



**Asia-Pacific
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Inclusion of SMEs in Authorized Economic Operator Programs Within APEC Economies

Submitted by: IDB



**Workshop on Integrating SMEs in Authorized
Economic Operators Programs in Asia Pacific
Region: Improving SMEs' Participation in APEC
Secure Trade
Puerto Varas, Chile
16 August 2019**

Inclusion of SMEs in AEO programs within APEC Economies

Financed by the IDB, Integration and Trade Sector (INT), in support of the efforts of the Sub-committee on Customs Procedures (SCCP)
In collaboration with Customs from Chile.

APEC WORKSHOP

*“Integrating SMEs in Authorized Economic Operators Programs in Asia Pacific Region:
Improving SMEs Participation in APEC Secure Trade”*



Puerto Varas, Chile
August 16th, 2019



Objective and Scope

SMEs integration in AEO Programs

- **Context**
 - Worldwide
 - APEC region
- Survey Results
- Best Practices
- Challenges and Recommendations

15 out of 21 Economies responded the survey: Australia, Chile, China, Hong Kong-China, Japan, Malaysia, Mexico, New Zealand, Peru, Thailand, Singapore, Chinese Taipei, Thailand and Papua New Guinea.

SMEs are the backbone of business activities across the world, and together with large enterprises and multinationals, significantly contribute to the global economy.

SMES TO THE WORLD

According to the OECD (2019):

- **SMEs represent 99% of all businesses generating about 60% of employment** and totaling between 50% and 60% of value added in the OECD area.
- **They are responsible for an average of 33% of exports** in selected developed economies and 18% in selected developing economies.
- Nonetheless, **the vast amount of bureaucracy in trading internationally falls on SMEs.**
- **Trade costs of SMEs in low-income economies were equivalent to a 219 percent ad valorem tariff**, which was 85 percentage points higher than for high-income economies. (World Trade Report. 2015)



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SMEs play a relevant role nationwide, and increasingly in the global trading system, their internationalization is key to realizing inclusive growth and development.

