships

Building on their experience of forging partnerships to offer financial products, Posts can address their resource- and capacity-related challenges by collaborating with innovative fintechs and other FSPs.

Furthermore, partnerships with FSPs can remove the burden of regulatory licence requirements in offering financial services. However, partnerships should be built with caution to ensure commercial viability and long-term sustainability for all partners.

Design and build demand-driven products, addressing known market gaps in the MSME digitalization space

It is important for Posts to focus on specific customer segments where market opportunity is significant and competition is low.

For example, micro businesses are offered the same payment solutions as any other enterprises and few services are modelled to their needs and capacities. Posts have the reach and ability to consider addressing this market gap.

To ensure a captive audience, Posts should offer financial products that are suited/tailored to the different growth needs of small businesses. This means scaffolding the payment digitalization offering with other financial services, such as working capital loans, business insurance, payroll/inventory management, and so on.

Posts can work with their FSP partners to adapt existing products to MSME needs. For example, micro entrepreneurs may require simple low-cost POS devices, or smallholder farmers might need crop insurance that is simple to understand.

Meet MSMEs and their customers where they are by offering pathways to digitalization. In most emerging countries, there are numerous ecosystem, infrastructure and demand-side challenges that make it difficult to instantly switch from cash to digital transactions.

Where cash is still king or mobile money is more prevalent than bank accounts, payment solutions should accommodate for such while addressing the challenges at the same time. Lastly, solutions should also take into account existing norms and behaviours.

Address gaps in MSME supply chain digitalization

Opportunities do not only lie at the merchant POS, but also up and down the supply chain. Digitalization has remained fragmented across supply chains irrespective of business types, and there is significant market potential for Posts to roll out solutions to bolster digital transactions throughout.

Figure C: SWOT analysis for Posts to enable MSME payment digitization

STRENGTHS



EXPERIENCE IN OFFERING INCLUSIVE FINANCIAL services to achieve the national financial inclusion mandate. This includes growing experience in digital finance and payment solutions.

DEEP AND WIDE PRESENCE ACROSS THE COUNTRY through brick-and-mortar branches, especially in rural areas. Frontline postal workers further expand this physical network to the home level.

Many countries have launched and scaled up **POSTAL BANKS TO IMPROVE COVERAGE AND OFFERINGS** of savings and other services.

Strong brand recall among consumers. **CONSIDERED AS TRUSTED FINANCIAL AND INFORMATION INTERMEDIARIES.**

EXTENSIVE EXPERIENCE IN FORGING PARTNERSHIPS to offer value-added services.

Posts are often a **PREFERRED CHOICE FOR CICO POINTS** for a range of FSPs and fintech partners, owing to their robust liquidity.

STRONG INTENTION TO WORK WITH MSMEs, STARTING WITH CURRENT ENGAGEMENT THROUGH E-COMMERCE PLATFORMS.

POSSESSION OF HISTORICAL CONSUMER DATA that can be used to construct relevant products and services for different customer segments.

WEAKNESSES



DECISIONS ON PRODUCT DESIGN AND DELIVERY ARE BASED ON GENERIC, MASS-MARKET INTELLIGENCE rather than being tailored to specific target groups such as MSMEs, women or young people.

Like most digital payment providers, the Posts serve larger, registered MSMEs and businesses **WITH LITTLE INNOVATION TO SERVE "INVISIBLE", INFORMAL MICRO ENTREPRENEURS.**

GAPS IN SKILLS for developing and implementing DFS – from business strategy to product development and delivery.

GAPS IN DIGITAL SKILLS AMONG FRONTLINE POSTAL STAFF can lead to asymmetries in messages received by consumers.

HIGH DEPENDENCE ON TECHNOLOGY PARTNERS for relevant and updated IT systems.

In many contexts, **POSTS CAN OFFER PRODUCTS ONLY THROUGH PARTNERS**, with potential loss of control in product design and the level and quality of customer engagement. Some cases resulting in recorded instances of operational distress owing to poorly established partnership deals.



OPPORTUNITIES

Posts, as state institutions, are **NATURAL CONDUITS FOR G2P SERVICES AND OTHER FINANCIAL INCLUSION PROGRAMMES** – especially those targeting MSMEs for domestic e-commerce growth.

