

*The International Federation of Freight
Forwarders Associations
Fédération Internationale des Associations de
Transitaires et Assimilés
Internationale Föderation der
Spediteurorganisationen*



The Importance of Facilitated Trade for MSMEs' Growth



About FIATA

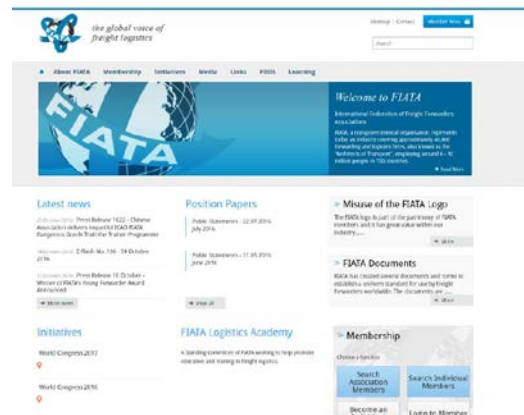


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A Global, Unique Constituency

- 109 Association Members in 98 countries
- Represents a world-wide industry covering approximately 50,000 forwarding and logistics firms, employing around 8 - 10 million people in 150 countries
- Largest world-wide NGO in Transport and Logistics



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Importance of MSME to Trade



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The Economic Importance of MSMEs

- MSMEs represent, on average, 95% of companies in almost every country around the world.
- They concentrate around 60% of jobs in developed countries and 80% in developing countries and are estimated to account for 60 to 70% of the global GDP.
- **BUT** due to their smaller capacities MSMEs face greater barriers than larger players when dealing with the challenges posed by trading across borders.





MSME's Challenges



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A quote to start with...

“The biggest non-tariff barrier to the growth of global trade is the lack of logistics connectivity in many parts of the world.”

Babar Badat

FIATA President



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MSMEs Missing Export Opportunities

- According to WTO, direct exports account for only 7.6% of total sales in the manufacturing sector, as compared to 14.1% by large manufacturing businesses.
- In developed countries, businesses with under 250 employees represent 78% of exporters, but just 34% of exports on average.

=> Huge still unused potential for MSMEs





Infrastructure and Resources

- MSME's often do not have the resources, nor the ability to absorb risk, nor the necessary expertise and experience to engage in the export market.
- Developing countries generally have to cope with deficits of infrastructure (e. g. power generation, road networks, security and communications).
- Infrastructure is important for all businesses, but it is most critical for small enterprises. Large businesses have the financial means to arrange their own power generation and to bridge infrastructure gaps.
- Small businesses do not have enough resources to overcome infrastructural deficits on their own. Therefore when infrastructure deteriorates, the small businesses are on the farthest most losing end.



Trade Finance - Letter of Credit Example



- Globally, 58% of trade finance requests by MSMEs are rejected, against just 10% for multinational companies.
- SMEs in Asia and the Pacific are highly dependent on letters of credit (L/Cs), the most secure instrument, with 76% of all L/Cs originating in the region.
- A recent paper on L/C usage by traders in the United States (US) points out that Asia and the Pacific receives 11% of US exports, but requires 20% of its trade finance share.
- When a proposal for trade finance is rejected to a SME, only 55% of firms reported re-submitting a proposal, 28% report being self-rationed (that is, an alternative is found, but it is too costly) and 19% report using an informal provider.
- Without trade financing, MSMEs cannot work with logisticians such as FIATA members to export their products and therefore are limited in their growth potential.



Fixed Costs – Difficulties from MSMEs



- Fixed costs involved with trade can be particularly difficult for MSMEs.
- This includes dealing with standards, costly border procedures, or other non-tariff barriers.
- The ITC has found that increases in regulatory burdens hit the revenues of MSMEs twice as hard as larger firms.
- Smaller and less productive firms find it harder to cover fixed costs to comply with standards and regulations. A 10% increase in the frequency of regulatory or procedural trade obstacles encountered, decreases the export value of large firms by 1.6%, and by 3.2% for small firms.
- A more variable approach to costs would allow MSMEs the opportunity to compete the global trade market.





The Positive Impact of Trade Agreements

- A key measure to help MSMEs overcome trade barriers are trade agreements.
- One in particular that will impact MSMEs in Africa is the African Continental Free Trade Area (AfCFTA) which has been signed by 44 states and government officials.
- It is estimated that the WTO's Trade Facilitation Agreement (TFA) could lead to an 80% increase in MSME exports in some economies.
- Implementing the Trade Facilitation Agreement to cut trade costs for everyone means also tackling a major barrier for MSMEs to enter global markets.