S M E S I N A P E C

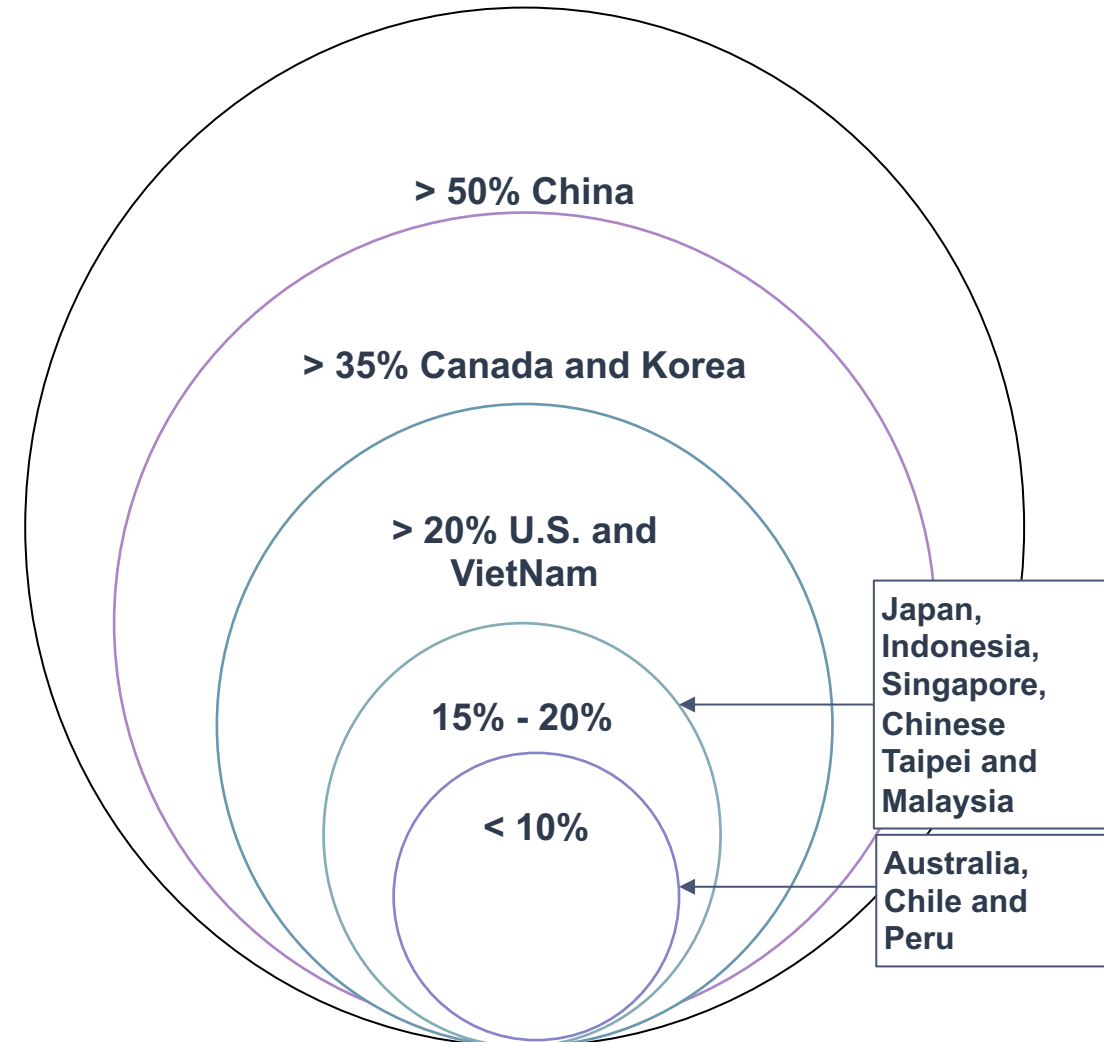
- Over **97%** of enterprises in APEC economies are SMEs .
- Besides direct exports, SMEs mainly engage in activities of indirect exports.
- A small but increasing number of **SMEs are suppliers** in the global supply chains with intermediate goods and services.
- Hence, **analyzing direct exports alone, might underestimate SMEs' export capacity**.
- **SMEs** are also playing a **relevant role in E-commerce**.

Source: Information and graphics obtained from the APEC Policy Support Unit, Policy Brief N° 8- SMEs in the APEC region.

Analyzing SMEs share in direct export value in the APEC region, demonstrates that in most economies it represents less than 20%.

S M E S I N A P E C

- Based on available data from APEC, **only in China SMEs' share in total exports exceeded 50%.**
- SMEs in **Canada and Korea had a relatively high share in total exports at 41% and 35%, respectively.**
- **Thailand; the U.S.; and VietNam fell in the bracket of 21% to 30%.**
- The share of SMEs in total exports ranged from **15% to 19% in Japan; Indonesia; Singapore; Chinese Taipei; and Malaysia.**
- **In Australia, Chile and Peru, SMEs accounted for less than 10% of total export**



Source: Information and graphics obtained from the APEC Policy Support Unit, Policy Brief N° 8- SMEs in the APEC region 2013.

Regarding employment, SMEs account for a significant portion in APEC economies; mostly above 50 percent.

