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Note

Barriers for MSMEs to Export at Regional and International Level: Views of MSMEs from Africa and Asia

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Summary

Micro, Small and Medium sized Enterprises (MSMEs) play very important role in economic development, sustainable livelihoods, industrialisation and employment creation. The employ a wide range of people including the most vulnerable such as women and youth. Based on stakeholder interviews conducted in various developing and least developed countries in Asia and Africa, this paper reflects on the challenges face by the MSME exporters in those parts of the world.

KEEPING PACE WITH TRADE DEVELOPMENTS
The "Keeping Pace with Trade Developments" project aims to enable LDC and Smaller Developing Country WTO delegates to better take advantage of international trade for their development.

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Introduction

Micro, Small and Medium-sized Enterprises (MSMEs) play very important role in the economic development of any country in terms of promoting sustainable livelihoods, industrialization and employment creation. The MSMEs sector also employs a wide range of people including the most vulnerable i.e. women, un-educated, youth, disabled and the poor.

Based on interviews conducted by civil society organization in various developing and least developed countries in Asia and Africa[1], this paper reflects on the challenges face by the MSMEs' exporters in those parts of the world.

Even though MSMEs often represent a small percentage of exporters in most countries, their trading relations, formal and informal, feed into the local and national markets, before considering expanding to regional and international destinations, depending on their internal capacities as well as external constraints/opportunities.

Setting the Scene of MSME Exporters in Asia & Africa

Starting to export and building trade relationships

MSMEs' exporters are often found to trade agricultural products in those region (raw or processed), as well as textiles and handicrafts. While exports of services seem to lag behind, some developing countries, depending on their own national interests, level of development and history also, tend to diversify more their exports: pharmaceuticals, some ICT and BPO services (i.e. Rwanda), oil and gas (i.e. Nigeria) ...

It was seen that MSMEs are exporting to foreign markets where the country has bilateral or regional trade agreements (EAC, ECOWAS, EU for instance). North America, UAE, China and South Africa was also mentioned by some African and South Asian MSMEs as export market, as well as Korea and Japan more specifically for some Asian MSMES, and UAE for some East African MSMEs.

Their relationships with their main foreign client(s) often start after networking opportunities provided by CSOs or Ministries, at the occasion of meetings or fair trades. More than often, MSMEs also start exporting by leveraging personal contacts abroad (diaspora), or being recommended by *a friend of a friend*. According to interviews conducted in Ghana, all the foodstuff exporters, clothing, and textiles entered into the business through informal introduction. That is, it is either a friend or family member partnership, or a friend or a family member introducing an agent who is interested in carrying out such a business venture. They therefore get involved in the business venture when convinced with the future profit

Some MSMEs in the regions mention also that they use social media marketing, specific

[1] Viet-Nam, Burundi, Kenya, Tanzania, Rwanda, Uganda, Nigeria, Ghana, and Benin.

networking/trade websites as well as export marketing companies in some cases to develop their relationships with potential foreign clients.

However, it was highlighted by one respondent in Nigeria, Mrs Olwasanya, after regular visits to the USA over the years, said: "I have given up trying to look for buyers overseas. I have attended trade shows and spent enormous resources without success. For each trip I make I spend up to N750,000 (about $2000) and I can't keep on taking this kind of money out of my capital. If government wants to help us, they should give us funding to attend these trade shows to boost the economy of Nigeria."

Prioritising market export and consideration of legislation

Interviewed MSMEs in African and in Asia do not tend to prioritize any market, especially based on legislation, rules or requirements, but their export decisions mainly depend on foreign buyers' solicitation, personal relationships, specific market demands at certain times... It was noticed that they did favour nearby markets, especially those which they are more familiar with the local taste, consumer preference, similar cultural and legal environments.

In Benin, *The Motherland Bright* Communication Manager said, "A friend put me in touch with potential buyers of cashew nuts and shea butter in India, I then started developing a partnership agreement that guides our commercial relations".

A Tanzanian MSME owner commented: "We decided to export to a certain market because there is high-demand of our product, there are supporting facilities such as cold chain system and convenient time to fly to handle perishable goods considering the fact that the flight duration is only eight hours. Moreover, we export to Dubai because Tanzania has a Memorandum of Understanding with Dubai for such products".

Regarding the impact of trade-related legislations or trade agreements on their business dynamics, it was found that most Rwandese MSMEs do not tend to monitor them closely, as they consider the issue of their capacity to supply the foreign market a greater priority.

