

## **The Philippines' MSME Advocacy**

At the outset, allow me to make an observation that will most likely hold true for your countries – that is, a vast majority of registered business are micro, small and medium enterprises (MSMEs). In our experience, MSMEs would account for anywhere from 95-98% of registrations, and they comprise 62-65% of total employment.

With this year's public forum theme "*making trade truly inclusive*" we have an opportunity to explore how trade can work not only for the 5% of all firms – the large ones – but more importantly for the 95% that make up the MSMEs.

The Philippines advocates that if we are to make trade truly inclusive, we should have more conversations on the challenges and opportunities for MSMEs, particularly MICRO enterprises.

We organized a working session with the theme "*Towards a MSME Marketplace, Growing Global MSMEs for Inclusive Development*" last Tuesday (27 September) which discussed four (4) areas or pillars that would benefit from international cooperation and discussion:

- 1<sup>st</sup>** was the need to further improve MSMEs access to information;
- 2<sup>nd</sup>**, the need to improve MSMEs absorptive capacity by building linkages and expanding knowledge;
- 3<sup>rd</sup>**, the development of global MSMEs, and
- 4<sup>th</sup>**, the facilitation of cross-border access for MSMEs

Across these 4 pillars - from transparency to crossing borders - STANDARDS is an area that is invariably challenging for MSMEs. At the same time, this is an area where plenty of opportunities for further improvement and cooperation activities lie, which in turn can make a lot of difference for MSMEs .

## **The Philippine Context - Standards and Regulations**

In the Philippines, we recently completed an NTM survey with the help of the International Trade Center, where 69% of survey participants were micro and small enterprises.

In that survey conducted, majority of Filipino exporters had the general perception that anything required by the client - such as certifications, testing, labeling, packaging and fumigation requirements, are non-negotiable and should generally not be considered as "burdensome". The mindset is that any exporter who is unable to either comply with

such basic requirements or find some informal way to surmount them should simply not be in the business of exporting.

This is a very significant finding because we need the vigilance and cooperation of the stakeholders to be able to actively monitor standards and regulations that may have significant impact on Philippine exports and consequently industrial development. This may also explain why there has been sparse comments on the notifications published by the Philippines' TBT and SPS enquiry points.

In our consultations with MSMEs, *"easy access to trade-related information has been consistently cited as a critical barrier to their being able to penetrate export markets, or being able to access alternative inputs from overseas."*

Transparency also goes beyond the provision of information. *Understanding the notification and regulation itself is an equally if not a more daunting challenge for MSMEs.* More specifically, if and when the regulations of export markets are in the national language, translation can be problematic.

The effectiveness of MSMEs in adapting to the requirements of standards depend on the product/s that they manufacture and/ or the services offered.

MSMEs have a high level of expertise in the manufacture of indigenous products (e.g., bamboo and handicrafts), and they are thus effective in adapting and even surpassing standards. For capital-intensive industries that harness fast-evolving technologies (e.g., automotive), MSMEs find difficulties in conforming to standards.

Moreover, in the case of the Philippines, almost 60% of NTM-related obstacles come from product specific measures such as conformity assessments which include product certification and testing, and technical requirements that include fumigation and labeling.

- Fumigation can cost between Php 5000 to 10,000 for each shipment (or around 100 to 200 Swiss Francs).
- Labelling and/or packing requirements are often subsidized or provided by clients, but the effort required to develop/translate, produce, and apply them can be taxing for smaller enterprises , especially in the agriculture-processed food sector.

Moreover, testing for SPS and TBT requirements and certifications are usually cited as costly in terms of time, effort and money. Importantly, for these requirements, many exporters appear unable to differentiate between private standards and technical regulations. For them, these two are largely the same.

I believe that there is scope for cooperation and the development of practical tools that will facilitate the integration of MSMEs in international trade.

First, I believe that there must be continuous dialogue. We need to learn from each other's experiences and national initiatives as well as consider best practices of government programs for MSMEs. A topic for discussion would be national certification systems as a tool for internationalization of the business and to identify which assistance is needed to let them compete in international trade.

Second, I am convinced that a strong and conscious effort to involve MSMEs in standard setting is necessary. ISO and ITC have jointly developed a number of publications aimed specifically at SMEs. The ISO 9001 and ISO 14001 Guides for SMEs (ISO, ITC, UNIDO, 2015) help small businesses understand and implement the requirements for quality management and environmental systems.

The Philippine government engages MSMEs and encourages them to participate in technical committees for standards development. A discussion on how to integrate MSMEs in international standard setting activities should merit further discussion.

Third, we must further facilitate the provision of information to MSMEs. It is important for information to be made available immediately and in a manner that is understandable and usable for MSMEs. More specifically:

- We need to improve the organization of information (i.e., WTO Members' notifications) to keep it user-friendly, up-to-date, and useful.
- The provision of additional information on the rationale behind the measure (the so-called reasoned transparency) should be made standard. In the TBT context, several members already have in place regulatory impact assessments (RIA) - these members are usually the main export markets of developing countries. Similar to the TFA that encourages availability of information on practical steps for importing and exporting, notifications, for example, should contain information that would have practical and understandable information such what we can find in the RIA.

Lastly, we need to help MSMEs navigate the world of regulatory environment.

The Philippines' MSME exporters are heavily engaged in low-tech manufacturing (52%) and medium-tech manufacturing (20%). For capital-intensive industries that harness fast-evolving technologies, MSMEs also find difficulties in conforming with standards.

Looking at the STDF and how it has been a successful tool for SPS, a TBT counterpart of the STDF would merit further discussion given the increasing interest of developing countries and LDCs on manufactured and fast-moving technology products. Capacity building activities oriented to training MSMEs to improve their knowledge, expertise and skills on standards and conformance matters, including the conduct of public consultations should be focus areas.

Cooperation between agencies is something that can be deepened. Can we ask the ITC, UNCTAD, World Bank, regional development banks and others to sit down and develop a methodology to be employed by MSMEs so that any standard or technical regulation can be assessed for technical and financial implications.

In closing, I would like to emphasize that standards are a truly a promising area for discussion, for which practical tools would make a difference for micro and small enterprises as they work towards integration in global markets and fulfill their important role as a catalyst for inclusive growth.