SMES IN APEC

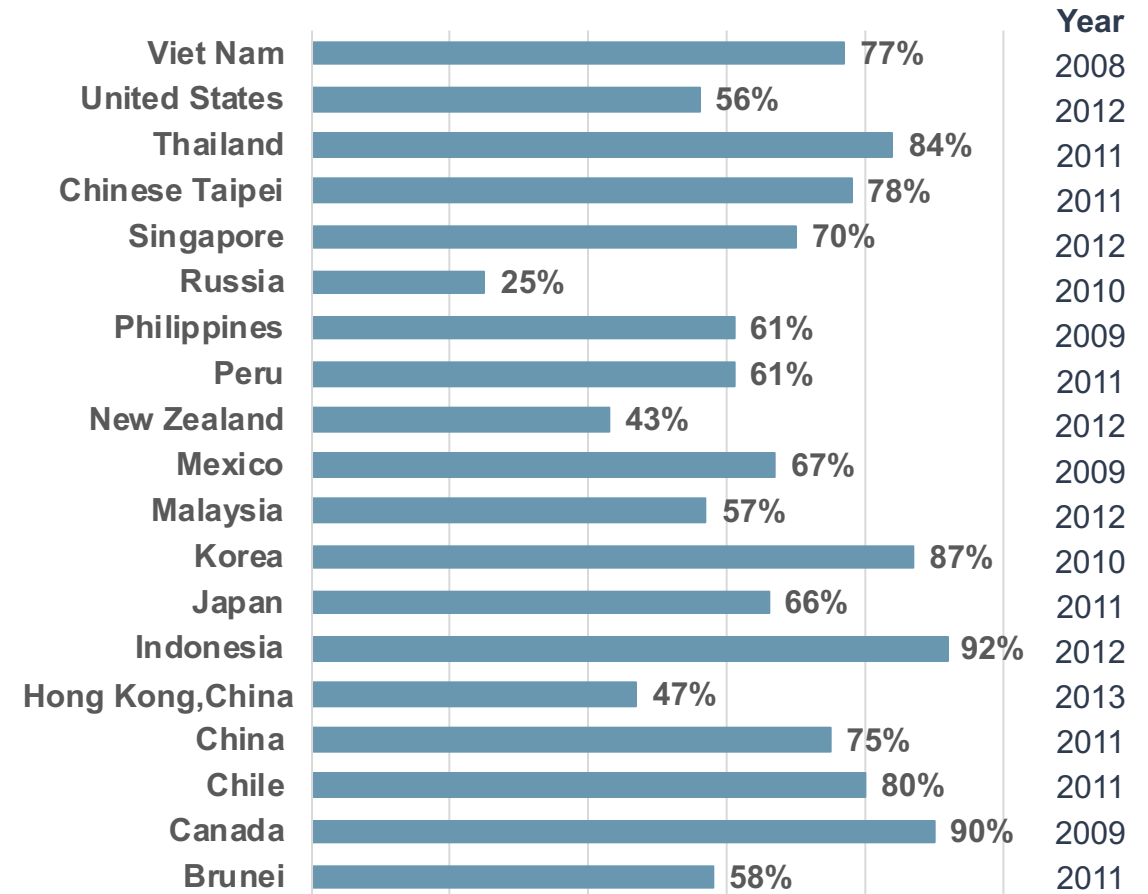
In general at least one of the following four criteria have been used by Economies to define an SME:

1. Number of employees
2. Annual sales of revenue
3. Assets, and
4. Capital or investment.

Most APEC economies **use number of employees as a criteria, but the caps vary considerably** from 20 employees in New Zealand to 1000 employees in China.

