

Deb Henretta
ABAC Chair 2011

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The Honorable
Francisco Sanchez
Chair, APEC SME Ministerial Meeting &
Under Secretary for International Trade
Department of Commerce
United States

Dear Under Secretary Sanchez:

On behalf of the APEC Business Advisory Council (ABAC), I would like to share our key recommendations related to small, medium and micro-enterprises (SMMEs) and entrepreneurship. This letter responds to nine areas identified by APEC as barriers to SMME cross-border trade. Of these, ABAC has prioritized critical areas to business.

The most fundamental challenge faced by SMMEs remains access to finance. ABAC recommends that SME Ministers promote and implement reforms to ensure a clear legal infrastructure for lending, including more predictable rules for secured lending and related innovative financial solutions, as well as fully transparent credit information systems which will incentivize lenders to significantly expand more affordable credit to SMMEs in the region. ABAC is holding specific workshops this year to develop capacity building activities that APEC could spearhead to help member economies bring about these improvements and foster greater access to credit for SMMEs along with strengthened market-based risk disciplines for lending institutions. We recommend that SME Ministers be mindful of developments in G20 and Basel III and ensure that these issues like the new capital framework do not increase the cost of, or limit access to, finance.

ABAC encourages enabling frameworks for start-ups that make available alternative financing such as venture capital and micro-finance solutions. There are considerable benefits from closer public-private sector partnerships in seeding the formation of innovation-based micro-enterprises through co-investment approaches such as matching government grants or initial funding schemes.

The second major issue for SMMEs is the lack of capacity to internationalize and difficulty in identifying foreign business opportunities. Consistent with last year's recommendation, we recommend that APEC create market knowledge centers; encourage the participation of domestic SMMEs in multinational supply chains; and promote better use of online technology and improve ICT infrastructure. Further, we ask governments to keep SMMEs in mind when setting trade liberalization policies and agreements, especially in the context of next generation agreements.

The third major issue is the need for transparency and open business environments. As they venture into foreign markets, SMMEs are consistently faced with varying requirements.

Challenged by limited resources, an open and transparent business environment lowers costs associated with handling different policy and regulatory requirements. ABAC continues to support initiatives that promote open and transparent business environment such as the APEC Transparency Standards and the Santiago Commitment to Fight Corruption and Ensure Transparency. In addition, ABAC recommends continuing the development of voluntary codes of ethics for the medical device industry and following on with other identified industry sectors.

The fourth major issue is the inability to protect intellectual property rights (IPRs). Identifying sources of infringement and pursuing remedies are costly, technically difficult, and lengthy tasks. SMMEs, especially in developing economies, find it difficult to take advantage of IPR to develop innovative products and services. In response, APEC economies should improve the IPR environment for SMMEs by establishing IPR support centers that can help SMMEs learn about best practices. In addition, ABAC recommended that APEC economies review and enhance patent laws to encourage innovation.

ABAC members have also been actively involved in initiatives and events that address economic inclusion. With a high proportion of SMMEs established and run by women and young people, ABAC endorsed the establishment of the ABAC Women's Forum, which aims to identify key capacity building policies that enhance opportunities for women in business. ABAC also endorsed the revitalization of an annual Young Entrepreneurs' Summit set to take place in October in Kuala Lumpur, Malaysia. These activities will provide platforms for more focused and specific recommendations on inclusion that will be forwarded as actionable items to APEC economies in 2011.

ABAC has supported efforts to deepen our understanding of how to strengthen SMMEs. We have, for example, extended work on an innovative growth initiative, a research project that will help us identify practices and policies that foster innovation among SMMEs. ABAC will hold APEC SME Summits in Peru, China and Hawaii in 2011. These events will provide valuable platforms for APEC's SMMEs to share experiences about their opportunities and challenges and identify key policy solutions.

ABAC believes that the above recommendations will enhance conditions for APEC's SMMEs and for sustained growth throughout the region. We look forward to participating at your meeting in Big Sky, Montana next month to discuss these recommendations in greater detail.

Sincerely,



Deb Henretta
ABAC Chair 2011

Top Barriers and Recommendations relating to SMME Cross-Border Trade

1. **Lack of access to financing (SMEWG):** Two primary hurdles to SMME lending have been identified: gaps in the legal infrastructure for secured lending, and insufficient credit information.

