Supporting MSMEs through trade facilitation reforms

Dr. Mohammad Saeed
Chief, Trade Facilitation and Policy for Business, International Trade Centre (ITC)
12 October 2022
<table>
<thead>
<tr>
<th><strong>ITC insights: building from field-work experiences</strong></th>
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<tr>
<td><strong>10’000 +</strong></td>
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<td>Businesses engaged in trade facilitation reforms</td>
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<td><strong>1,000 +</strong></td>
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<td>Businesses helped to advocate</td>
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<td><strong>80 +</strong></td>
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<td>Countries supported across 5 continents</td>
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<td><strong>50 +</strong></td>
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<td>TFA implementation reforms in more than 20 countries</td>
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MSMEs in developing countries bear the brunt of trade inefficiencies

Impact of a 10% increase in regulatory burden on businesses’ export value

- Large enterprises: -1.6%
- Medium enterprises: -2.6%
- MSMEs: -3.2%

Trade inefficiencies impact SMEs competitiveness twice more than large businesses

Effect is worse in developing countries: logistics costs are a larger share of the final price of products
Key constraints to MSMEs participation in global trade

- On a relative basis, MSMEs dedicate more human resources to navigate export-related information and procedures than large companies.

- MSMEs have limited access to affordable financing means.

- MSMEs are often classified as “high-risk” operators by border agencies.

- MSMEs cannot afford quality logistics service providers.

- MSMEs often export small volumes of low value-added products making it harder to reach the “breakeven” point.
TFA toolkit for national reforms to address the specific challenges faced by MSMEs

➢ How to address reforms from the perspective of small and medium-sized enterprises

➢ How to reap benefits across the whole business community

➢ Examines the 19 TFA provisions that most help or hurt MSMEs

➢ Provides insights for national policymakers
3 Key Trade Facilitation Measures for MSMEs
Revenue Protection Act, No.19 of 1962

Order

By virtue of the powers vested in me under Section 2 of the Revenue Protection Act, No. 19 of 1962, I, Ranil Wickremesinghe, Minister of Finance, Economic Stabilization and National Policies of the Democratic Socialist Republic of Sri Lanka, do by this Order from June 01, 2022, require the Director General of Customs to demand and levy on each article specified in Column 3 of the Schedule hereto, import duty at the general rate set out in the corresponding entry in Column 5 of that Schedule or where, a preferential rate is leviable and payable under the Provisions of Schedule "A" of the Customs Ordinance (Chapter 235), at the preferential rate set out in the corresponding entry in Column 4 of that Schedule;

Ranil Wickremesinghe
Minister of Finance, Economic Stabilization
and National Policies

May 31, 2022
Ministry of Finance, Economic Stabilization
and National Policies
Colombo 01,
Publishing and adapting information for the benefit of MSMEs

Publication and Notification

TRADE AND INVESTMENT POLICY GAZETTES

2022

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<th>Date</th>
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<td>22-09-2022</td>
<td>2298/51</td>
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<tr>
<td>03-09-2022</td>
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Revenue Protection Act, No. 19 of 1962

Order

By virtue of the powers vested in me under Section 2 of the Revenue Protection Act, No. 19 of 1962, I, Ranil Wickremesinghe, Minister of Finance, Economic Stabilisation and National Policies of the Democratic Socialist Republic of Sri Lanka, do by this Order, dated 10th May, 2022, require the Director General of Customs to demand and levy on each article specified in Column 3 of the Schedule Item, the amount set out in the corresponding entry in Column 1 of that Schedule or value, a preferential rate as per the provisions of Schedule “C” of the Customs Ordinance (Chapter 21), at the preferential rate set out in the corresponding entry in Column 4 of that Schedule;

Ranil Wickremesinghe
Minister of Finance, Economic Stabilisation
and National Policies

May 10, 2022
Ministry of Finance, Economic Stabilisation
and National Policies
Colombo 07.
Publishing and adapting information for the benefit of MSMEs

Publication and Notification

By virtue of the powers vested in me under Section 2 of the Revenue Protection Act, No. 19 of 1962, I, Ranil Wickremesinghe, Minister of Finance, Economic Stabilization and National Policies of the Democratic Socialistic Republic of Sri Lanka, do by this Order from June 01, 2022, require the Director General of Customs to demand and levy on each article specified in Column 3 of the Schedule hereto, import duty at the general rate set out in the corresponding entry in Column 5 of that Schedule or where, a preferential rate is leviable and payable under Provisions of Schedule “A” of the Customs Ordinance (Chapter 235), at the preferential rate set out in the corresponding entry in Column 4 of that Schedule;

Legal compliance with Article 1 of the TFA can fall short of MSMEs needs. Clear and actionable information is what matters most!
Objective: explaining the new requirements in layman’s terms

As of 1st of June 2022, you will be required to pay a 15% duty on the following products unless you benefit from preferential duty rate under Sri Lanka’s trade agreements
- Malt (HS 11.07)
- Manioc (HS 11.08.14)
- Perfumes and toilet waters (HS 33.03.00)
- Preparation for use on the hair, e.g. shampoos (HS 33.05)
- …..

The list of Sri Lanka’s Trade Agreements and preferential duty rates are available at this link

Example:
- Importers of roasted malt from countries with which Sri Lanka doesn’t have a trade agreement will now pay a 15% duty
- Importers of roasted malt from India under the Indo-Sri Lanka Free Trade Agreement (ISFTA) will continue to pay the agreed preferential duty rate of 0%
Publishing and adapting information for the benefit of MSMEs

Publication and Notification

✓ Information that is clear and actionable for MSMEs
Extending trade advantages to MSMEs

Authorised Economic Operators

MSMEs disproportionately benefit from AEO status…

✓ Lower costs
✓ Streamlined processes for import/export
✓ Faster processing and clearance of cargo
✓ Deferred payment of duties

… but some of the core AEO criteria particularly hinder MSMEs, such as

× Volume and frequency of shipment
× Financial viability

How can AEO programs include MSMEs?

Remove hindering criteria and offer flexible procedures for accession

Faster, more understandable process of certification

Sensitisation and capacity-building tailored to MSMEs accompanying the introduction of AEO schemes
Implementing reforms that leverage commonly used solutions

**E-Payment**

Example: M-PESA in Kenya and Tanzania

*Allows users to make banking operations with a mobile device*

→ Mobile phones used by quasi-totality of people and economic operators

→ Built to ensure largest access and opportunity

→ Bank transfers would not have worked in countries where not every trader holds a bank account

Develop solutions based on what is already in use and practical!
Policy design and implementation should reflect the realities of MSMEs on the ground

- **Public-private dialogue** must be at the core of the design and implementation of trade facilitation reforms

- **Businesses of all size** must be given the opportunity to express their specific needs, especially MSMEs and small-scale cross-border traders

- **Trade facilitation is about continuous improvement**: it is never too late to make your reforms work for MSMEs
Reforms that work for larger firms might not benefit MSMEs…

…But…

…reforms that work for MSMEs will also benefit larger firms
Thank you for your attention