As a preferred partner to execute their government's financial inclusion mandate, Posts may be in a **BETTER POSITION TO INFLUENCE POLICY AND REGULATIONS** than their private sector counterparts.

Significant shifts in market behaviours owing to the COVID-19 pandemic has **INCREASED DIGITAL AWARENESS AND ADOPTION**, thereby providing the Posts with a nascent market for DFS – particularly beyond urban markets where they have a strong footprint.

Posts have the opportunity to address gaps specific to rural areas owing to the presence of physical access points. Posts can **SCAFFOLD PRODUCT OFFERINGS WITH INFORMATION SERVICES IN LOCAL LANGUAGES, BUILD CAPABILITIES, IMPROVE ADOPTION RATES AND MITIGATE RISKS** arising from the fragmented demand side with respect to MSMEs and their customers.



THREATS

THE WINDOW OF OPPORTUNITY FOR POSTAL PRESENCE IN SEMI-URBAN AND RURAL AREAS IS NARROWING with increasing competition from fintech and agent networks.

REGULATORY REGIMES IN CERTAIN CONTEXTS LIMIT POSTAL CAPABILITIES to offer products like credit or mobilize savings, which limits MSME engagement in pure payment services.

Challenges in the ecosystem, infrastructure and business viability related to **MSME DIGITALIZATION REMAIN ENDEMIC AND ENTRENCHED**. This includes challenges around digital/mobile connectivity and gaps in other relevant IT systems and infrastructure.

INCREASED RISK OF FRAUD AND FINANCIAL CYBERCRIME IN DIGITAL TRANSACTIONS, either through in-house platforms offered by Posts or those of partner technology service providers.

INCREASED REGULATORY REQUIREMENTS FOR CONSUMER/DATA PROTECTION in different contexts can limit Posts' interest in taking the risks that accompany innovation in DFS.

Potential postal business models to serve MSMEs

Based on our analysis, we have established three business models as entry points for Posts to offer payment solutions to enable MSMEs to grow and thrive.

These models leverage the unique strengths of the Post (vast network, trusted officers, delivery expertise) and build on their existing MSME customer base. They also recognize the complementary skills that can be added through strong partnerships to deliver payment digitalization solutions as a foundational solution for the MSME clientele.

The models are:

Posts as financial services agents for products tailored to MSMEs

This includes providing services such as savings, credit and insurance to the doorsteps of the unbanked and underbanked, specifically in rural areas.

For this particular model and business opportunity, we propose that Posts continue to act as agents for FSPs, with a specific focus on MSMEs.

The MSME finance gap in developing countries is estimated to be approximately 5 trillion USD. Current access to working capital and risk-mitigating financial products required by these enterprises is clearly not commensurate with the cash flows that they generate and sustain on a regular basis.

This is often perplexing for FSPs and regulators alike since the lack of a paper trail and requisite know your customer (KYC) process have left this segment out of formal financial services.

By acting as agents for FSPs and directly serving MSMEs, Posts can bring the latter into the formal financial sector and help them build their digital footprint and establish an auditable financial transaction history. This can also increase trust and confidence in financial institutions and technology, thus preparing them for more complex financial products and services.

Posts as digital payment acceptors for MSMEs

Posts are strategically placed to accept payments on behalf of MSMEs given their extensive nation-wide networks. Posts could add a payment solution to their current delivery service and collect payment on behalf of MSMEs.

The global last-mile delivery market is projected to reach 66 billion USD by 2026, from 39.6 billion USD in 2020, at a compound annual growth rate of 8.9% during the 2021–2026 period. Major factors driving the growth of the last-mile delivery market are the integration of advanced technologies into existing systems, rise in consumer demand for just-in-time delivery, increase in Internet penetration, and expansion of the e-commerce industry.

Posts can use this momentum by enabling digital payment services, since most MSMEs are likely to look for partners with integrated solutions (such as those provided by the Swiss Post).

Posts will offer delivery services and payment acceptance to their existing MSME clients. To implement this model, Posts need to partner with an acquiring bank or a licensed fintech and put in place a merchant agreement that will allow them to accept digital payments for MSMEs.

Posts as facilitators of supply chain payment and delivery services

Posts can help smallholder farmers with their entire supply chain, including delivery of inputs, aggregation of outputs and facilitation of the financial transactions in between.