In the same vein, the interviewed MSMEs' exporters from Ghana mostly do not consider any legal regulation whatsoever in and outside the country especially at the onset of exporting their products. It is after they have gotten involved in the exporting business that they realise there are rules and regulations to follow. Hence, the involvement in the business is not because of a proper research questioning the viability and the sustainability of the market. Pharmaceutical exporters however, conduct formal business partnership with their foreign counterparts and do prioritise their business putting into consideration the required legislations both home and abroad.

Awareness of WTO agreements and rules with relevance to MSMEs' work

There seem to be a limited awareness on WTO agreements and rules from MSMEs exporters interviewed in Asia and Africa. It is also important to recall the fact that most of the MSMEs are family-owned businesses and not necessary formed by formal experts who are well conversant with related policies (whether domestic policies or international trade rules).

Because of these dynamics, most of the MSMEs are not aware of a number of global trade related rules, including the WTO.

Most MSMEs in Rwanda seem to not have understanding or awareness of any of the WTO Agreements. Mrs. Donatille Nibagwire, the Managing Director of Floris Rwanda who is also the vice-chairperson of the Rwanda Association of Horticultural Exporters, points out that: "there is lack of information and awareness in regard to WTO Agreements and what is being done in regard to the WTO negotiations. Our members are not aware of any WTO Agreements and indeed we even do not know the progress of the negotiations at the WTO and the issues being discussed."

However, some exporters were aware that their country representatives have been participated in WTO negotiations, and that WTO sets some of the export standards they have to abide by. In Tanzania, those having knowledge on WTO rules acquired it through chambers of commerce, participation in CSOs' meetings, etc. It is interesting to know that when MSMEs were aware of some WTO agreements, they mostly know about the Sanitary & PhytoSanitary (SPS) agreement.

In Ghana, MSMEs food exporters particularly made mention of the SPS measures, such as chemical residue limit, as well as technical measures (TBT) including packaging, labelling designing and so on that are required before their export can take place.

Barriers and Challenges when Exporting

MSMEs exporters in Asian and African developing countries & LDCs face many similar barriers when (trying to) export to their target regional or international markets. Those barriers have been impacting negatively their business expansion and overall functioning. Below are some of the main challenges mentioned by the interviewed SMEs owners when exporting.

Lack of information about foreign markets

One of the main challenges to export mentioned is the lack of data on the export market requirements, how to access this international/regional market, information sharing about export opportunities... For instance, in Uganda, around 43% of the MSMEs claim lack of information about the foreign market as the main barriers to export[2].

Without clear information and knowledge on market export requirements, coupled with a lack of understanding of foreign producers' expectations, there can be a fair competition between MSMEs as well as other private companies.

But the lack of knowledge also concerned public institutions, not only the potential exporters. There is inadequacy or inefficiency of institutions responsible to facilitate exporters on export market information which currently hinders MSMEs to expand their export operations, as they lack information about

[2] UEPB Report 2017

available market opportunities and export support programs. According to some MSME juices' exporters interviewed, they highlighted that some local producers in targeted markets have a better understanding of the market than the foreign producers who do not have a presence in that market.

In Africa, one of the consulted exporting MSMEs' manager said: "You wake up one morning to complete the customs formalities and you realize that the cost has changed, I mean increased. Awareness cannot be created when new legal measures are implemented in the area of export, and take us by surprise".

Limited internal capacities of MSMEs

Internally, MSMEs faced many challenges that limit their exports. From limited skills in house due to low educational level of staff, low foreign language proficiency, to limited production and financial capacity, and unreliable access to raw materials, between others.

A respondent from an exporting MSME in Asia said: "When exporting products overseas, we face fierce competition on price and productivity from Chinese firms and other Asian firms. Our raw materials are imported so our price is sometimes higher than some foreign competitors. In addition, our firm is quite small and sometimes we cannot satisfy the requirement of foreign customers about product quantity."

Communication with buyers in countries using another language adds on an additional cost of translation of documents. In some cases, errors in the translations may lead to miscommunication which result in loses for the exporting MSMEs. For instance, in Viet Nam, only 47% of MSMEs surveyed indicated that less than half of their employees have a college or university degree.

Challenging compliance to quality and standards

In East Africa, it was mentioned that compliance to the standards requirements set by EU countries is costly to the local MSMEs. This was according to Mr. Alfonce, Green East Traders Ltd. who asserted that the acquisition of a Global Good Agricultural Practices Certificate (GAP) certificate costs up to USD 3000. Besides, the costs associated with achieving the set standards are very prohibitive.

