



# Crossing the Digital Border

## Four Ways to Transform the SME Global Market

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# Executive Summary

SMEs face four common obstacles as they grow their cross-border trade capacity:

- Access to best practices and partnerships
- Regulatory imbalances
- Access to technology
- Logistics support

— Paulo Fernandes, VP, Government and Development

The business case for growing small-to-medium enterprises (SMEs) has never been stronger. Even in an economy where global giants like Amazon, Alibaba, Kia and Exxon continue to thrive, SMEs account for 90 percent of all businesses worldwide.<sup>1</sup> They create four out of five new jobs in emerging markets, according to the World Trade Organization.

And the opportunity for SMEs has never been greater. Online buying for both BtoB (\$7.7 trillion) and BtoC goods and services (\$2.3 trillion) is on a global growth trajectory. Cross-border trade is particularly robust. Fifty-seven percent of all online shoppers say they have made a cross-border purchase online during the first half of 2017.<sup>2</sup>

Yet, SME growth in the cross-border category has lagged. Despite their contribution to the global economy, SMEs have had trouble entering and competing in the cross-border marketplace. Nowhere is this problem more apparent than in global commerce. Currently, only 38 percent of businesses around the world can process international orders and only 33 percent sell beyond their own borders. That means more than half of all SMEs are missing out on global business opportunities due to lack of access to infrastructure and regulatory expertise. Both will be important to SME growth, which is expected to contribute 600 million jobs by 2030 to fuel a growing global workforce, according to the World Bank.

SMEs are widely hindered by lack of access to credit, knowledge gaps, regulatory imbalances and limited access to competitive technology. Public-private partnerships can do more to provide the necessary government intervention and private company strength to extend expertise, technology and access for small merchants. This will require the various stakeholder groups to come together and influence regulation on behalf of SMEs and innovate to make cross-border trade easier.

"If SMEs are involved in the formulation of policies that will affect their businesses, they will champion the effective implementation of the same," says Phyllis Wakiaga, the UN Global Compact Network Representative for Kenya. "In contrast, if there is no consultation to build a shared understanding on the intent of a policy, then not only do small businesses suffer the cost and operational burdens of adjustments, forcing them to shut down, they also are unable to progress their role of social value creation."<sup>3</sup>

<sup>1</sup> <https://www.iso.org/news/2015/03/Ref1937.html>

<sup>2</sup> <https://www.shopify.com/enterprise/global-eCommerce-statistics#GlobalInfographic>

<sup>3</sup> <https://www.capitalfm.co.ke/eblog/2017/08/23/smes-critical-actualizing-environmental-policies/>

Some recent developments are signs of progress, like the WTO's Trade Facilitation Agreement (TFA). This went into force in February 2017 to help harmonize the movement, release and clearance of goods to reduce the burden of importing and exporting goods across borders.

This white paper will build on examples like the TFA to gather on-the-ground experience and thought leadership from experts on all sides of the issue: private companies, government agencies, NGOs and others that are cracking the code on SME cross-border trade. It is organized into four major recommendations: encourage knowledge sharing, increase efficiencies in procurement, enable innovations in payment technology and examine Free Trade Zones in eCommerce.

*The findings in this white paper were gathered from several sources, including the Mastercard Salon event in Washington, DC in July 2017, 'Harnessing Trade for Growth.' Thanks to all the experts, government officials and NGOs who gave their time to discuss the issues that are critical to global SME success.*



19% of SMEs say access to financing is a "severe" obstacle

20% avoid applying for loans due to complex application procedures

Source: World Bank

## RECOMMENDATION 1

# Encourage Knowledge Sharing

Many entrepreneurs lack financial knowledge, strategic vision, resources and, in some cases, the willingness to attract sources of finance other than straight debt.

— OECD, 2017

SMEs have been able to create success stories and best practices. But they need to be centralized and shared. Businesses have an urgent need for consistent and reliable sources of information on payments technology standards, available partnerships, credit policies, regulations in the legal environment, infrastructure and restrictions on the international transfer of funds.

In its June 2017 report, "Enhancing the Contributions of SMEs in a Global and Digitalized Economy", the OECD Council at Ministerial Level said, "...a key challenge for many SMEs is to identify and connect to appropriate knowledge partners and networks," adding that success for SMEs depends on "...their access to strategic resources...such as education and training, innovation and infrastructure."