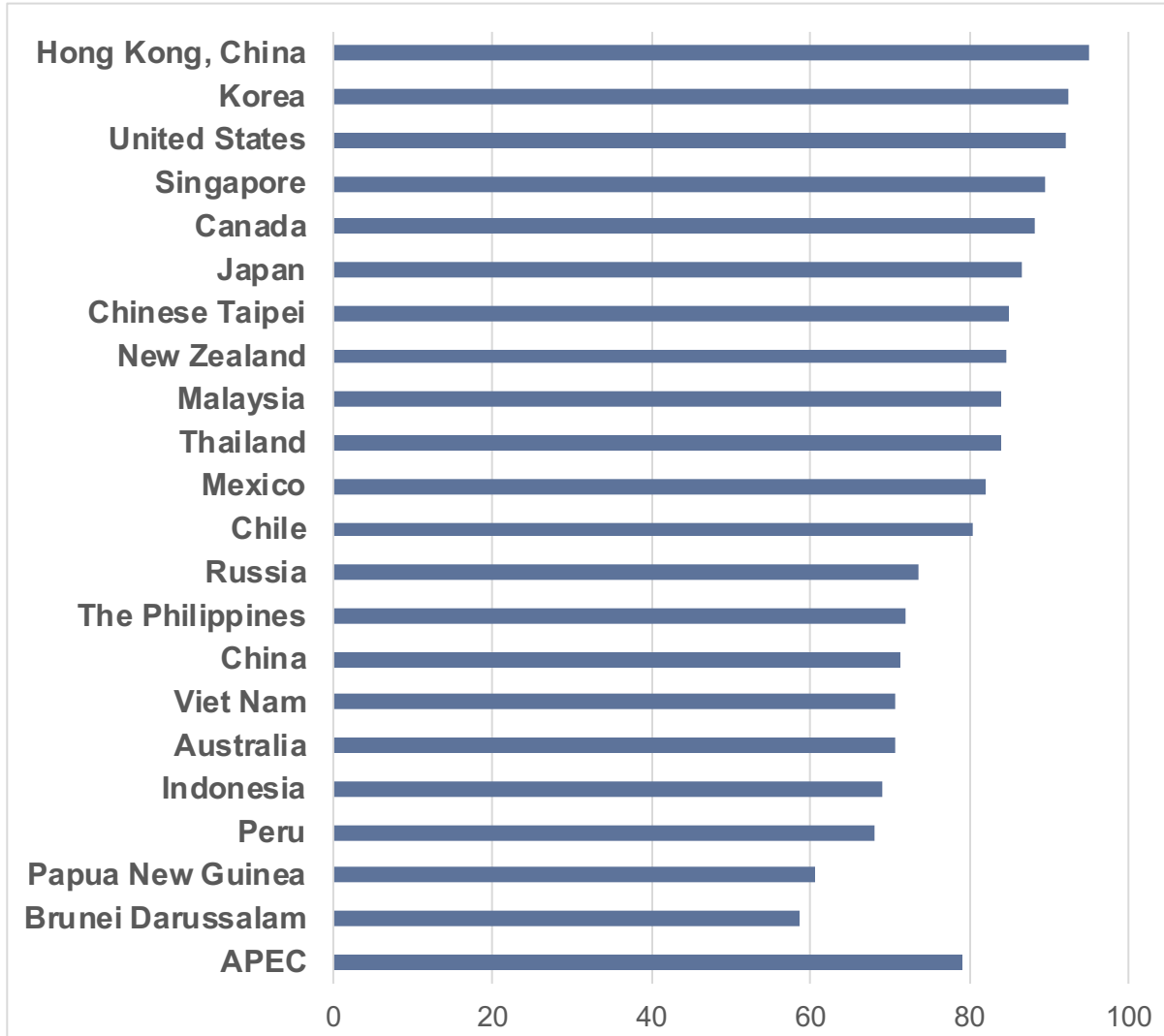
In contrast, **the IFC (2012) defines SME as a registered business with less than 300 staff**, and further categorizes it into a micro, small, or medium enterprise; and **the UNDP defines SMES with less than 200 employees.**

SMEs account for a significant portion of employment



The ease of doing business in the APEC region is rated 79, being Hong Kong, Korea and the U.S. the highest on the list. (World Bank 2018)

EASE OF DOING BUSINESS IN APEC



Source: WTO and World Bank and International Finance Corporation, Doing Business, various annual editions.

- The WB Doing Business annual report provide a quantitative measure of business regulations and the protection of property rights.
- **Most APEC Economies are ranked above 80 on their efforts to ease doing business.**
- **Nonetheless, SMEs are more vulnerable to difficulties and bureaucracy on their path to doing business.**
- It is imperative for Economies to promote a regulatory environment that fosters and promotes SMEs trading across borders.

SMEs for APEC. The goal is to encourage their development and build their capacity to engage in international trade, as engines of growth and innovation.

EFFORTS BY APEC ON SMES

SMEs account for over 97 per cent of all business and employ over half of the workforce across APEC economies.

Additionally, **SMEs contribute between 20 and 50 percent of GDP** in the majority of APEC economies.