But this challenge also applies in South East Asia, as mentioned by one of the interviewees: "The Japanese government recently issued a new requirement of very low ethoxyquin content in shrimp products. This new standard regulation for imported seafood into the Japanese market creates a huge obstacle and loss for Vietnamese exporting seafood MSMEs".

At the production stage, there are also barriers emanating from climate hazards, use and application of agrochemicals, water and energy supply, etc. on which the exporting MSMEs don't necessarily have control of can have negative impacts on their trade relationships. In Ghana, agro-processed MSMEs rely on other actors on their value chains, of which they don't necessarily have the time, skills and funding to monitor. They revealed that their exports are sometimes rejected before they get to the final destination. They emphasised they are not to blame for such phenomenon but: "all the blame should be shifted to the growers who do not adhere to the correct use of agrochemicals".

Limited access to public and private finance

The financial burden faced by MSMEs are worsened by the lack of government funding, which often hinders their export opportunities. For example, in the 2018/19 financial budget, SMEs development was allocated only 1.377billion Uganda shillings (353,076.US$) which is not sufficient to provide a focal coordination institution for formulating, implementing and monitoring policies and programs for the promotion and development of Micro, Small and Medium Enterprises. Overall, a limited policy environment lacking focus and a prioritisation of cluster and sector-specific policies meant that the general policy environment was not targeted at SMEs. This has not allowed clear, specific and focused interventions to support SMEs to a level of empowering them to export.

However, the private banks do not seem to have a more positive impact for MSMEs, with their high interest rate, cumbersome documentation, collateral requirements and lack of properly trained bank staff. Specifically, Nigerian MSMEs find it difficult to access export finance, and said reasons for this include: unfavourable commercial interest rates, lack of interest in and knowledge about MSME export finance on the part of commercial banks, bureaucratic bottleneck and rent seeking on the part of Development Finance Institutions (DFIs), excessive documentation requirements, lack of information on available funding windows and poor record keeping on the part of MSMEs. According to Mrs. Ololade who exports gemstone informally, "the loan requirements from the banks are too much and the interest rates they charge is high. Interest on commercial loans in Nigeria is as high as 29% while the DFIs charge a maximum of 9%".

In Burundi, Salum Radani has been exporting coffee for the last 8 years to the United States of America: "Getting funding is real gymnastics, especially at the beginning of an export activity. Banks do not want to take any risk on an unknown operator in their system. Since I did not have any guarantees, I had to borrow from family members and microfinance, but the amounts granted were insufficient. "

Lack of mutual recognition of standards & Rules of Origin

Exporting MSMEs also face challenges related to international/regional standards, as well as Rules of Origins (RoO). In fact, there seem to be many standard disparities within the regions and sub region, as well as other international markets. This lack of harmonisation has been causing rejects of products (even within a regional economic community), creating negative impacts on the functioning and survival of the MSMEs.

An East African agro-processor Ms. Orator explained that her products have been on two occasions rejected to enter Rwanda and Tanzania on the basis that they do not meet the required RoO. "I was denied access to the Rwanda and Tanzania markets on the ground that my products were not wholly produced in Uganda. I had a RoO certificate though and I showed it to the inspection officers at Katuna border but they wouldn't listen. I spent two days at the border stuck with my cargo, yet I had wanted to participate in the trade fair in Rwanda at that time." Ms Orator estimated her loss to have increased up to 27 million Uganda shillings (6,923US$) during that incident. "I made quite a number of losses right from transport costs, to dropped sales; some of my products even got spoilt with broken bottles of juice and spilt hibiscus powder during the check-ups."

Another MSME from the EAC pointed out that "a product can be produced within EAC partner states but is susceptible for rejection because each country has got different standards. For instance, the A to Z company in Arusha, which produces mosquito nets, is certified by the Tanzania Bureau of Standards and ISO. Yet, the product was rejected to enter the Ugandan market as its standards do not comply with the Uganda Bureau of Standards".

Procedural issues limiting exports

Customs and administrative procedures governing trade and exports within a country/a region can be challenged by infrastructural, policy and/or governance issues. In both Asia and Africa, MSMEs continue to report delays and other administrative ineffective procedures, such as certification and inspections to slow down their export performances as it accrues to increased costs. In Ghana, one agro-food MSME exporter mentioned that he lost about 70% of his exported goods because of the poor transportation, storage and delays in inspection and certification.

In Tanzania, MSMEs report certification as one of the most difficult requirements to meet since "the certification authorities are not centralised in one centre; therefore, it is time consuming and costly to move around to get the export permit. There is a chain of authorities, one requires to visit to get your documents verified and stamped but they are in different locations".

