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White Paper on Integrated Services for MSMEs in International Trade (ISMIT)

Opening the Global Economy to MSMEs

Summary

Micro-, Small- and Medium-Sized Enterprises (MSMEs) represent a very large portion of the economic make-up of the world economy. As they often only trade nationally, there is a large potential for growth towards international markets. However, the difference in procedures, the complexity of rules, the necessary financial backing can often discourage them. This White Paper describes eService platforms which can help to enable MSMEs to access international markets. It is accompanied with a few case studies (ECE/TRADE/C/CEFACT/2020/INF.4).

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I. Small Companies can drive global trade if the right tools are available

1. In most economies, the Micro, Small and Medium-sized Enterprises (MSME) sector is the largest business sector with 95 per cent of business entities being MSMEs¹ and generating many employment opportunities. The definition of MSMEs varies across countries and organizations. The most commonly used factors in defining a MSME are the number of employees, followed by turnover and assets. One commonly used definition defines an MSME as an enterprise employing up to 249 persons. In developing countries, the threshold is lower: between 50 and 100 employees. In developed countries, 78 per cent of exporters are MSMEs. However, these MSMEs only account for 34 per cent of the exports, suggesting that there is a concentration of exports among a few large business enterprises. Most of the time, big conglomerates are more productive² as they benefit from economies of scale (e.g. cost per unit decreases with increased production). Such concentration is more significant in developing countries where direct exports only account for 7.6 per cent of the total sales of MSMEs.

2. One of the deterring factors is cost. Here, it is important to distinguish between per-unit costs and fixed trading costs. Per-unit costs include freight carrier costs, tariffs, and any costs that are subject to the amount of traded goods and distance. Fixed trading costs are costs which do not vary with export volume, such as costs for regulatory compliance, building a sales network, brand advertising, translation, etc. Fixed trading costs limit the ability of an enterprise to export its products. To reduce fixed trading costs, international standards and recommendations play a crucial role by providing guidelines to overcome these red-tape barriers.

3. The MSME sector is critical to the economic development of a country as it is

- the main player in economic activities in various sectors;
- an important player in developing regional economic activities and social community development as well as providing job opportunities;
- often the creator of new markets and a contributor of innovations;
- important in maintaining trade balance; and
- important in achieving Sustainable Development Goals (SDGs), by promoting inclusive and sustainable economic growth, providing employment for all, promoting sustainable industrialization, fostering innovation, and reducing income inequalities.

4. In all, a robust MSME sector is essential for boosting economic growth and delivering more inclusive globalization. Their participation in international trade leads to greater innovation through competition, increased competitiveness, productivity growth and better economic performance—which benefits the whole economy. Thus, it is important to foster

¹ World Trade Report 2016: Levelling the Trading Field for SMEs. Available as of January 2020 at: https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf

² Melitz, Marc J. (2003). The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity. *Econometrica*, vol. 71, No. 6, (November), p. 1716

Mayer, Thierry, and Gianmarco Ottaviano (2007). The Happy Few: The Internationalisation of European Firms. New facts based on firm-level evidence. *Bruegel Blueprint Series*, vol. 3, p. 22. Available as of January 2020 at: http://bruegel.org/wp-content/uploads/imported/publications/BP_Nov2008_The_happy_few.pdf

the MSME sector to adapt and to thrive in a more inclusive trading environment and to participate more actively in the digital transformation.

5. The economic importance of MSMEs is beyond question. Governments and international organizations around the world aim to support MSME development and their integration into global supply chains to raise productivity, stimulate employment and growth and reduce poverty. Having said that, supporting MSMEs in reaching international markets is still a very challenging task, mainly due to lack of adequate tools and the uptake of existing tools (for example, because the tool is unknown or unavailable in a local language or it requires training to use).

6. This situation is changing. The World Trade Organization (WTO) recognizes that technological progress, through the expansion of eCommerce³ and the evolution of global value chains, is opening new trading opportunities for MSMEs. Governments and international organizations already consider eCommerce to be a major instrument in overcoming the trade barriers faced by MSMEs.