- (a) Legal Infrastructure for Secured Lending

A major impediment in many APEC economies is the lack of simple, transparent systems for filing security interests in collateral, and in searching the availability of prior interests. Without such systems, the risk of “hidden liens”, or the inability of lenders to secure clean legal opinions on their priority status, creates uncertainty. This makes it difficult for financial institutions to appropriately underwrite SMMEs or forces them to charge higher fees to reflect the risk of lending in a legally unsure environment.

- (b) Full File and Comprehensive Credit Information Systems

In many economies, credit information systems are limited to negative information and segmented, not reflecting a borrower’s full credit file. Such lack of depth in credit information exposes lenders to increased losses and adoption of excessively conservative decision policies that deny credit to otherwise creditworthy borrowers.

Recommendations:

ABAC asks SME Ministers to support concrete capacity building activities to help economies improve the legal infrastructure for secured lending and develop full-file and comprehensive credit reporting systems that are underpinned by sound frameworks for privacy and data protection. Activities should include relevant government stakeholders with responsibility for any legislative and regulatory changes needed to address these issues.

ABAC urges SME Ministers to mobilize support for needed legal and regulatory reforms that can expand sources of financing for SMMEs, including support for venture and start-up capital initiatives, public-private partnership approaches such as government-backed loan guarantees, and greater access to information concerning financing programs through traditional financial institutions.

We also welcome the launch of the APEC Financial Inclusion Initiative under the Finance Ministers’ Process, which ABAC has recommended to assist economies in providing a favorable environment for expanding financial services to micro-enterprises and low-income households. ABAC calls on member economies, multilateral institutions and the private sector to collaborate in the successful implementation of this initiative.

2. ***Lack of capacity to internationalize and difficulty in identifying foreign business opportunities (SMEWG):*** Developing resources to assist SMMEs in doing business in foreign markets is fundamental to encouraging SMMEs to internationalize their operations. SMMEs often lack the resources and knowledge necessary to proactively seek business opportunities in foreign markets, and instead rely on a passive approach of waiting for customers to approach them.

Recommendations/solutions:

Governments should encourage SMMEs to actively seek opportunities to reach overseas customers by providing relevant information through “market knowledge centers” which may include consultancy, organizing of overseas business missions, basic training programs on international trade, providing technology platforms that promote the development international SMME networks, and provision of integrated market research data.

Governments can also assist SMMEs by encouraging the participation of domestic SMMEs in the multinational supply chain and creating a better environment for globalization by liberalizing trade and investment through FTAs which are developed with the aim of providing concrete benefits to SMMEs.

3. ***Difficulty navigating differing legal, regulatory, and technical requirements (CTI):*** For SMME exporters in developing economies, these varying requirements can be particularly challenging to navigate, both in terms of obtaining information and in terms of their ability to demonstrate conformance in a reliable and accurate manner. With fewer resources, improved access to legal, regulatory, and technical information will make it easier for SMMEs to export their goods and services to different markets by decreasing monetary and resource costs associated with acquiring knowledge of the regulatory environment in different export markets.

Recommendation:

APEC economies should strive for increased regulatory transparency by fully implementing the APEC Transparency Standards.

4. ***Need for open and transparent business environments (SMEWG):*** An open and transparent business environment lowers the cost of doing business and increases predictability; both are important factors for SMMEs that often lack the resources to have specialized personnel in foreign markets to deal with issues related to corruption.

Recommendation:

ABAC supports efforts to develop industry specific voluntary codes of conduct for the medical device and construction industries as well as other industries with a high concentration of SMMEs. In addition to these efforts, ABAC strongly supports broader efforts to promote an open and transparent business environment through the implementation of APEC commitments such as the APEC Transparency Standards, Santiago Commitment to Fight Corruption and Ensure Transparency, and APEC Course of Action on Fighting

Corruption and Ensuring Transparency. A public reporting process should be undertaken by APEC economies to promote the early implementation of these commitments.

5. ***Inadequate policy and regulatory frameworks to support cross-border electronic commerce (CTI):*** Electronic commerce provides SMMEs with a virtual global storefront, which is a powerful enabler for the internationalization of SMMEs. Important to the continued growth of electronic commerce and its role in promoting trade, are policies and regulatory frameworks that promote the use of electronic commerce.

Recommendations:

ABAC also urges governments to provide taxation assistance and other incentives to encourage and support R & D. Furthermore, we urge the improvement of IT infrastructure and the provision of professional training for SMMEs in response to advancement in technology.

ABAC would like to reinforce the use of ICT, as a tool to accelerate micro- and small business entry into the global markets, where SMMEs can benefit from scale merits and further developments. In addition, ABAC further encourages the free flow of business information as well as technical assistance for SMMEs wishing to explore foreign business opportunities. Better access to information about more distant markets is a condition for stronger SMME cross-border trade growth.