General initiative in APEC

SMEWG Strategic Plan 2017-2010, provides a roadmap to address critical issues pertaining to the growth of SMEs and micro enterprises (MEs) in the APEC region (including entrepreneurship, innovation, financing and market access).

Initiative within the SCCP

The Boracay Action Agenda to Globalize MSMEs. Priority **areas of cooperation**: Trade facilitation, trade finance, e-commerce, and institutional support. On AEO, the goal is to **widen the base of AEOs to include SMEs** for them to contribute to security, integrity and resiliency in supply chains.

AEO programs can aid in the integration of SMEs into the global value chains by simplifying customs administrative process and enhancing their trading capabilities

EASE OF DOING BUSINESS IN APEC

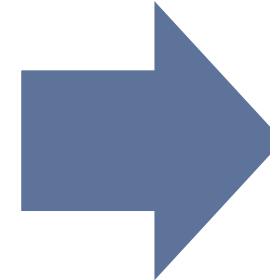
According to OECD (2015), **the area that would contribute most towards lowering trade costs is formalities:**

- Simplification of trade documents, and
- Streamlining and automation of border processes

This could save costs in the order of 2.8 to 4.2 %.

Also expected to lower average time to import and export, around 50 % for imports.

These drastic time and cost reductions can make it cheaper for existing traders to operate and also encourage new firms to trade.



- This is an **opportunity for AEO programs in Customs to aid on trade facilitation for SMEs**, and even more so, in coordination with other Border Agencies.
- Particularly for SMEs, if these are included in the programs, with specific requirements and benefits.

Objective and Scope

SMEs integration in AEO Programs

- Context
 - Worldwide
 - APEC region
- **Survey Results**
- **Best Practices**
- Challenges and Recommendations

The 15 Economies surveyed confirmed SMEs have access to the AEO program.

CONTEXT AND SME INCLUSION IN AEO PROGRAMS

SMEs in AEO Programs

- From the definitions provided by certain Economies, **SMEs have two particularities: must have less than 100 employees on average** and a significant **lower annual revenue** in comparison to large enterprises.
- **For Australia it's less than 17 MUSD, 4 MUSD for Chile, 3 MUSD for Chinese Taipei, 6.5 MUSD in Thailand and 72,000 USD in Malaysia.**