7. Boosting MSME potential for participating in and reaping the benefits of a globalized and digital economy depends to a great degree on a conducive framework. This eCommerce framework could be used as a tool to overcome MSME's barriers to international trade, could help countries to develop eCommerce services, and could guide private sector developers who are seeking to meet the needs of MSMEs in the trade sector. Moreover, despite the impressive track record of large companies in trade, evidence shows⁴ that medium-sized enterprises are becoming increasingly important in international trade and have significantly contributed to exports in European countries; the most evident examples of this are in Germany. This means that companies do not have to be large, but rather they need to be large enough to overcome international trade barriers and undertake global operations. This further emphasizes the importance of a framework that would help MSMEs lower their trade barriers. Such a framework could also support trade agreements which contain eCommerce clauses or be used as a blueprint for the further development, or integration, of already established trade platforms such as Single Submission Portals⁵ and other trade community systems.

8. In this paper, an eCommerce framework—Integrated Services for MSMEs in International Trade (ISMIT)—is proposed. This framework will enable MSMEs to have greater access to existing trade facilitation measures and cater to their specific needs.

II. The international trade barriers faced by MSMEs

9. MSMEs typically focus on domestic markets, which are usually highly competitive with many MSME players. They have cost and scale limitations and their orders are small

³ Cross-border eCommerce is defined as online-initiation; cross-border transaction/shipment; and destined to consumers (commercial and non-commercial).

⁴ Navaretti, Giorgio Barba, et al. (2011). The Global Operations of European Firms. The Second EFIGE Policy Report. Bruegel Blueprint Series, Vol. 12, p. 38. Available as of January 2020 at: https://www.researchgate.net/profile/Fabiano_Schivardi2/publication/277047603_The_global_operations_of_European_firms_The_second_EFIGE_policy_report_Bruegel_Blueprint_12_July_2011/links/55c6660508aebc967df5370f/The-global-operations-of-European-firms-The-second-EFIGE-policy-report-Bruegel-Blueprint-12-July-2011.pdf

⁵ See UNECE Recommendation N°37: Single Submission Portal (ECE/TRADE/C/CEFACT/2019/6). Available as of January 2020 at: https://www.unece.org/fileadmin/DAM/cefact/cf_plenary/2019_plenary/ECE_TRADE_C_CEFACT_2019_06E.pdf

and scattered. Their abilities and potential to access international markets are constrained by several obstacles, which are described below.

A. Difficulties in dealing with import and export regulations and procedures

10. Multinational corporations are usually well established with a worldwide reputation and operate in foreign markets via their branches with local employee assisting in compliance with local laws. Due to resources and personnel constraints, MSMEs often lack expertise in international trade procedures, local regulations, customs rules and other compliance matters. As a result, it is quite common for MSMEs to see shipments being delayed or denied clearance due to non-compliance. The consequence can be costly, including additional time costs, and can sometimes lead to loss of contracts, damage to goods and exposure to litigation.

B. Lack of access to trade finance

11. Banks often have very limited information with which to evaluate the credit worthiness and international trade performance of MSMEs, especially in developing countries. With limited information, banks usually give MSMEs a low credit ranking and consider the establishment of Letters of Credit to finance MSME transactions to be risky and expensive.

12. As an alternative, many MSMEs trade on open accounts, which is a very risky strategy—especially because small companies often have limited access to information on the progress of the trade transaction once the goods have left the country and have no means to intervene if problems arise. This can lead to payment delays or even a complete loss of payments.

C. Lack of access to quality logistics services

13. To reach foreign markets, an MSME needs to rely on a competent logistics provider that can offer integrated door-to-door services and can act as an intermediary with customs and other authorities. Due to the small volume of MSME shipments, reputable logistic services are often not accessible to MSMEs, or only at a premium price.

D. Lack of access to other quality business services essential for international trade

14. These include a range of services in areas such as insurance, marketing, packaging, warehousing and others. This is particularly important in developing countries where, overall, the service sector is less developed.