Some existing partnerships serve as models for SME knowledge sharing. In the United States, the International Trade Commission under the U.S. Department of Commerce manages District Export Councils that foster micro-markets. The Export-Import Bank of the United States (Exim Bank) does similar work on a macro level.

While macro-economic knowledge access and transparency for SMEs is still nascent, notable projects are using social media-style platforms to achieve scope and scale. The Inter-American Development Bank (IDB) is backing an effort in the Latin America Caribbean region (LAC) called ConnectAmericas, which is one such online capacity-building platform. Launched in 2014 by the IDB's Trade and Investment Division, ConnectAmericas.com has registered 140,000 entrepreneurs in 120 countries, with the majority located in LAC. While the site is not yet transactional, the IDB has set a goal to originate \$3.3 billion in trade via the ConnectAmericas platform by 2019.

Francisco Estrazulas de Souza, Trade and Investment Specialist with the IDB, says ConnectAmericas has been so successful that it is being offered as a white-label solution to trade partners. "White-labeling organizations will hit the ground running with 140,000 entrepreneurs in 120 countries, 11 online open courses, thousands of purchasing announcements, and the ability to add their own tools," Estrazulas de Souza says. "As new entrepreneurs join, either through ConnectAmericas or any white-labeled version of the site, they become visible to all members in the system."

Public-private partnerships can make information more accessible to SMEs. For example, Mastercard has been working with the IDB since 2014 to promote the transition to electronic payment services in the region, which can help reduce transaction costs and increase the efficiency of financial disbursements. Replacing cash-based systems with electronic ones also can potentially reduce leakages, increasing the likelihood that payments and benefits end up in the hands of intended beneficiaries and recipients, helping to improve the lives of the underserved.

## RECOMMENDATION 2

# Increase Efficiencies in Procurement

Up to 29% reduction in time for SMEs by leveraging digital tools, and 78% of this time saving is driven by a more streamlined operational support backend.

*The Micro Revolution: the new stakeholders of Trade in APAC, APMC, November 2017*

Optimizing internal SME processes by automating invoices, settlement, payment and reconciliation is a pillar of many SME export initiatives. Digitization will allow SMEs to improve the speed, ease and security of their commercial payments. And because of WTO and World Customs Organization (WCO) agreements, many countries are now installing single digital windows (which act as a platform for electronic exchange of trade information) as cross-border trade portals. Dozens of government agencies can operate off a multiple submission request to a transparent digital platform: submit once and goods clear.

On the industry side, private sector players capture essential shipment data at origin, which is then pushed, prior to wheels-up, to the border agencies in the receiving country. This data contains the essential information that allows for the comprehensive processing of a cross-border shipment. "In the age of eCommerce and the immense volume of shipments, the challenge is to ensure border agencies have the capacity and incentive to use the advance data in order to release the shipment upon arrival at the border," says Amgad Shehata, SVP of International Public Affairs & Strategy at UPS. The real opportunity today is the engagement of SMEs that are leveraging digital platforms to access the global marketplace. Enabling these 'micro-multinationals' are the synthesized solutions provided by the likes of Facebook, eBay, Etsy, Alibaba, UPS, Mastercard, and others. "However, without streamlined customs processing of shipment data and efficient risk management mechanisms," Shehata adds, "these goods are stuck at the border, thereby adding time, cost and complexity to trade, and dampening SMEs' global ambitions."

**"The U.S. Government Accountability Office (GAO) [found] that the 17 federal agencies with export promotion programs could be made more effective through better coordination, elimination of duplicative activities, and better allocation of resources."**

**— Trade Barriers That U.S. Small and Medium-sized Enterprises Perceive as Affecting Exports to the European Union, United States International Trade Commission (USITC)**

Several international organizations including the United Nations and the OECD, have advocated for more access to digital process innovation.<sup>4</sup> The OECD has called for a more open "eco-system for SMEs, one that shares policy information among regions and access to financial process best practices. Some government policy makers have taken the lead. In 2016, the EU European Multi-Stakeholder Forum approved an open-source e-procurement platform (including invoicing) that allows the implementation of interoperable electronic services within any public administration. It is connected to a web portal allowing suppliers, such as SMEs, to manually encode their invoices via a web form.

Again, the private sector has played a crucial role. In the Latin American and Caribbean region, RGX (Global Export Network) has developed a project for cross-border commerce for SMEs with Mastercard based on the MastercardBiz.com platform. It offers SMEs value-added services necessary to export or import, including the ability to search for new clients in international markets and identify and pre-select potential international markets.