Improving Exporting Conditions for MSMEs



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AEO Programme for MSMEs



- Among the WTO TFA measures, Sub-Art. 7.7 Authorized Operators (AEOs) and Sub-Art.10.4 Single Windows may require the development of special services for MSMEs to ensure they may fully benefit from their implementation.
- Accredited AEOs can receive trade facilitation perks such as rapid release, reduced documentation and data requirements, as well as fewer physical inspections from customs authorities.
- Governments can create special AEO Programmes for SMEs that require less stringent criteria for SMEs to qualify for AEO status, or access to at least some AEO capabilities.
- FIATA and its members could help with the burden of identifying those SMEs shippers which could fit the profile of an AEO special services applicant in order to reduce costs and help facilitate customs clearance.



MSME support for Single Windows



- Special attention needs to be given to making the single windows accessible by SMEs, e.g., by providing technical consultation and training services to SMEs on registering and using the facility.
- Singapore's Single Window TradeNet System, which offers a single integrated permit processing system between government agencies, also provides free services for SMEs, including document service centers where documents can be prepared and submitted on behalf of the SME for a nominal fee.
- FIATA has worked with UNCEFACT on recommendation 33 through 35 to help advise member states on the creation of Single Windows that would ensure reduced costs and facilitated clearance which could increase the likely of MSMEs trade.
- FIATA encourages states to implement Single Window solutions promoting filing systems that minimise the frequency of data transfers, thus creating a large, transparent and secure eCommerce community.





Reduced and Expedited Shipments

- Keeping in mind the smaller goods shipments of MSMEs in contrast to larger firms, governments should lessen or waive superfluous fees, inspection procedures and paperwork for MSMEs that satisfy a minimum shipment value or volume criteria, aimed at giving preference to the expedition of MSME shipments in particular.
- This could save customs authorities and traders time, money, and paperwork, by giving up smaller value duties incomes that are not worth the effort they cost to collect, in favor of cost savings from improved clearance times.
- Many nations have set de minimis level however they vary greatly country by country.
- FIATA has advocated in previous positions to harmonize the de minimis level within region finding a common value increase at the minimum intra-regional trade with the hopes to expand further into neighboring countries.



National Committees on Trade Facilitation (NCTFs) and MSMEs



- SMEs are often less well-coordinated and usually have the smallest voice when it comes to advocating for favorable laws and regulations. Ideally, SMEs should be well represented and made key members of NCTFs.
- Policies should be crafted to ensure that SME associations are appropriately organized, informed [or educated] and represented and able to participate in public fora for customs issues.
- Feeling the same burden in the freight forwarding industry being fragmented and having an abundance of MSME members, FIATA has offered to assist NCTFs during the TFA process through our national Association which can consolidate the voice of the MSME and communicate it effectively.





Digital Tools MSME Potential

- Digital tools could lower export costs of an average MSME by as much as 82 % and reduce time involved in exporting for MSMEs by up to 29 %.
- Privacy and data protection will also be vital to give customers confidence and MSMEs need to be informed and up to date on these policies to communicate them.
- Local economies need to remove barriers to cross-border trade in terms of data sharing. eCommerce requires customer data to constantly change hands between stakeholders in the supply chain with logistics providers bearing greater risks from the lack of transparency and visibility.



How National Governments Can Help



- National governments can consider launching their own platforms. The Indian Ministry of Commerce & Industry and the Federation of Indian Export Organisations (FIEO) launched the FIEO GlobalLinker- a digital platform for MSME exporters to digitise their businesses and join a global community of growing businesses in New Delhi. FIEO is available free of cost and it offers exporters a range of features and benefits like:
- State can launch capacity building workshop to raise awareness of the potential for exporting to MSMEs and advise them on the challenges and steps to undertake.
- Countries that accept TFA Plus commitments for low value shipments could have preferred access to trade-related capacity building programs, such as UNCTAD's e-Trade for All, and those of the Global Alliance for Trade Facilitation, the WTO Aid for Trade initiative as well as sovereign donor agency assistance.
- This assistance could also include capacity building programs for MSMEs looking to expand their business through e-commerce.





Tips for MSMEs

- **Prepare seriously for market entry:** In order to be prepared for any trade barriers in a target market, SMEs should get to grips with their target market at an early stage and have a market analysis carried out. Only those who thoroughly clarify the framework conditions are less likely to encounter any surprises when entering the market.
- **Make the most of free trade agreements:** The newer kinds of free trade agreements in particular aim to dismantle not only tariffs but also non-tariff trade barriers. Be aware of them and focus on key markets where it is easier to export product.
- **Seek professional support:** Experience shows that going it alone significantly increases the risk of an export project. Seek the expertise of a logistics





Enhanced Partnerships Matter



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A Collaborative Approach

- International standardization bodies recognize the crucial role of trade associations in improving the situation for SMEs. Some trade associations like FIATA are very active in supporting their members in the field of standardization.
- On that basis, the trade association can identify a range of available solutions, in close cooperation with the relevant standardization body.
- We encourage closer collaboration with the private sector on initiatives that would positively influence global trade.
- FIATA is ready to do our part and contribute.





Thank you!

Find more about FIATA in www.fiata.com

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