E. Limited access to advanced eBusiness solutions

15. International trade relies increasingly on advanced eBusiness solutions such as traceability or digital accounting systems. MSMEs lack access to many of these systems, primarily because of the lack of income or technical skills, the low volume of their international trade, their capability to leverage the systems, etc. Instead, they often find themselves relying on manual procedures and the exchange of paper documents, especially in developing countries. These procedures are cumbersome, error prone and often lead to

non-compliance with export and import regulations and repeated submissions of documents—thereby increasing the costs and risks for all parties involved.

F. Lack of professional skills

16. Again, unlike multinational corporations that can afford to establish foreign branches or long-term contractual arrangements with local counterparts, MSMEs often lack the professional knowledge and experience related to regulations and procedures for customs clearance, finance, evaluation and other aspects of business and trade management. This is due to their low volume of international trade, lack of resources and personnel constraints and lack of channels to communicate with regulators, banks, logistics providers, etc.

17. Taken together, the above obstacles have created a glass ceiling for MSMEs who participate in international trade. An MSME may only be able to break through this ceiling at a prohibitive cost and with many potential financial and reputational risks.

III. What does the ISMIT concept mean?

18. ISMIT provides services for MSMEs to conduct cross-border trade. It may be a separate eCommerce platform for services, or it may be integrated into a larger business-to-business (B2B) or business-to-consumer (B2C) eCommerce platform. Figure I shows, schematically, the ISMIT platform concept and its interconnectivity with existing trade facilitation platforms such as the National Single Window (NSW). ISMIT can be considered as a type of Single Submission Portal⁶ tailored specifically to support MSMEs in some situations.

19. It seeks to eliminate or significantly reduce the barriers enumerated above. ISMIT combines the competitive advantages of MSMEs as small players (niche products, access to local expertise and low production costs) with the scalability and strength of large enterprises and large eCommerce platforms that can realize economies of scale—and it can provide expertise on international trade requirements. ISMIT integrates these advantages by using eCommerce technology and electronic information exchange as an enabler. ISMIT platforms can connect to other ISMIT platforms, establishing a network to provide services for multiple MSMEs from different countries.

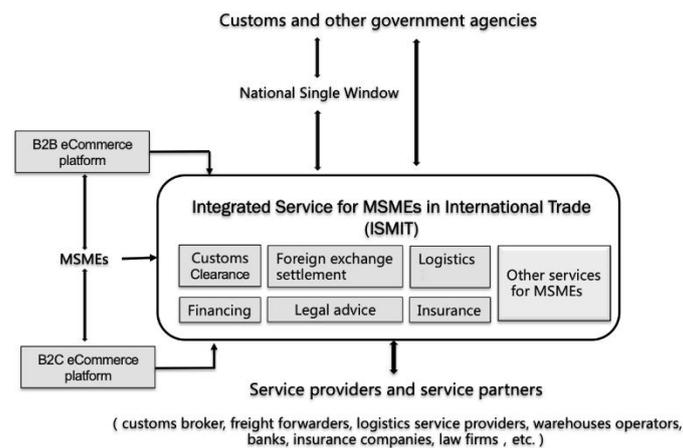


Figure I: ISMIT environment

⁶ Ibid.

20. An ISMIT can potentially provide MSMEs with fully integrated electronic support services for the complete cross-border trade transaction. This includes access to logistics service providers, financing services, insurance services as well as regulatory services that can either be through connectivity to a National Single Window or directly to customs for export and import declarations and to other relevant government websites. Information from different stakeholders is collected by the ISMIT platform, which coordinates the information flow in order to facilitate the trade transaction.

21. Information is provided by MSMEs and their potential clients and can then be coordinated through ISMIT to the relevant service providers and service partners according to the requested services by the MSME, such as customs brokers, freight forwarders, logistics service providers, warehouses operators, banks, insurance companies, law firms and other professional resources. The identity and the quality of service of the service providers and service partners may be verified by ISMIT.

22. Since all relevant parties (service providers and service partners) are connected to the ISMIT platform, potentially an MSME could use the platform to trace its trade transactions from the time the goods leave the factory or warehouse to the time the goods are delivered to the door of the customer in the foreign country. This traceability is not limited by where the goods are or where they are going. Rather, the ISMIT platform can provide MSMEs with all the information needed for tracking the progress of the trade transaction, visualizing which administrative and commercial processes have been completed, as well as knowing the status of the current process and which processes still lie ahead.