Supply chain payments worth trillions of dollars – around 6.3 trillion USD in payments from retailers to their suppliers alone – are still being made in cash. In the agricultural sector, 235 million unbanked adults in developing countries are still paid in cash.

To facilitate delivery and payments in an integrated supply chain solution, Posts can leverage their existing infrastructure for scheduling and routing deliveries. To enable payments, the Post will need a licensed acquirer partner and must set up a platform and operations to accept payments.

Each of these models is presented in further detail in a companion document published with this study.

CONCLUSION AND RECOMMENDATIONS

Our study finds that Posts can make **a significant contribution to the payment digitalization of the MSME ecosystem**, stemming from its **ability to reach persistently unserved and underserved businesses and communities** which present a clear development need and untapped market potential.

Furthermore, Posts have been recognized as a viable channel for taking financial services to last-mile populations and feature in the national policy documents of many countries.

This ability of Posts to provide affordable and accessible services with the right digital rails and information services through their physical branches presents an unbeatable edge over competitors.

Fintechs and other digitally advanced solution providers are keen to serve markets beyond urban areas, but do not have the capacity or means to invest in the significant infrastructure required to create the desired footprint at scale.

For businesses in particular, Posts can facilitate digital payments between suppliers, MSMEs and their customers; serve as ambassadors for the community and provide customer support; and strengthen payment digitalization offerings through partnerships.

To pursue such opportunities and market potential, the following recommendations should be considered by Posts and postal/financial sector policymakers to create an enabling environment to serve MSMEs through payment digitalization solutions.

The ability of Posts to provide affordable and accessible services with the right digital rails and information services through their physical branches presents an unbeatable edge over competitors

Recommendations for policymakers

ADVOCATE FOR THE POSTAL NETWORK TO BE MADE A PART OF NATIONAL DIGITAL POLICY AND NATIONAL FINANCIAL INCLUSION MANDATES

Policymakers should coordinate dialogue with postal services and governments to add postal services as part of national digital policy agenda and national financial inclusion strategies.

This will enable policymakers to push parallel efforts to digitalize the Posts through public, private or development finance funds, to create the necessary digital rails, and to make them part of the primary infrastructure to deliver on the financial inclusion mandate.

Precedents have been set by many governments in recognizing and utilizing the postal network to deliver financial services and these mandates can be further supplemented with focused efforts on digitalization. Incentive structures, such as fiscal benefits for private sector stakeholders (e.g. licensed FSPs and fintechs), can be further added in order to partner with Posts in serving last-mile consumer segments such as businesses that are otherwise invisible to the formal financial services sector.

With a basic framework that recognizes Posts as key actors for advancing digital financial inclusion, policymakers may consider adding the following strands to their advocacy efforts:

Payments agenda at a national level to be pushed through Posts:

The policy framework should support postal services to develop their digital payments agenda in line with government and central bank mandates, spur on innovation in payment digitalization and financial inclusion, and contribute to ecosystem development efforts.

Accountability framework for Posts to be set up with a strong impact thesis:

To make a strong case for Posts becoming a key channel for pushing MSME payment digitalization, policymaking and regulatory authorities should consider supporting the postal services in setting up a national indicator framework. This framework should include outreach targets segmented for different MSME groups, along with a clearly outlined impact thesis to showcase a results chain attributed to postal activities, should the suggested roles from this report be adopted at scale. Such nuanced measurement and reporting would also help bolster market positioning of the Posts as a preferred delivery channel/partner for fintechs and FSPs.

BOLSTER POSTAL CAPABILITIES TO OFFER PAYMENT DIGITALIZATION SOLUTIONS

The call to action from policymakers and multi- and bilateral donor agencies – in the form of support frameworks to further financial inclusion – should always include national postal operators as an available channel for delivering financial services quickly and efficiently to last-mile populations.

To this end, ecosystem actors can influence programme design for technical assistance initiatives addressing postal capacity gaps. They can also scope out synergies with other postal initiatives, such as their strategic focus on creating disruptive e-commerce platforms to provide digital market access to MSMEs.