Based on the results of the study, the ability of SMMEs to increase productivity, innovate and reach new markets through basic ICT tools, are limited by insufficient skills within SMMEs to utilize broadband, high subscription prices and a lack of awareness of the benefits of broadband. Efforts to encourage greater ICT utilization by SMMEs should include measures to lower prices, specifically increasing competition in the telecommunications market and providing incentives to support SMMEs' utilization of broadband services and ICT-related education. ABAC believes that reliable and affordable access to broadband services is a prerequisite to greater productivity, innovation and more sophisticated e-commerce applications.

APEC economies should establish policy environments and support mechanisms contained in the Digital Prosperity Checklist that will enable SMMEs to harness the benefits of information and communication technologies.

6. ***Inability to protect intellectual property (CTI):*** A major concern for SMMEs is the inability to protect intellectual property rights. Identifying sources of infringement and pursuing remedies are costly, technically difficult, and lengthy tasks. SMMEs, especially in developing economies, find it difficult to take advantage of IPR to develop innovative products and services.

Recommendations:

APEC economies should develop expedited procedures for registering trademarks and patenting goods and ideas for SMMEs. Information regarding options for recourse in cases of IPR infringement should be made publicly available. APEC economies should establish IP support centers for both domestic and foreign SMMEs as a

means of disseminating best practices for protecting IPR in cross-border trade. Patent laws should be reviewed and enhanced to encourage innovation.

- 7. Excessive transportation and related costs (SMEWG):** A number of factors contribute to excessive transportation and other related costs, including inadequate infrastructure, limited availability of transportation options, and higher insurance costs for overseas shipments. These costs generally impact SMMEs to a greater degree since they cannot take advantage of economies of scale nor have the resources to identify other, more cost-effective shipping alternatives.

Recommendation:

Swift and comprehensive implementation of APEC's Supply Chain Connectivity Initiative will play a key role in driving down transportation and logistics costs for SMMEs. A particular focus should be placed on increasing the capacity of local logistics service providers and increasing competition in the transportation and logistics services sector.

- 8. Customs clearance delays, including difficulties in navigating overly complex customs requirements and documentation (CTI):** Customs clearance delays often have a more significant impact on SMMEs because they tend to have lower inventory volumes (e.g., just in time inventory), their role in complex supply chains that require prompt and accurate shipment of components to final assembly points, and the shipment of perishable goods (e.g., food or medical supplies).

Recommendation

Increased transparency and predictability in customs procedures will facilitate SMME participation in international trade. ABAC urges APEC to advance implementation of the APEC Single Window initiative, along with trade facilitation efforts within individual economies. Trade security initiatives such as Authorized Economic Operator programs should be developed in a manner that considers the unique needs of SMMEs, including needs for technical support and other forms of assistance.

All APEC economies should accede to, and fully implement, the World Customs Organization's Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures. Information on documents and processes required for moving goods across borders should be made available to the public. Economies should institute advanced ruling mechanisms to reduce customs delays and APEC economies should establish commercially meaningful de minimus levels to expedite clearance of goods across borders.

- 9. Difficulty in taking advantage of preferential tariff rates and other aspects of trade agreements (CTI):** Improving the understanding of how to utilize free trade agreements (FTAs) will make it easier for SMMEs to take advantage of preferential tariff rates and other benefits of FTAs. By making it easier to utilize FTAs, SMMEs will lower their overall cost of doing business in other economies and be more competitive.

Recommendations:

An ABAC-commissioned study identified transparency, simplified certification processes, Rules of Origin (ROO) complexity and compliance as resource and organizational barriers to taking advantage of FTAs. Typically, this means it is large companies with the scale and resources who capture the intended benefits of free trade agreements. FTAs may have unintentionally created a competitive advantage for the big company to use to further out-compete the small. The study further identified ROO Certification costs as the highest barrier to taking advantage of FTAs.

ABAC recommends APEC economies provide additional training to customs officials and SMMEs on rules of origin administration and HS code interpretation as needed. Certification issues will persist across the region as long as product certification is open to interpretation. Small and medium-sized businesses and organizations either lack the knowledge, experience, and/or size to administer the process effectively.

Transparency and access to FTA tariffs and rules of origin should be improved through the enhancement of APEC's WebTR initiative to develop a fully searchable online database of tariffs and rules of origin for FTAs between APEC economies.