23. ISMIT can also facilitate MSME access to trade financing provided by banks. For example, through the ISMIT, MSMEs could provide banks with an online tool to track past and current trade transactions. Transparency and electronic information flows reduce the lending risk for banks, leading to improved credit ranking and better borrowing terms for the MSME.

24. The business model of an ISMIT platform can adapt to different trade environments and business service requirements of MSMEs in different countries. For example, in one country the main challenge may be the time of clearance, whereas in another it may be the cost of logistics and insurance services. The organizational and financial model can be private-driven or a Public-Private-Partnership (PPP) according to different trade environments in different countries.

IV. What are the benefits to the public sector and the private sector?

25. The ISMIT platform offers significant benefits to stakeholders in international trade:
- Government agencies will benefit because ISMIT can interface, on behalf of the MSME, with the automated National Single Window and Customs systems in the importing and exporting countries. In addition, government agencies can receive high quality and reliable information, submitted according to the standards and formats required by the relevant government agency.
 - MSMEs can focus on their core competence areas and reduce the time, risk and cost of customs clearance, logistics, etc. By using ISMIT services, the MSME can outsource the management of non-core activities (such as customs clearance and the logistics of international trade processes) to ISMIT and the specialized service providers that are connected to the system. At the same time, the MSMEs will receive full information and maintain control of the trade transaction.

- Banks can gain customers from the MSME sector, while controlling risks through greater transparency and more reliable data from ISMIT consolidation services. These services would provide banks with better credit rankings for MSMEs, with information on trade transactions readily available through an ISMIT platform.
- Logistics and transport service providers can gain customers from the MSME sector via ISMIT consolidation services. Instead of a small volume shipment from the MSME, ISMIT could consolidate and aggregate the requests and orders of MSMEs into a large volume shipment for logistics and transport service providers. Through ISMIT, transporters could also receive information electronically, which helps them to reduce transport costs and time.

V. Examples of how ISMIT can address the international trade barriers faced by MSMEs

A. Reduced business transaction costs for MSMEs

26. One vision for ISMIT is to support the participation of MSMEs in international trade with lower costs and higher efficiency. An ISMIT may have physical service centres which MSMEs can visit to obtain assistance for document filing and regulatory compliance matters. However, all essential information can be provided electronically by MSMEs without any formal training needed. MSMEs will not need to recruit staff specialized in international trade, which saves human resources and management costs for MSMEs.

B. More inclusive international eCommerce

27. Through the standardization and integration of international trade services, ISMIT can help MSMEs to expand and reach out to foreign markets and to comply with local laws in foreign markets. As a result, more and more MSMEs will be able to participate in international trade with more efficient and faster clearance.

C. Better cash flow

28. Through ISMIT, MSMEs can obtain financing faster with better terms, resulting in better cash flow and financial position which, as a result, enhances the ability of MSMEs to get orders.

D. An established credit system for MSMEs

29. Through ISMITs, transaction big data can be accumulated, and an international eCommerce big data credit system could be established. Buyers and sellers could rely on this credit system to make deals and reduce the transaction consultation cycle.

VI. The relationship between ISMIT and Trade Facilitation

30. ISMIT provides MSMEs with an integrated cross-border service, which greatly facilitates trade transactions for MSMEs. When dealing with ISMIT, the trader can use the data formats with which they are familiar. The ISMIT can then reformat these in order to conform with standards and data requirements used in international trade.

31. For example, ISMIT could ensure that data is submitted based on “one-time entry” of each data element, using United Nations recommended code lists and implementing international trade standards. While MSMEs can submit information to the ISMIT platform manually, using online applications, the ISMIT platform can then provide the same data to other systems using international eBusiness standards.

32. ISMIT may also contribute to the National Single Window (as defined in UNECE Recommendation N°33) under the WTO Trade Facilitation Agreement (TFA). As an interface between MSMEs and National Single Windows, the ISMIT platform can reformat all information to the regulatory standards defined nationally.