<sup>4</sup> <https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>

## Leveraging the Mastercard.biz digital service platform as a resource for SMEs

The screenshot shows the top section of the Mastercard Biz Caribbean website. At the top left is the Mastercard logo and the text "MasterCard Biz Caribbean". To the right is a search bar with a "Search" button and a "Select a location:" dropdown menu. Below this is a main banner with the heading "Have a MasterCard?" and the subtext "Then you already have access to valuable information that could help your business with import and export." The banner image shows a man in a white jacket gesturing towards a world map. Below the banner is a "Categories" sidebar on the left with links for Articles, Expert Videos, FAQs, Free Foreign Trade Consulting Services, Our Global Partners, Success Stories, and Exclusive Small. The main content area features three article cards, each with a thumbnail image, a title, a date, and a category label. The first card is titled "3 Ways to Improve Your Company's Profitability Now" (September 2, 2016). The second is "Guidelines for setting an export price" (August 26, 2016). The third is "Sharing Economy Opportunities for Caribbean Tourism" (August 12, 2016). Social sharing icons for Facebook, Twitter, LinkedIn, and Email are visible above the articles.



## RECOMMENDATION 3

# Enable Innovation in Payments Technology

“Interoperability is a game changer, and it’s happening whether we like it or not.”

— Torbjörn Fredriksson, United Nations

For SMEs, competitive economics are critical to cross-border commerce. Access to new payments technology can provide cost-effective solutions that deliver both speed and security. Blockchain technology is expected to be a game-changer with regard to customs and international trade procedures. Many of the costs associated with global trade are due to opacity in regulatory processes and between agencies. As a shared digital hyper-ledger where every change is visible to every member of the system, blockchain can greatly increase speed, security and transparency. The IDB is betting on blockchain, as are IBM and Danish transport giant A.P. Moller-Maersk Group (Maersk) with pilot projects now running in East Africa.

While blockchain technology gets a lot of attention, the short-term future depends on more grounded payments innovations. A report, “Cross Border Payments For Cross Border Merchants - An Internationally ‘Local’ Future,” surveyed 200 merchants that are already conducting international trade.

“The digital landscape is breaking down barriers between regions, opening up a global market and global customer base,” says Anders la Cour, CEO of Saxo Payments. “But the practicalities and costs of payments often stand in the way of this progress. Half of the merchants who responded to our survey said their biggest concern about making and accepting cross-border payments is the transaction fees. Forty percent are concerned about getting the best FX rate, and speed of processing payments is a concern for 29 percent. These are all issues emanating from the traditional correspondent banking infrastructure.”<sup>5</sup>

Specifically, Saxo Payments found SMEs are struggling to access the speed and cost-efficiency they need in global transacting. Indeed, more than 47 percent of survey respondents said the speed of settlement is their top priority, aside from cost, when choosing a bank, payments provider or FX provider. That surpasses low FX fees (44.6 percent) and the range of currencies offered (40.6 percent).

“The payments landscape is very diverse, and the countries involved have different levels of maturity,” says Torbjörn Fredriksson, who heads the ICT Analysis Section of the Division on Technology and Logistics at the UN Conference on Trade and Development (UNCTAD). “Payments innovations like mobile must work in tandem with the banking system. What works in Kenya may not work in Australia. But from a UN point of view, interoperability is a game changer, and it’s happening whether we like it or not.”

However, innovation will only come after SMEs get better access to credit, specifically financial instruments that enable cross-border trade, such as Letters of Credit. According to an International Finance Corporation report, only 24 percent of SMEs in LAC have access to credit. Thirty-five percent say they are “unserved” by the formal financial system; 17 percent are “underserved.” Even fewer use a Letter of Credit facility. Twenty-two percent of the World Bank respondents say the bank requires too much paperwork. Banks, on the other hand, are less inclined to offer a Line Of Credit for lower value transactions as the paperwork and cost involved in processing of a \$100,000 versus a \$5MM Letter Of Credit is similar, with obvious disparity in returns.<sup>6</sup> Bottom line: 31 percent of SMEs say of this restriction impedes their ability to export.<sup>7</sup> One of the solutions here could be a business credit card positioned and leveraged for cross-border, low-value payments (usually less than \$50K) to bring more efficiency to banks and the small business, for whom the process and approval for credit would be simpler and less costly than a full-fledged Letter of Credit.