An integrated technical assistance offering – including the creation of postal digital accelerators to enable, strengthen and empower Posts – that builds the payment digitalization capabilities of Posts, can offer a higher value proposition than standalone and isolated efforts that are hard to make sustainable in the long run.

STRENGTHEN INTEROPERABILITY IN ORDER TO ACHIEVE MEANINGFUL SCALE

In order to achieve the desired scale that allows for a significant push towards payment digitalization and that creates a strong value proposition for merchants, providers and their end customers, the prevailing DFS infrastructure needs to be agile, open and responsive.

To this end, the policy framework needs to focus on creating interoperable systems that can pivot efficiency and enhance the market's digital payment infrastructure. This can directly translate into a greater number of acceptance points, thereby improving revenue opportunities and risk management while providing a greater level of governance for the different players involved.

FACILITATE AND FOSTER PARTNERSHIP BUILDING FOR POSTS

There is a need to build awareness among Posts as to the value and potential of forming partnerships to provide improved digital payment services to the MSME market. Policymakers and development partners can provide guidance, specifically tailored for Posts, on how to build effective partnerships, including on establishing agreements on roles and responsibilities that are in line with local market and regulatory contexts.

FOSTER REGIONAL COLLABORATION TO ADDRESS CONTEXTUAL DIFFERENCES IN EMERGING ECONOMIES

The emerging economies within the UPU member network come from vastly different regulatory and market environments and cannot be forced to fit into and adopt a narrow framework to address MSME payment digitalization needs.

This study recognizes that these contextual differences also broadly affect other providers in the space and, therefore, provides an exhaustive section on the key considerations to be factored in by Posts while deciding their go-to-market strategy to adopt one of the suggested business models.

Policymakers and the wider intermediaries investing in the financial inclusion space should bolster their regional efforts by focusing on strengthening cooperation and ecosystem capacities to offer payment digitalization services, including for postal administrations.

These efforts should also include drawing inspiration and sharing lessons learned from Posts in advanced economies that have established business models to drive MSME payment digitalization – as well as other complementary services – through sustained change management and innovation.

Recommendations for Posts

Experts from the payment and postal worlds converge on the clear opportunities for the Posts in serving the digital payment needs of MSMEs.

However, a strong digital business strategy is needed to lower market entry barriers for the Post. In this regard, we encourage Posts to review these recommendations through the lens of their organization's capabilities and their own market context, in order to determine the most viable pathway.

Irrespective of the business model that Posts may choose to adopt, the following can help Posts design their go-to-market and implementation strategies.

APPOINT AN ACCOUNTABLE LEADER AS BUSINESS OWNER

Posts will need to ensure that a staff member who fully understands the business, market context and customer needs is able to lead this initiative.

DEVELOP CONCRETE BUSINESS PLANS AND FINANCIAL PROJECTIONS BACKED BY CUSTOMER-CENTRIC MARKET RESEARCH TO MAKE INFORMED DECISIONS

Market research outputs should help Posts develop a business model with a strong economic rationale before implementing at least one of the models (or more than one in combination).

The business case and financial model should include: revenue drivers; commission structures in case of partnerships; costs for technology; operations and human resources; customer journey projections; go-to-market strategy; key performance indicators (KPIs) for stakeholders within the Post; financial projections for a minimum period of three to five years; and a roadmap for the same period to get a clear sense of the runway required for breaking even and then scaling up.

USE PARTNERSHIPS TO ADDRESS SKILLS GAPS AND REGULATORY REQUIREMENTS

Posts can enter into mutually beneficial partnerships to overcome legal and regulatory limitations, in order to offer products and services under their financial inclusion mandate.

Posts should leverage their partners' existing products, platforms and experience in developing and delivering these products and services, so as to progress much faster than building technology and skills from scratch.

MAKE THE CUSTOMER KING

To achieve this, we recommend that Posts:

Clearly identify their target segment. The needs of MSMEs vary, so it is important to establish which segment presents a need that the Post can fulfil. As an example, this report has identified distinct MSME segments that the Post can serve. Recognizing a clear target segment positions the provider to develop products, services and experiences around this particular customer group.

Address the customer's most significant needs and provide value-added services later. Work on a champion use-case (product or service) that can go until a product-market fit is achieved. Scale up this product/service and then add more to keep customers engaged.

