

6th August 2018

The Hon. Wera Mori MP
Minister for Commerce and Industry
Papua New Guinea

Dear Minister Mori,

On behalf of the APEC Business Advisory Council (ABAC), I would like to share our key recommendations related to Micro, Small and Medium Enterprises (MSMEs). Across the region, MSMEs account for more than 95 percent of all enterprises and generate more than 50 percent of domestic employment, but they remain under-represented in cross-border trade and in global value chains. In a study carried out with the University of Southern California Marshall School of Business this year, preliminary findings indicate that MSMEs face structural challenges around access to finance, information and networks, capacity constraints and a lack of the necessary business skills to succeed in the cross-border environment, and are disproportionately affected by barriers to trade such as non-tariff barriers. The research to date also shows that women MSME owners are particularly disadvantaged in these areas.

The final report of the study will be shared with APEC Economic Leaders at the end of the year, but based on the findings to date and our broader discussions since our last letter to SME Ministers, ABAC has prioritized the following recommendations to enhance opportunities for MSMEs to find greater success both in domestic economies and across borders:

Facilitating MSME access to finance

MSMEs are a major driver of the region's economic growth and provide four of every five new jobs especially in emerging economies. However, up to 60% of MSMEs do not have adequate access to financing thus hampering their growth. There are several factors contributing to MSMEs' lack of access to finance, including inadequate legal and institutional infrastructure supporting risk-based lending against a broader range of collateral and using non-traditional data and inefficient personal insolvency regimes that discourage entrepreneurship. Further, capacity constraints and readiness concerns may inhibit MSME attempts to onboard financing options, where they do exist.

The advent of the digital economy and increasing regional integration open up new opportunities for MSMEs to access finance using their transaction data and to join global supply chains. However, the wider use of data, as well as the digitalization of trade and supply chain finance may not fully be supported by legal and regulatory frameworks which have not kept pace with the development of technology.

ABAC calls on APEC economies to undertake reforms of their legal, policy, regulatory and institutional ecosystems and their alignment with internationally agreed minimum benchmarks, to facilitate the wider collection, storage, sharing and free flow of data and information within and across borders, while providing adequate frameworks protecting data security and privacy. We call on APEC to provide regional platforms for public and private sector stakeholders to promote inclusive and innovative cross-border financial services, develop required minimum benchmarks, and collaborate in undertaking measures to accelerate the digitalization of trade and supply chain finance. We also call for efforts to develop efficient and streamlined personal insolvency regimes that balance the interests of debtors, creditors and society.

We highly encourage APEC economies to undertake these measures by making use of the *Roadmap for a New Financial Services Data Ecosystem*, the *Strategy for the Digitalization of Trade and Supply Chain Finance* and the *Essential Elements of an Effective Personal Insolvency Regime* developed this year by our Asia-Pacific Financial Forum (APFF).

ABAC calls on APEC economies to consider options that promote the level of financial connectivity, including the democratization of financial services by creating new ways to interact with financial service providers, assisting MSMEs in accessing funding and services that were once unavailable, opening up opportunities for the unbanked and underbanked and facilitating structural change in financial markets to enhance financial inclusiveness for MSMEs' development.

Enhancing the ability of MSMEs to participate successfully across borders and in global value chains

More successful MSME participation in global value chains and in cross-border trade should be a priority for all APEC economies, but MSMEs face many challenges that must be addressed effectively before this can be achieved. MSMEs face structural impediments not just in relation to finance (as discussed above), but also in relation to access to information: MSMEs have the potential to derive substantial benefits from trade agreements, but frequently fail to take advantage of these benefits due to a lack of awareness about the agreements or a low level of understanding about the requirements that trade entails. They may also lack the necessary business skills to engage successfully across borders, as well as the capacity to meet trade requirements. MSMEs may also be disproportionately affected by non-tariff barriers.

Accordingly, we urge APEC SME Ministers to prioritize policy-settings and actions in the following areas. First, actions to improve MSMEs' access to relevant information, such as trade regulations, rules of origin requirements and market information, especially if provided through digital channels, would enhance the ability of MSMEs to identify and realize opportunities. Economies should likewise undertake more outreach on the benefits of utilizing FTAs.