An inefficient system of product inspection, standard testing and certification breeds an avenue for illegal demands of payments by government officials. Poor infrastructure such as bad roads and lack of functional rail system as well as extortion by security agencies and congestions at the port lead to high logistics cost for Nigerian MSMEs. Some reported that certification is 'auctioned' on cash and carry basis. Yet registration for certification and actual certification is time consuming and with no determinable costs. For some products such as solid minerals and gemstones, MSMEs exporters rely on laboratories and testing centres in other countries to certify their exports.

Seeking Solutions

MSMEs raising export challenges for government resolution

To mitigate the challenges to trade in foreign market, or to solve an export issue, MSMEs may consider taking their case to their government for resolution. Whilst most of the MSMEs may not be aware of this option or may not have the necessary skills or opportunity to do it, this option should be leveraged by them in the future.

In Nigeria, up to 70% of the MSMEs interviewed said they have raised their challenges with various government agencies through different channels such as the chambers of commerce and other business membership organisations they belong to; writing directly to the government agency concerned or simply airing their views in forums organised by the relevant agencies. However, for those who raised the barriers they face with the government, the predominant response is that the government has not been forthcoming in resolving the challenges. Only one commendation came the way of government – and it went to the Lagos State government – for providing access to MSME loan at five per cent interest rate.

This has been a common concern raised in Benin where business owners who had the opportunity to voice their concerns to the government for a resolution reported that no action has been taken and that situations are becoming increasingly difficult and complicated. The manager of Ola Oluwa SARL and the manager of Société Auto Benin: "Between our unions and the government; negotiations have taken place, but for the moment, we are not seeing any improvement". In addition, some entrepreneurs expressed their view that "Government does not involve private stakeholders in decision-making."

AK Oils and Fats, Ugandan producers of cooking oil, bar soap and detergent soap were denied access to the Rwanda market on the ground that their edible oil did not meet the EAC RoO. During that time the weekly losses for the company were estimated to be up 25 million Uganda shillings (6,410US$). The company petitioned the Ministry of Trade, Industry & Cooperatives which facilitated a bilateral engagement with the Rwanda authority to solve the issue of RoO. According to Mr. Mike Kabonge the A.K sales and marketing manager: "the ministry was able to completely sort the matter by engaging in diplomatic talks, where A.K oils participated and produced evidence to support the claim".

Governments to ease MSMEs' business environment

In order to ease ease MSMEs' business environment, relevant ministries should harmonize their customs and administrative procedures, making them easy to access to MSMEs. They should also support the harmonization of export related procedures with RTAs and international standards, which will simplify life of MSMEs and provide them with more opportunities to export (i.e. implementation of single window services, e-certification etc.)

Government needs to formulate and review policies concerning the phytosanitary regulations, standards and procedures to accommodate the international regulations and to put in place guidelines and operational manuals of agricultural and agro processed products as well as developing inspection manuals.

Offering trade facilitation services to exporters should also be considered, for instance through initiatives such as the Information for Trade web portal which consolidates documents and procedures required for import and export business on one online platform, as well as training on standards' compliance, between others. Finally, governments should proactively act on the receiving complaints from private sector.

Governments to promote access to foreign market information

Regional secretariats should create a data base of information with regard to import, production and export of goods to serve as a reference for monitoring of the movement of goods in the region to complement verification missions.

Communication and information-sharing channels should also be implemented or improved between governments, standards authorities and other relevant charged with facilitating trade development in the regions.

Relevant ministries should come up with a business information handbook for MSMEs translated in different local languages.

Public and private stakeholders to provide export finance

Commercial banks and other financial institutions should tailor MSME-oriented financial and credit services to enable them acquire adequate capital for growth.

Government-supported MSMEs financing facilities need to be consolidated in a fund that has the capacity to provide seamless service to access financing facilities.

Public and private stakeholders to collaborate more to assist exporting MSMEs

Governments should provide customs' services with equipment to fulfill their tasks on time and to reduce the excessive delays and complications of border processing. In collaboration with exporters, they should set up an electronic customs clearance platform to facilitate manual processing, and to improve delivery times and integrity to their customers.

Professional associations and networks should be supported by public and private donors, as they can be good forums to discuss the MSMEs' challenges and to present them to the public authorities with a view to finding solutions; as well as to establish new business relations.

All stakeholders, from MSMEs to government agencies, development partners and NGOs, should be involved in the monitoring and implementation of the policy strategies in order to ensure quality assurance and maximize the benefits derived from the policy.

CUTS International, Geneva

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