Align and test technology, processes and people to provide a seamless customer experience. To entice and retain customers, it is important that they have a positive experience. This will require a smooth journey using integrated and tested processes and technology that are reliable and intuitive (able to be used without training). These efforts then need to be supported by effective customer support, for which the Post can leverage its postal workers and branches to its advantage.

EMPOWER POSTAL STAFF THROUGH CAPACITY- BUILDING PROGRAMMES

Postal staff are key to driving any of the proposed business models, since they are the primary entity acquiring and managing MSME customers in their onboarding and post-product-uptake service needs.

Capacity-building and upskilling/reskilling programmes will be required to empower postal staff to adapt to new job functions and embrace the culture change that this initiative requires.

INVEST IN COMMUNICATIONS AND BRANDING

A strong communications and branding strategy should be established to highlight the value that Posts bring to their potential partners and customers. This should involve leveraging traditional mediums as well as social media platforms, with a well-defined strategy to identify the messages, channel and target audience.

BE LEAN AND AGILE

Employ cost-effective proven methodologies in product development. This means clear prioritization of features that are important to customers and constant improvement using customer feedback to develop the product.

ANNEXES

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The views expressed in this paper reflect the opinions of the authors alone and do not necessarily reflect those of the UPU, its partners or its member countries.

ABOUT FITAF

This study was made possible with funding from the UPU FITAF, which was created in 2017 with funding and support from the Bill & Melinda Gates Foundation and Visa Inc.

FITAF provides technical assistance to 20 postal operators globally. It supports postal operators in digitalizing their financial services to better meet the needs of low- and moderate-income populations. In addition to supplying technical assistance, FITAF provides learning through the publication of thematic studies.

These thematic studies capture the successes, lessons learned, and critical challenges faced by Posts that are either implementing or planning to implement DFS projects.

Annex I: Overall methodology and list of regions/countries covered for the study and data collection

The study was conducted across four segments covering distinct objectives that shaped the formulation of the business models and value proposition for MSME payment digitalization to be proposed to Posts through this report.

To understand the postal value proposition in the MSME payment digitalization space, this report uses a mixed research approach deploying primary and secondary research tools to collect information from a sample of countries from emerging markets across Sub-Saharan Africa, Latin America, the Middle East, North Africa, and the Asia-Pacific region.

The consultant team interviewed 16 Posts (see the table below for more details) and also interacted with regional postal associations in Asia and Africa and developed Posts from France and Switzerland to learn from their experience and apply insights that may add value to Posts in emerging markets.

The team also consulted various non-postal payment providers, FSPs and regulators in emerging markets. To complement findings from the interviews, field exercises,

such as mystery shopping for postal payment products and FGDs with MSME merchants, were conducted. These exercises were based on the consultant team's ability to mobilize on-the-ground resources and adapt to COVID-19-induced social distancing and lockdown restrictions.

The above sampling-related limitations notwithstanding, the report outputs can be applied to Posts in any emerging market context. The report carefully documents key considerations as building blocks that will form the underlying assumptions for business model implementation. It also allows Posts the flexibility required to adjust their role to their regulatory and market contexts.

The following table provides a comprehensive list of the geographical areas covered as part of this study for the data collection efforts that informed the outputs documented in the report.

Research segments for the report

Segment 1 Assess challenges and innovative solutions

Map MSME payment digitalization challenges

Map viable digital payment solutions that respond to MSME challenges

Shortlist and propose list of countries for subsequent study segments

Map relevant stakeholders for the study

Segment 2 Capture current postal solutions

Interview Posts of selected countries

Map current postal solutions offered in the digital financial services space with focus on payments

Identify the value proposition of Posts in enabling MSME payment digitalization

Segment 3 Identify opportunities and services delivery mechanisms for the Posts

Deep dive into a smaller cohort of countries to further identify and analyse opportunities for Posts

Identify, analyse and document viable roles for the Posts

Interviews with some payment service providers and other relevant stakeholders in the ecosystem

Focus group discussions with merchants to identify needs, challenges and aspirations

Segment 4 Prepare action-oriented policy and operational recommendations

Based on insights gleaned from previous segments, offer policy and operational recommendations to Posts and UPU