<sup>5</sup> <https://www.pymnts.com/news/b2b-payments/2017/saxo-payments-cross-border-sme-survey/>

<sup>6</sup> <https://www.smefinanceforum.org/data-sites/ifc-enterprise-finance-gap>

<sup>7</sup> <https://www.sciencedirect.com/science/article/pii/S2214845016300539>

## RECOMMENDATION 4

# Examine Free-Trade Zones for eCommerce

“For [SMEs], eCommerce can significantly lower the costs of doing business across borders. It also provides a platform that allows producers to access the global marketplace, reach a broader network of buyers and, potentially, to participate in global value chains.”

— Roberto Azevêdo, Director-General of the WTO, April 2017

According to the *Dictionary of International Trade*, a free-trade zone is a “special commercial and industrial area in or near ports of entry where foreign and domestic merchandise may be brought in without being subject to payment of customs duties.” They can be controversial. Proponents say they increase growth. Opponents say they lower needed tax revenue. The balance has been tipped however, when it comes to cross-border trade for SMEs.

China has created several Free Trade Zones in which goods delivered by express mail avoid troubles in customs clearance, settlement of exchange and tax reimbursement. The practice demands closer study, and holds clues to encouraging SME cross-border trade elsewhere.

“Roughly 90 percent of all businesses worldwide are SMEs, and one percent of global exports are done by SMEs. That’s the delta of opportunity,” says Shehata. “We spend time trying to secure some of that in the TPP (Trans-Pacific Partnership) through the digital and small business chapters. It’s also being discussed in the NAFTA renegotiations.”

The Asia-Pacific Economic Cooperation (APEC) and the Regional Comprehensive Economic Partnership (RCEP) are also pursuing digital eCommerce that sets up a regulatory framework to help SMEs operate internationally by creating “...an SME-friendly environment,” Shehata says. “The current regulatory regimes are pre-digital. We’re talking about changing processes to leverage the digital world. This will disproportionately and positively impact SMEs.”

A recent example of this was the November 2017 phase one completion of the new Digital Free Trade Zone (DFTZ) established by Malaysia Digital Economy Corporation (MDEC)—the country’s lead eCommerce agency—and China’s Alibaba Group. Billed as the first of its kind outside China, partners believe eCommerce could double Malaysian SME exports and create 60,000 jobs by 2025. When first announced, Alibaba Group Executive Chairman Jack Ma said, “The first e-hub... outside of China will go a long way towards making global trade more inclusive and provide much needed support to a hugely important constituent: SMEs and the younger generation.” Alibaba is also pivotal in China’s Hangzhou Cross-Border e-Commerce Comprehensive Pilot Free Trade Area, which will be linked to the new DFTZ near Kuala Lumpur.

# Conclusions

The opportunities set out in this paper require partnerships. International organizations such as the WTO and the UN are built on cooperation between members, private sector partners and the citizens they benefit. Educational access has also been achieved through public-private partnerships. Payments innovations will be developed by private companies, for example, but distribution to SMEs will be helped by government policy and communication. The role of governments in developing SMEs for trade becomes a key component of economic policy. It was a prevalent theme at the recent WTO summit in Buenos Aires, Argentina, where "Trade Impact for Good" was the overarching message.

To become direct or indirect exporters and actualize untapped economic potential, SMEs need awareness of export opportunities; understanding of the rules of engagement; education on the best processes for payment, risk and compliance; and connectivity to global opportunities. Governments, in turn, must facilitate by providing access to trade-related capacity-building programs; simplifying border processes to foster/encourage trade engagement; developing access to new markets and modern rules; driving regulatory transparency to enable trust; and ensuring equal and broad access to platforms. Governments must overcome the tendency to live in a world of 21st century technology hampered by 20th century regulations. And perhaps most importantly, governments can facilitate the process through which SMEs gain access to credit.

"There is a lot of research going into finding real export potential," says Victor Umaña Vargas, Director of the Latin American Center for Competitiveness and Sustainable Development of the INCAE Business School. "With this mentality, the agglomeration of SMEs into clusters makes a lot of sense. Then you have economies of scale for delivering any kind of services or products across this cluster. You can have interventions that are good for everyone."

Government and international development organizations can influence the growth of cross-border eCommerce for SMEs, via a well-balanced policy approach and practice. The four recommendations here provide actionable examples of that influence, but the list is by no means exhaustive. They are meant to start a useful dialogue between public and private sector players on addressing the key challenges. Including the SMEs as a meaningful voice in this dialogue will be essential if eCommerce is to exploit its full potential and become truly inclusive.

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For more information on SMEs and cross-border trade,  
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