Making trade facilitation and standards implementation work for MSMEs: What lessons to draw from the COVID-19 crisis?

Evidence from UNECE’s impact assessments
Up to 2000 micro, small and medium enterprises (MSMEs) engaged in manufacturing and agriculture along with main freight forwarders operating in the five countries.

The transmission channels of the pandemic’s effects on the economy and the influence of non-tariff measures (NTMs) governing trade in goods on these channels.

Supply chain disruptions and their impact on trade activities.

The MSMEs’ coping strategies: how they used their assets to maintain operations.

The ripple effects of trade disruptions on the economy, including those generated by the MSMEs’ coping strategies.
UNECE COVID-19 Impact Assessments

Grounded in intimate knowledge of the impact of NTMs on trade and structural transformation

- Review of laws and reform plans
- Analysis of regional dynamics
- All supply chain actors
  - Actor-oriented questionnaires

- National ownership:
  - Consultations with public and private stakeholders

- Action-oriented recommendations for guiding UNECE’s capacity building
NTMs Harnessed for Curbing Supply Chain Disruptions

Minimum restrictions to address shortages

Temporary export bans on personal protective equipment (PPE) and certain pharmaceutical products.

Temporary export bans on certain food items.

Trade facilitation measures to generate efficiency gains

Transparency measures: Online publication of new NTM regulations. Call centres and online inquiry points.

Cutting down red tape:
Simplification of procedures for issuing trade documents.

Priority treatment for critical imports (food, animal feed, sanitary products and medical equipment): Green corridor.

Exemptions to ease the financial pressure

Temporary customs duties exemptions on certain imported PPE, pharmaceutical and medical products.

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
Resilient Versus Vulnerable MSMEs

**MSMEs requiring emergency support**
*(% of total respondents)*

- Yes, a lot: 43%
- Yes, a little: 34%
- No: 23%

**MSMEs’ emergency needs to maintain operations**
*(% of total respondents)*

- Supplementary grants for salaries: 52%
- Interest-free loans: 45%
- Direct cash injection: 31%
- Technical unemployment payments: 8%
- Loan payment deferral: 22%
- Rebates on electricity bills: 14%
- Rebates on rents: 11%
- Tax payment deferrals: 30%
- Advice: 30%
- Temporary suspension of tax payments: 32%
- Loan payment deferral: 22%

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
MSMEs’ Coping Strategies

Social responsibility

Pre-occupied with employees’ welfare

Salary cuts and putting staff on furlough were implemented on a limited basis.

Top management assumed the brunt of salary cuts.

Layoffs as a measure of last resort.

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
**MSMEs’ Coping strategies**

<table>
<thead>
<tr>
<th>Preemptive</th>
<th>Erosive</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <em>Combined shipments (with other MSMEs)</em> to reduce road transport costs.</td>
<td>• <em>Deferred business payments</em>, particularly loan repayments, utility bills (including electricity, internet and phone bills), wages and rent payments.</td>
</tr>
<tr>
<td>• <em>Refocused exports towards new destinations</em> away from destinations included in national lists of highly affected countries.</td>
<td>• <em>Owners used their personal savings</em> to cover business expenses, to the detriment of their households’ welfare. The owners had to cut back on, among other things, school tuition, medical bills and food expenditures.</td>
</tr>
<tr>
<td>• <em>Renegotiated delivery deadlines</em> with long-standing international buyers.</td>
<td></td>
</tr>
<tr>
<td>• <em>Arranged shipments in January-February proactively</em> before the pandemic placed stress on transport operations.</td>
<td></td>
</tr>
</tbody>
</table>

**Assisted by Customs (hotlines), enterprise support institutions (free advice) and freight forwarders**

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
Increased Economic Vulnerability

- Increased debt burden
- Reduced productive capacity
- Deterioration of household welfare

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
The Resilient MSMEs

• Already implementing international standards, or
• Regional harmonized standards, particularly the European Union (EU) harmonized standards (ENs)

• Hazard analysis and critical control points (HACCP) – many food producers

• Many were Authorized Economic Operators (AEO)
• The remaining were experienced exporters with successful track records

Equipped to withstand the COVID-19 induced economic crisis

Trade Facilitation

Standards Implementation

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
Strengthened Relations of Trust (government and buyers)

• Repurposed production
• Upscaled e-commerce

Subcontracted part of production to other micro and small enterprises

Trade Facilitation

• Efficiency gains (time and financial wise)
• Improved planning (end-to-end supply chain operations), so that risks are mitigated

Standards

• Improved production, leading to quality & efficiency gains (reduced waste)
• Better sourcing decisions
• Presumption of conformity (ENs)
• Goods are not rejected at the borders of destination countries

Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE’s survey of MSMEs (Armenia, Belarus, Georgia, Republic of Moldova and Serbia)
How Standards Implementation Drove Production Repurposing

An example from the Republic of Moldova

• **International standards drove the repurposing** activities of a leading medium-sized textiles manufacturing enterprise, which repurposed to disposable protective clothing for medical personnel after receiving a large purchase order from an EU buyer.

• **The enterprise was familiar with this production line**: long experience in manufacturing disposable protective clothing in the early 2000s (160,000 units/month) under subcontracting arrangements with Kimberly-Clark.

• **Ensured compliance with the EU harmonized standards (ENs)**: Found ISO and ENs-certified suppliers and dispatched product samples abroad for testing by accredited laboratories.