List of countries/regions where primary and secondary research was carried out

S. NO	Economy type	Sampled countries/ Region	Rapid survey with team/network of consultants and experts to scope payment acceptance ecosystem	Preparation of Country Profiles in regional postal association	Structured interviews with Postal Organisations and associations	Key Informant interviews with Non Post players	Mystery Shopping to gauge Postal offerings	FGDs to hear merchant voices
1	Lower middle income	Vietnam		■	■	■		
2	Upper middle income	Indonesia	■	■				
3	Upper middle income	Thailand		■	■			
4	Upper middle income	Fiji		■	■			
5	Upper middle income	Argentina		■	■			
6	Lower middle income	Tunisia		■	■		■	■
7	Lower middle income	Egypt, Arab Rep.	■	■	■		■	
8	Lower middle income	Morocco		■	■		■	
9	High Income	Qatar		■	■			
10	Lower middle income	India	■	■	■	■	■	■
11	Low income	Burkina Faso		■	■			
12	Low income	Rwanda		■	■			
13	Low income	Togo		■				
14	Lower middle income	Kenya		■		■		
15	Lower middle income	Ghana		■	■		■	

S. NO	Economy type	Sampled countries/ Region	Rapid survey with team/ network of consultants and experts to scope payment acceptance ecosystem	Preparation of Country Profiles in regional postal association	Structured interviews with Postal Organisations and associations	Key Informant interviews with Non Post players	Mystery Shopping to gauge Postal offerings	FGDs to hear merchant voices
16	Lower middle income	Tanzania	■	■	■			
17	Upper middle income	Bulgaria	■					
18	Lower middle income	Cameroon	■					
19	Upper middle income	Georgia	■					
20	Lower middle income	Pakistan	■			■		
21	Upper middle income	Mexico	■					■
22	Lower middle income	Ivory Coast	■					
23	Lower middle income	The Philippines	■					
24	Lower middle income	Senegal	■			■		■
25	Lower middle income	Nigeria	■			■		
26	Lower middle income	Congo	■					
27	Lower middle income	Benin				■		
28	High Income	Switzerland			■			
29	High Income	France			■			
30	NA	WAMU	■					■
31	NA	APPU			■			
32	NA	PAPPU			■			

Annex II: Methodology employed to produce the 16-country sample for primary research

Distillation process to shortlist countries for the study:

Further filtering was carried out to arrive at the shortlist of countries for the study with postal organizations. A four-level filtering process was undertaken to select the countries as per the figure below:

LEVEL 1 FILTER TO SELECT UPU MEMBER COUNTRIES	LEVEL 2 CLASSIFICATION OF UPU MEMBER COUNTRIES ACCORDING TO ECONOMY TYPE	LEVEL 3 FOR "EACH" ECONOMY GROUP, FILTER BY POST OFFICE READINESS, DEMAND SIDE READINESS	LEVEL 4 QUALITATIVE INPUTS FROM AMARANTE AND UPU FOR SHORTLISTING COUNTRIES
World Bank list of countries by economy type used as the universe for the distillation process.	Economy groups considered: High Income, Low Income, Lower Middle Income, Upper Middle Income	Indicators for Post office readiness: ZIPD ranking, coverage through physical infrastructure, posts offering payment solutions	Screening questions [qualitative and quantitative] by Amarante to ensure regional representation and alignment with UPU interests
UPU member countries selected	High Income countries filtered out	Indicators for demand side readiness: DFS adoption (% of 15+ population that made or received payments), # of MSMEs in the country (also denotes outreach and potential impact)	Indicators: GSMA Mobile Money Regulatory Index 2019 [metrics include Authorization, Consumer Protection, Transaction Limits,
Source: World Bank Country and Lending Groups	Source: World Bank Country and Lending Groups	Source: Various, most notably: GSMA Mobile Connectivity Index, World Bank Findex, The digital economy and digital postal activities by UPU	Screening by UPU representatives to arrive at the final list of countries

A final list* of 10 to 15 countries spread across the 3 economy groups.

Based on the filtering process and qualitative inputs from the UPU, the following 16 countries from emerging economies were shortlisted.

The table below provides the list of countries selected alongside their economy type and region.