VII. ISMIT principles

33. The base principles of an ISMIT platform include the following:

- ISMIT platforms are inclusive and open to participation from all MSMEs and all trade-related service providers such as customs brokers, freight forwarding and logistics service providers, warehouses, export agencies, banks, insurance companies, law firms and other professionals.
- The establishment of an ISMIT platform in all the countries of the world should be encouraged.
- ISMIT platforms can be designed to support all forms of cross-border trade when needed.
- ISMIT platforms can be completely private commercial services or they can be Public-Private Partnerships; in either case, they should not be established as monopolies.
- ISMIT platforms should provide an environment that encourages competition among service providers/partners, such as transporters and banks, in order to ensure the best prices and service levels.
- ISMIT platforms should support the provision of quality services to MSMEs. This can be done, for example, through service agreement management, service quality management, risk control management, vendor (agency) entry and exit mechanism management, auditing management for imports and exports, coordination management, etc.

VIII. Implementation Guidelines: best practices when establishing an ISMIT

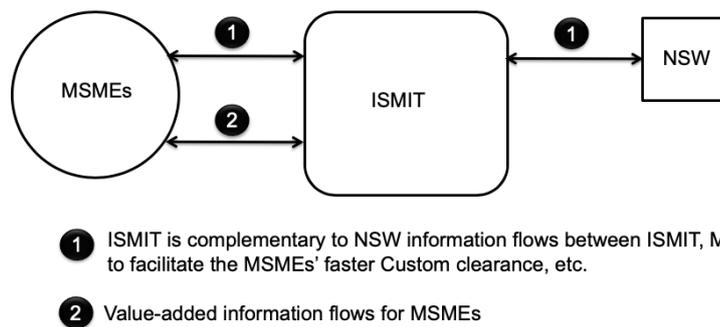
34. Governments that aim to develop policies and tools to enable MSMEs to access global markets should adhere to the following principles:

- Optimize the business environment which allows ISMIT platforms to provide services to MSMEs by cooperating with the service providers of cross-border trade such as customs brokers, freight forwarding and logistics service providers, warehouses, export agencies, banks, insurance companies, law firms, etc. Rights and responsibilities should be clarified for ISMIT, MSMEs, and service providers.
- Encourage an environment of free competition between platforms that offer ISMIT services. This should be considered under the national trade development agenda on how to leverage the services provided by ISMIT to enable MSMEs to access quality

trade-related services at a reduced cost, which would result in increasing the competitiveness of MSMEs in international market.

- ISMIT service provider should support national eGovernment strategies, for example by proposing an entry point into the National Single Window and other relevant systems of government agencies.
- Ensure that there is an appropriate legally-enabling environment that recognizes the exchange of information electronically, electronic signatures, and includes the provision of related infrastructure.

IX. The relationship between ISMIT and the National Single Window



- 1 ISMIT is complementary to NSW information flows between ISMIT, MSMEs and NSW to facilitate the MSMEs' faster Custom clearance, etc.
- 2 Value-added information flows for MSMEs

Figure II: Relationship between ISMIT and the NSW

35. As shown in Figure II, since the majority of MSMEs are not capable of providing standardized information and documents to a National Single Windows (NSW), ISMIT can act as a trusted third party between them. That is, MSMEs provide the essential and non-standardized information to ISMIT; ISMIT (as an information exchange platform) can then transform it to standardized information and documents and submit it to a National Single Window (NSW).

36. For example, ISMIT can provide the following information exchange services between MSMEs and NSWs:

- Information collection and submission related to customs clearance
- Information collection and submission related to foreign exchange settlement
- Information collection and submission related to Value Added Tax (VAT) refund

37. As shown in Figure II, another difference between ISMIT and NSWs is that ISMIT is also a value-added commercial services platform for MSMEs to obtain better services from multiple service providers connected to the ISMIT such as insurance companies, banks, etc., which traditionally prioritize large companies over MSMEs.

38. If a country does not have an NSW, then an ISMIT platform can communicate with multiple government agencies to provide related information exchange services. Furthermore, multiple ISMITs could coexist within a country or a single economy.