There should also be a greater focus on capacity-building for trade, including through skills development, training and consultation services, mentorship and through better access to foreign networks, for example through international trade shows. Policies that facilitate trade activities, such as digital single windows and other measures to reduce the complexity of border processes, should also be prioritized.

In addition, we urge SME Ministers to champion the reduction and eventual elimination of trade barriers, including non-tariff barriers; to that end, we encourage Ministers to seek to increase the transparency and reduce the complexity of non-tariff measures.

We also note that access to dispute resolution remains largely out of reach for MSMEs due to the cost, complexity and longevity of current cross-border dispute resolution mechanisms; alternative approaches that improve access and minimize costs for MSMEs, such as online dispute resolution, should be explored.

Expanding MSME global presence through digital economy and e-commerce platforms

The digital economy, and in particular e-commerce and digitally-provided services, can help to reduce costs and improve connectivity for MSMEs in trade, but there are specific barriers hindering MSMEs from accessing these platforms and services, and this likewise needs to be a focus for APEC economies.

MSMEs tend to have limited awareness and capability of harnessing these gains which largely depend on adequate infrastructure and supportive policies at the domestic and international levels. As a result, they are often less productive and competitive than their larger counterparts.

We call on Ministers to promote the development of internet and digital infrastructure to improve access to digital economy, especially in remote areas and for vulnerable groups including persons with disabilities. We also urge APEC to continue developing and expanding capacity building programs that improve skills in information and communications technology similar to ABAC's Cross Border E-Commerce Training (CBET), which now has an online e-learning platform. Launched in 2014 in China, CBET has since been participated by over 10,000 MSME in various sessions organized in Brunei, Papua New Guinea, Chile, Malaysia, Peru and Thailand from 2015 to 2017. We urge economies to promote both online and offline capacity building efforts to educate MSME firms to be e-Commerce ready by encouraging such programs.

We support internet and digital economy-based innovation and start-ups, and encourage APEC economies to share their best practices on initiatives related to MSME innovation. ABAC is committed to advancing projects with the support of respective economies, like the APEC-Canada Growing Business Partnership and other initiatives found on the APEC MSME Marketplace.

We also encourage Ministers to continue the promotion and implementation of the APEC E-Commerce Facilitation Framework and utilize ABAC's work on identifying cross-cutting e-commerce issues to help MSMEs realize the full potential of e-commerce and the digital economy. We encourage public-private collaboration to tackle the principles and recommendations identified, which cover the key issues of e-payments, border management, taxation, competition, the sharing economy, and digital security.

Advancing women's economic empowerment

As representatives of the private sector, we recognize that addressing the barriers that prevent women's economic participation is a business imperative that impacts our bottom line, as well the GDP growth in our economies; greater economic empowerment just makes good business and economic sense for our region.

APEC presents an important opportunity to equip policymakers and industry leaders to effect further changes. With the right policies, training, and education, APEC economies can further leverage their existing workforces as well as invest in future productivity. For example, having access to Science, Technology, Engineering and Math (STEM) educated women increases our pool of skilled employees. These projects promote sustainable growth in APEC economies by integrating women and girls into the economy, thereby actively working to close the gender gap. In addition, developing a leadership pipeline that strives to train, retrain and promote women within our organizations enables our firms to perform better and more effectively serve customers by leveraging new perspectives.

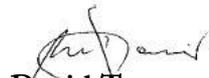
Addressing the barriers that prevent women-owned MSMEs from accessing finance will further aid women-owned firms both economically and socially. Bundling of financial services with

business skill trainings, mentorship, better access to market, networking and due diligence assistance will help women-owned MSMEs to better achieve their entrepreneurial journey.

The Council has actively engaged in advancing women's economic inclusion initiatives including the establishment of the ABAC Women Connect Program in 2017 to enable women entrepreneurs to leverage digital technologies to create their own economic future and realize entrepreneurial dreams through effective sharing, learning and awarding.

ABAC believes these recommendations will help accelerate APEC's work in building dynamic MSMEs and furthering their access to global markets. We trust you will consider these recommendations in advancing the development of MSMEs in the region.

Yours sincerely



David Toua
ABAC Chair 2018