S. NO	ECONOMY TYPE	REGION	ECONOMY
1	LMI	East Asia & Pacific	Vietnam
2	UMI	East Asia & Pacific	Indonesia
3	UMI	East Asia & Pacific	Thailand
4	UMI	East Asia & Pacific	Fiji
5	UMI	Latin America & Caribbean	Argentina
6	LMI	Middle East & North Africa	Tunisia
7	LMI	Middle East & North Africa	Egypt, Arab Rep.
8	LMI	Middle East & North Africa	Morocco
9	HI	Middle East & North Africa	Qatar
10	LMI	South Asia	India
11	LI	Sub-Saharan Africa	Burkina Faso
12	LI	Sub-Saharan Africa	Rwanda
13	LI	Sub-Saharan Africa	Togo
14	LMI	Sub-Saharan Africa	Kenya
15	LMI	Sub-Saharan Africa	Ghana
16	LMI	Sub-Saharan Africa	Tanzania

Annex III: Focused group discussions/ interviews conducted in India, Mexico, Senegal and Tunisia

FGDs were conducted with eight merchants in each of the four countries to document their voice.

The profiling of merchants was done on the basis of age group, type of business, level of education, income category and gender. The findings are summarized in the following table under the headings of the current scenario of digital payments, the challenges faced, and the aspirations of the merchants.

Value proposition for the merchant	Challenges/pitfalls	Merchants' aspirations
Lower risk of theft and robbery with less cash involved (strongly emphasized in FGD with Tunisia and, to some extent, that of India and Senegal)	Charges on the digital transaction are high and affect the profit margin of the merchants (per transaction charges are 3% in Tunisia; Paydunya charges 3% in Senegal)	Digital payment platform with zero or minimal transaction charges (e.g. CoDi in Mexico and UPI in India)
Contactless payment options from the merchant contributes to customer convenience in pandemic times (major takeaway from all four countries)	Cost of POS terminals is a deterrent (apart from Mexico, POS is not being used by any of the respondents)	Benefit/incentive for customers for making digital payments (e.g. in Tunisia, electronic payment allows the customer to resort to bank overdraft in the event of an overrun)
Risk of counterfeit currency is reduced	Technical support from the service providers is inadequate	Option to use credit with transactions made through a digital platform
Money credited directly into the merchant's bank account reduces cash management burden and saves time	Internet connectivity issues lead to transaction failures (mostly, the respondents are aware of the process to get back the money but are not happy with the turnaround time)	Better protection against cyber risks
Purchasing on small credit/ borrowing owing to insufficient cash is remarkably reduced (major boost for Indian small merchants)	Time taken and procedures related to the settlement of failed transactions are very long	Digital payment options with minimal setup costs and easy installation and operation, such as self-onboarding (e.g. UPI/QR code in India; D17 in Tunisia*)
Merchants are not required to maintain cash in various denominations for the balance amount to be returned to the customer, as exact amount transactions are very low in cases of cash payment	The majority of merchants' suppliers do not accept digital payments (major issue for Tunisia); in India, the majority of suppliers take payments digitally as they find this option reliable and time-saving	
	Digital payments generate fiscal-related obligations – in Mexico, the Servicio de Administración Tributaria (SAT, the equivalent to the IRS in the United States) may supervise transactions and generate income-tax-related issues	

*D17 is a mobile payment application for all Tunisian Post customers with a virtual account of the e-dinar family

Annex IV: Methodology and observations gathered through mystery shopping

Given the desk research and insights collected through interviews, the consultants initiated a mystery shopping exercise

A MYSTERY SHOPPING EXERCISE WAS CONCEPTUALIZED WITH THE FOLLOWING OBJECTIVES

PRIMARY GOAL:

Verify that the listed payment digitalization products below offered by the Post works on the ground.

SECONDARY GOALS:

Understand how the product is advertised and explained to the customer.

Understand and document how to use the product.

Understand the experience of an end customer transacting at the merchant point, using the product.

What is mystery shopping?