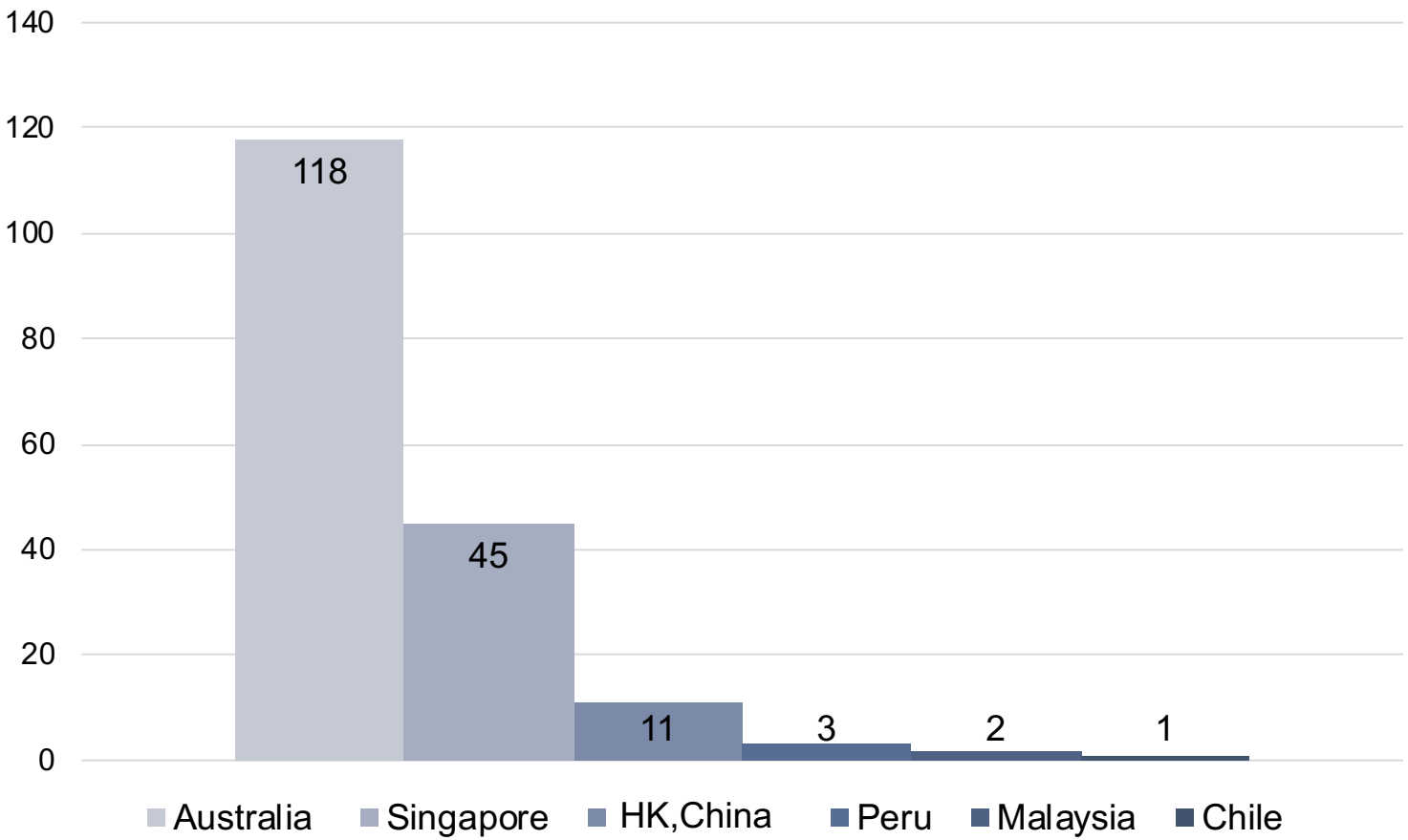
- **9 out of 14 Economies indicated to have Associations for SMEs.**

- **None of the Economies provide specific benefits.**
- Regarding requirements for SMEs to meet, **only in Australia SMEs have a different risk profile to larger businesses.**
- **Hong Kong, China** was the **only** Economy who indicated **additional benefits** are provided **for AEO** certified companies that **actively promote AEO certification among SMEs providers.**
- Only two Economies, **Hong Kong-China and New Zealand** have **developed and implemented outreach strategies** to increase and promote the **inclusion of SMEs.**

Australia and Singapore are the Economies with more SMEs certified as AEOs

SMES LEVEL OF PARTICIPATION IN APEC ECONOMIES

SMEs certified as AEO per Economy



- According to the survey, only **six APEC Economies** have identified the specific number of SMEs who have been certified and/or are in the process of becoming AEOs.
- **180 SMEs** have been reported as AEO certified in the region
- **74 more** are still undergoing the process to become AEOs in **Australia** and **1 in Hong Kong, China.**

More than 50% of the companies, who answered the survey, indicated to be SMEs, having less than 40 employees on average.

REMARKS ON SMES FROM THE PRIVATE SECTOR

- The **questions** asked **focused on wheatear Customs provides additional benefits for AEOs who actively promote the certification among SMEs** providers and overall share their **recommendations** on how to **promote and engage SMEs** enrolment in the program.

- The companies who answered the survey ranged from **manufacturers, belonging to various sectors, consulting firms, carriers and associations.**

Comments from the Private Sector on SMEs

- Current and potential AEO entities are requesting **real inclusion of SMEs** into the program asking Customs to **reduce the costs for applying** as well as to **stress the advantages**, such as saving time and expenses, as a result of the certification.
- **Over 50%** of the responses indicated **Customs does not provide additional benefits for AEO certified companies that actively promote AEO certification among SMEs providers.**

In general AEO programs are open to SMEs, but not designed to consider their specific circumstances, nonetheless best practices were still identified

BEST PRACTICES

Establishing a differentiated system targeted at SMEs who seek to become AEOs, as well as providing assistance during the entire accreditation process.