### Standards Implementation Drove Production Repurposing

#### Examples from Georgia

<table>
<thead>
<tr>
<th>Sector</th>
<th>Size</th>
<th>Product</th>
<th>Size of investment</th>
<th>Standards Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metals and fabricated metals</td>
<td>Small</td>
<td>Dowel bars for pavement (New production line)</td>
<td>Zero (repurposed part of the production lines)</td>
<td>ISO 9001:2015 Quality Management Systems</td>
</tr>
<tr>
<td>Metals and fabricated metals</td>
<td>Medium</td>
<td>Face shields and protective plastic dividers for cars</td>
<td>Zero (repurposed part of the production lines)</td>
<td>ISO 9001: 2008&lt;br&gt;ISO 9001: 2015</td>
</tr>
<tr>
<td>Textiles</td>
<td>Medium</td>
<td>Cloth face masks (New product)</td>
<td>Zero (repurposed part of the production lines).</td>
<td>ISO 9001:2015</td>
</tr>
<tr>
<td>Food</td>
<td>Medium</td>
<td>Raisins (New product) instead of salt and pepper</td>
<td>USD 20,000 in machinery equipment</td>
<td>In the process of implementing ISO 9001:2015</td>
</tr>
<tr>
<td>Beverages</td>
<td>Small</td>
<td>Vodka/Chacha (New flavour)</td>
<td>Zero (Repurposed part of the production lines)</td>
<td>ISO 9001:2015</td>
</tr>
<tr>
<td>Food</td>
<td>Medium</td>
<td>Frozen fruits and vegetables</td>
<td>Zero (Repurposed part of the existing lines)</td>
<td>ISO 22000 Food Safety Management System (Combines the ISO9001 approach to food safety management and HACCP)</td>
</tr>
</tbody>
</table>

*Source: UNECE (2020) The impact of COVID-19 on trade and structural transformation in Georgia: Evidence from UNECE's survey of MSMEs*
### Profile of the Resilient MSMEs

#### Drivers
- Own initiative: Invest significant time in exploring growth opportunities
- In most countries, implemented standards without receiving any support
- Integrated into regional supply chains via subcontracting arrangements
- Many are driving national supply chains (contracting parties)
- In some countries, Diaspora constitute the link to international markets

#### Bottlenecks
- High exploratory costs
- Skills mismatch
- Unfair competition from cheaper low-quality products and counterfeits
- Low demand for standards
- High transport costs
- Conformity assessment results are not recognized internationally
- In some countries:
  - Limited appetite for e-commerce
  - High corporate taxes (concern for micro and small enterprises)
  - Quality of electricity supply
Transparency is a major element in reducing MSMEs’ exploratory costs

What lessons to draw?

- **Public-private consultations:** mechanisms for ensuring systemic, continuous consultations

- **Online publication:** One-stop resource center of not only trade related-rules & administrative procedures, but also of user-friendly explanatory brochures highlighting the implications of new/revised rules and procedures for supply chain operations

Source: Unknown Author, licensed under CC BY
What lessons to draw?

**Trade facilitation gaps amplify trade disruptions & weaken business incentives**

**UN/CEFACT Supply Chain Reference Model**
### What lessons to draw?

Quality infrastructure gaps amplify trade disruptions & weaken business incentives

#### Infrastructure, Competence, Management, Environment

<table>
<thead>
<tr>
<th>Technical Regulation</th>
<th>Accreditation</th>
<th>Market Surveillance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Setting</td>
<td>International Standards</td>
<td>Planning Activities</td>
</tr>
<tr>
<td>Development and Harmonization</td>
<td>International Recognition</td>
<td>Performing Procedures</td>
</tr>
<tr>
<td>Implementation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Product Design and Production

<table>
<thead>
<tr>
<th>Standards</th>
<th>Market Placement</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, Development and Implementation</td>
<td>Choosing Conformity Assessment Procedures</td>
<td>Information Exchange with Stakeholders</td>
</tr>
<tr>
<td>Adoption of International Standards and Cooperation</td>
<td>Certification, Inspection, Testing, Verification</td>
<td>Removing Dangerous Products</td>
</tr>
<tr>
<td>Publication &amp; Dissemination</td>
<td>Metrology Conventions</td>
<td>Fighting Counterfeit Goods</td>
</tr>
</tbody>
</table>

#### Regulatory Activities and Dialogue
What lessons to draw?

Enterprise support institutions are a critical element of business incentives

- Strengthen MSMEs' bargaining position
- Shipping councils
  - Linkages programmes to integrate MSMEs into global supply chains (outreach & favorable subcontracting arrangements)
  - Targeted support to help MSMEs pool resources
- Develop MSMEs' Productive capacity
  - Supply chain management and the role of trade facilitation (combine training with coaching)
  - Standards implementation for innovation (combine training with coaching)
  - Access to finance (e.g., participate in credit guarantee schemes)
- Boost MSMEs' exports
  - Advisory services and market information
  - Online marketplaces
What lessons to draw?

In short: A system of incentives for stronger and more resilient MSMEs

- Bolstered transparency
- Common regulatory objectives between different state agencies and with trade partners
- Effective and efficient systems for ensuring health, safety and environmental conservation concerns.
- Interoperability (ICT)
- Effective and efficient procedures grounded in international best practices

- Community of MSMEs capable of reaping emerging opportunities
THANK YOU

Ms. Hana Daoudi
Economic Affairs Officer
Market Access Section
Economic Cooperation and Trade Division
hana.daoudi@un.org
www.unece.org

UNECE COVID-19 impact assessments and studies on regulatory and procedural barriers to trade are available at:
https://unece.org/trade/studies-regulatory-and-procedural-barriers-trade