SME Competitiveness: Standards and Regulations Matter

Marion Jansen, Chief Economist, ITC

At: WTO Public Forum
Session: Standards and Regulations: Do SMEs have a Stake?
On: September 29, 2016
Standards and Regulations Matter: What exporters told us

- ‘A phytosanitary certificate is a problem due to many offices that are scattered instead of [a] one-stop centre. This takes more than two days.’

- “All exports of milk-based products […] require a health certificate issued by the Ministry of Agriculture. There is always at least a 5-day delay in getting the certificate due to inefficiencies in the system”.

- “Complying with the standards is not difficult and causes only small additional costs for labour, and slightly weaker yields due to lower fertilizer use. The accreditation procedure, however, requires that auditors need to be invited from abroad at the full expense of our company. This causes high fixed costs, especially for new entrants in private standards.”

Source: ITC Business Surveys on NTMs
For entrepreneurs, terminology is not of primary concern

The terms ‘standard’ and ‘regulation’ mean different things to those who use them.

ITC firm-level surveys show that what matters for SME interviewees is whether access to a selected market depends on meeting the relevant quality level, not whether that level is imposed by the government or a non-governmental actor.

In this presentation:

- **Standard** – a required or agreed level of quality or attainment.
- **Regulation** – a rule or directive made and maintained by an authority, often a government.
NTMs as obstacles to trade: a private sector perspective

Figure 3.3 Exporters’ affectedness by NTM-related obstacles, by company size

<table>
<thead>
<tr>
<th>Company Size</th>
<th>Number of Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs (1–250)</td>
<td>10,673</td>
<td>48%</td>
</tr>
<tr>
<td>Large (&gt; 250)</td>
<td>1,312</td>
<td>42%</td>
</tr>
<tr>
<td>Micro (1–10)</td>
<td>3,117</td>
<td>54%</td>
</tr>
<tr>
<td>Small (11–50)</td>
<td>4,361</td>
<td>48%</td>
</tr>
<tr>
<td>Medium (51–250)</td>
<td>3,195</td>
<td>42%</td>
</tr>
<tr>
<td>Large (&gt; 250)</td>
<td>1,372</td>
<td>42%</td>
</tr>
</tbody>
</table>

NTMs affect small exporters disproportionately

- Unlike large companies, most SMEs do not possess in-house trade or international departments with experts who know how to efficiently overcome relevant trade costs.

- SMEs tend to have limited resources and a lower threshold to absorbing risks, especially when operating in intensely competitive markets (OECD, 2006).

- More generally, the fact that SMEs tend to trade smaller quantities implies that fixed trade costs often make up a larger share of the unit cost of their goods and services when compared to rivals exporting larger volumes.
Different types of costs

Costs occurring within the firm

Decision making
Information
Implementation
Compliance and certification

Each cost component may have an additional cost associated with procedures occurring at home or abroad.

Procedural costs
Figure 3.5 Reason making NTMs burdensome for exporters, by sector

Source: ITC Business Survey on NTMs
Five-point government action plan to help SMEs

Source: ITC SME Competitiveness Outlook (forthcoming)
Attracting lead firms can help

Standards are more producer accessible when they are set by businesses

+36% Probability of shared implementation costs
+41% Probability of shared certification costs

Source: ITC-EUI (2016) “Social and Environmental Standards: Contributing to more sustainable value chains” using data from ITC Standards Map
But SMEs have to be competitive before they can enter value chains.

Source: ITC SME Competitiveness Outlook 2016
Standards and regulations: what ITC does

E-Tools
- Provide global information platforms:
  - http://www.macmap.org/
  - http://www.standardsmap.org/
- Push information: E-Ping (with WTO and UNDESA)
- Assist governments in solving bottlenecks: Trade Obstacle Alert

Assistance in the country
- ITC helps SMEs in developing countries to meet technical requirements in international markets and overcome technical barriers to trade (TBT/SPS), the most frequent obstacles to trade: http://www.intracen.org/itc/exporters/quality-management/
- ITC connects SMEs to GVCs (session 94, room C)

Assistance at the border
ITC Trade facilitation programme: http://www.intracen.org/itc/trade-facilitation-programme/
SME Competitiveness Outlook 2016
Launch: Geneva, 6 October

Focus on standards and regulations

- Comprehensive analysis
- Global thought leader insights
- Case stories
- New econometric findings
- Insights: how to think strategically about standards

- “handbook” for SME managers
- 5 Point Action Plan for Policy Makers