In Chile the AEO program was designed specifically for SMEs.

To cope with the needs of SMEs, the C&ED of Hong Kong-China grants AEO status to qualified companies in two tiers to allow SMEs to meet the accreditation requirements gradually. Besides, it actively provides assistance and guidance to SMEs throughout the course of accreditation. An Account Manager is assigned to provide sufficient guidance and advice.

Working together with the private sector to increase the participation of SMEs in the AEO program.

The C&ED of Hong Kong-China and SME-related associations regularly co-organize joint seminars to encourage more companies to participate in the Program.

Cont.

BEST PRACTICES

Promoting cooperation and **active participation of Associations that advocate for the needs of SMEs**, and provide assistance on how to successfully become AEO operators.

*In **Hong Kong-China** numerous industry and trade associations are functioning well providing SMEs with necessary assistance.*

*In **New Zealand**, the Small Business Council comprises 13 members and 4 government advisors, providing secretariat support to the Council which seeks to support SMEs. There are also a number of associations by sector initiated by SMEs.*

Objective and Scope

SMEs integration in AEO Programs

- Context
 - Worldwide
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- Survey Results
- Best Practices
- **Challenges and Recommendations**

Several challenges have to be faced for SMEs inclusion on AEO certification

CHALLENGES

Low SMEs participation in AEO programs decreases the value-added of the initiative, especially since in some cases the vast majority of a supply chain may be composed of SME operators.

- 1 Since **SMEs** trade volume is small per enterprise, their **participation in the AEO Program may not be as attractive for current Customs KPIs related to trade.**
- 2 **SMEs lack in general, a supply chain security culture**, hence no procedures are implemented at all and the targeting and outreach programs have to be tailor made.
- 3 **SMEs have limited access to financing and resources**, limiting their possibilities to dedicate time and money to to meet AEO requirements and implement the Program.
- 4 From the perspective of SMEs, the **certification is not attractive, due to the lack of specific benefits.**
- 5 **Access to information and cost-free tools are limited.**
- 6 **Associations involved with SMEs are not actively participating on AEO and secure trade initiatives.**



A set of recommendations on different aspects have been identified from the IDB study, highlighting the following:

RECOMMENDATIONS



- ① When possible, agree on a **specific definition** for what constitutes an **SME**.
- ② Develop a **tailored program for SMEs, with specific requirements and benefits, considering their role on imports and indirect exports.**
- ③ **Consider in Actions Plans a goal for SMEs inclusion**
 - Set a realistic goal according to SMEs already involved on the Global Value Chains
 - Strengthen institutional support to help SMEs overcome regulatory and procurement hurdles
 - Include data request in the application, to recognize AEOs and relevant information, such as: number of employees, assets, sector, provider of an AEO company, etc.
 - Develop and measure KPIs to monitor applications, certifications granted and identify reasons for denial in order to develop specific capacity building and outreach programs.
- ④ **Allow prior consultation for SMEs'** before submission of the application.
- ⑤ **Expedite, when possible, AEO authorization examinations to SMEs** through multiple procedural preferential provisions.

Cont...

RECOMMENDATIONS

- 6 **Implement an outcome-based approach for SMEs** by asking operators to demonstrate how they intend to comply with the minimum standards and by working with them to achieve mutually acceptable criteria.
- 7 Websites are important sources of information. Customs must **provide explanatory information**, specify preferential requirements and benefits to inform and prepare SMEs
- 8 **Identify common barriers associated when going through import and export procedures** and complying with rules and regulations, **in order to select adequate benefits**, also considering digital trade.
- 9 Provide **capacity building programs to strengthen SMEs capabilities** for a secure and globalized trade.
- 10 **Enhance public-private sector collaboration to support SMEs certification**, particularly with SMEs associations
- 11 **Foster collaboration between SMEs and large enterprises** by providing additional benefits when trading with certified SMEs or aiding in their certification process.



Thank you for your kind attention

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