Mystery shopping is a tool that involves sending consumers to places of business, government agencies, or other service providers to simulate a typical customer inquiry. By conducting mystery shopping visits, we can better understand important financial inclusion issues such as differentiated treatment of low-income or inexperienced consumers, quality of product advice, and compliance with consumer protection rules such as pricing transparency and disclosure. [Source: Mystery Shopping for Financial Services; CGAP, October 2015]

Profile of our mystery shopper:

A merchant interested in exploring a payment digitalisation product that will facilitate financial transactions for him/her and their customers. S/he also wants to try to

understand the possible incentives and benefits they can get from adopting this product. Going forward, it is also important that they understand how their customers will experience this payment solution when doing business with them. S/he is not very digitally savvy and most likely needs hand holding to onboard a digital solution. However, they are interested to learn about new ways of enhancing their business and are eager to learn.

Choice of sample Posts:

The selection process to identify Posts for the mystery shopping exercise was based on the relevance of product offering to the study objectives that seeks to understand the role of Posts in enabling payment digitalization for MSMEs.

Products tested through the mystery shopping exercise

COUNTRY	PRODUCT	PRODUCT DESCRIPTION
India	DakPay (online payment)	Through 'DakPay', customers can send money to others by implementing Domestic Money Transfers – DMT, scanning QR code as well as making payment for services/merchants digitally through virtual debit card and with UPI.
Egypt	Pay and Notify (supply chain payment)	Through “Pay and notify” merchants can access a service that allows them to pay for their purchase order at the Post Office to their supplier. This avoids the opportunity costs, especially for merchants in rural areas, who may have suppliers in Cairo or other far off urban centers.
Morocco	Barid Cash pro (POS solution)	BARID PAY PRO is a free payment account with no account maintenance fees, which allows all merchants with the mobile application to receive payments directly to their accounts in complete security and gives them access to a whole panoply of features
Tunisia	D17 (POS solution)	D17 technology allows merchants to receive payments via a QR code. The D17 pack offers merchants: <ul style="list-style-type: none"> • an e-dinar pro account (prepaid virtual account), • a QR code in a plexiglass to present to customers, • monitoring of transactions through the application, • merchants can also generate QR codes via the app
Ghana	GhPostPay (Post as agent + POS solution)	GHPostPay enables small businesses to render services to their customers. So these businesses act as agents for GhPostPay where retail users can access services such as buying an e-voucher etc. instead of going to the posts. It also allows making payments through USSD, App or web.

Overall conclusions from the mystery shopping exercise

While the experience from the **field exercise and insights** derived thereof cannot be extrapolated to all the **192 Postal members** of UPU, the following do help in understanding areas that can potentially be strengthened or validated as Posts firm up the operational framework for their financial services offerings:

Access to information

Access to product information is mostly fragmented and not easily available both at the time of product onboarding as well as post uptake customer service. This may get further exacerbated for customers from low resource settings who may already be facing psychological barriers in approaching financial institutions. [Source: [Applying behavioural insights in consumer protection policy](#); CGAP 2014]

Quality of information is not enough and is not compelling to push for product uptake: This has a significant bearing on consumer psychology as MSMEs traverse through the process of **awareness, willingness to uptake, actual uptake**. Since most of the offerings by the Posts considered for the study and for the field work are at a nascent stage, the product push through effective and compelling communication is key to achieve a critical mass of consumers that can then help the product scale.

Access to information through marketing collateral often does not adequately cater to vernacular languages. Especially among customer groups with low digital and general literacy levels, language used for communication is of critical importance where the Posts are trying to push payments digitalization products. The opportunities are further magnified with increase in digital and internet user base among vernacular populations across the globe.

Onboarding and transactions

Merchants onboarded by Postal payment product offerings are usually those that are registered into government identification and tax systems thereby leaving the informal segment of such businesses out of their fold. There may, however, be cases where micro and small businesses are registered as individual users. The current business model and processes are however, geared to service registered, formal enterprises only.

For merchants who have been successfully onboarded, it is important to see a strong traction in terms of their end-customer uptake for App based payment digitalization to work and to find greater acceptance as a preferred mode of transaction. For example, in both the cases in Tunisia where merchants were interviewed, one of the reasons for low interest in postal offering is because there is not enough uptake among their customers and that there is a strong preference for POS terminals for transactions.

Most of the payment digitalization products are rolled out using a “push” marketing strategy due to limited demand by businesses and their end-customers. While COVID-19 has resulted in an upsurge in demand for such services, there is significant marketing activity and investments required for influencing digital payment behaviour among MSMEs and their customers.

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