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Legislated Endowments and Size Matter for MSMEs

An Enquiry of the Heterogeneity of National Definitions

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Legislated Endowments and Size Matter for MSMEs

An Enquiry of the Heterogeneity of National Definitions

Abstract

Small businesses are increasingly becoming the drivers of the growth of a nation and also contributing to global development across sectors and regions. Despite the increasing significance, overall, the participation of MSMEs in international trade has remained insignificant and sparse. Especially in LDCs and Developing countries, they are hindered by their small size. The MSME firms also are faced with various other obstacles that curtail growth and development. Multilaterally various initiatives have been taken to ensure increased participation of MSMEs in international trade. Particularly significant is the principle of National Treatments, however, one of the associated pitfalls is that an agreement at the multilateral level would make discrimination of two similar entities (MSMEs) an act of violation under the WTO.

Another dimension is that one of the requirements of enhancing international trade is by way of the adoption of ISO standards, both mandatory and non-mandatory. Both of these are driven by lead firms and consumers from developed countries. Since 2015 with the Sustainable Development Goals (SDGs) being agreed upon under the UN framework, the adoption of ISO standards may be insisted for the industrialised world, and it may continue to grow in significance as a majority of these standards have been assigned to the seventeen SDGs.

However, one of the major hindrances faced in implementing and providing solutions uniformly to these firms remains the definitional fog present in addressing a firm as a Micro, Small and Medium Enterprise. In this context, the paper analyses the national definition of thirty-five territories and the criteria used to define a business as an MSME. Upon analysis, it was found that territories define MSMEs based on some combination of the following criteria: a) annual turnover, b) the number of employees, and c) capital assets. There are concerns that uniformity or homogeneity in definition will lead to equal implications (obligations and rules) due to a similar treatment that gets accorded to firms with otherwise different sizes and capacities.

The paper provides a comparative analysis using a single parameter (US dollar), which then revealed differing capacities in terms of endowments and size across the MSMEs at the global level. The paper, therefore, dissects with the intent to explore if the definition of MSMEs may also vary by the sector of economic activity.

1. Introduction

Small businesses are increasingly gaining strength and becoming an essential part of the growth of a nation. At the global level, they have contributed to growth across select sectors and regions. The increase in the trade between these firms has led to the increased attention of the multilateral bodies to address some of their concerns. However, at the national level, businesses that are not large have been (for the sake of uniformity and policy formulation) termed Micro, Small and Medium Enterprises (MSMEs)². An aggregation of the MSME accounted for 90 per cent of all businesses around and also contributed immensely to the GDP growth and employment across the world.³ According to World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which will make SME development a high priority for many governments. In Emerging Markets, most formal jobs are generated by SMEs, which generate 7 out of 10 jobs.⁴

As a sector, the MSME plays different roles across nation-states. Broad functions that can be associated with MSMEs are the following: facilitate technological development, capital accumulation, and create employment. Thus, leading any nation-state towards the path of overall development and welfare. Therefore, the MSME sector, especially in developing and Least-Developed nations, contributes overwhelmingly towards socio-economic development by promoting economic development and generating employment, empowering women, reducing income inequalities, and improving living standards, among others. Much of these activities in the Developing and LDCs are undertaken by MSMEs in the informal sector.

Despite these considerations, MSME participation in international trade has remained insignificant and sparse in the case of developing and LDCs.⁵ Hindered by their size, MSME firms face various obstacles that hinder their growth and development.⁶ The challenges faced by them are of a wide range like lack of knowledge, institutional support, access to trade finance^{7,8}, complicated border measures, and lastly, regulatory and technical hindrances. Due

² In the paper SMEs and MSMEs are cross referenced conveying almost the same meaning, except when referred in the context of chronological order.

³ ICSB, 2019, ICSB Annual Global Micro, Small and Medium Sized Enterprise Report, International Council for Small Business, 27 June, <https://icsb.org/wp-content/uploads/2019/09/REPORT-2019.pdf>.

⁴ World Bank, (n.d.), Small and Medium Enterprises (SMEs) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital, website, <https://www.worldbank.org/en/topic/sme/finance>.

⁵ WTO, Small business and trade, Trade Topics, https://www.wto.org/english/tratop_e/msmesandtra_e/msmesandtra_e.htm.

⁶ OECD, Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices, Centre for Enterprises, Organisation for Economic Co-operation and Development, <https://www.oecd.org/cfe/smes/2090740.pdf>.

⁷ Kushnir K., Mirmulstein M. L., and Ramalho R., 2010, Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count? World Bank and International financial Corporation https://www.smefinanceforum.org/sites/default/files/analysis_note_2010.pdf

⁸ WTO, The challenges of trade financing, https://www.wto.org/english/thewto_e/coher_e/challenges_e.htm, last accessed on June 11th, 2022.

to the limited capital availability, these firms are often not as responsive to technological up-gradation, compliance with increased trade costs, innovation to the evolving regulations, and often are unable to adopt suitable coping strategies. Therefore, accessibility and affordability to trade opportunities for MSMEs remain directly proportional to their size in the economy.^{9,10} This situation got worsened by the COVID-19 pandemic. A study in 2020 by International Trade Centre reported that the MSME sector was the most vulnerable to the pandemic, with it having a strong impact on about 64% of all micro-enterprises, 60% of all small enterprises and 51% of all medium enterprises.¹¹ The survey also reported that women-led firms were more adversely affected by the pandemic as compared to enterprises led by men.¹²

Various initiatives have been taken by international organisations to ensure an increase in the participation of MSMEs in international trade. However, one of the major hindrances faced in implementing and providing solutions uniformly to these firms remains the definitional fog surrounding a firm which gets categorised as an MSME. As it will be analysed in the later parts of this paper, at the international level, there is an absence of a universally recognised definition to address MSMEs. Due to this reason, most countries use their domestic definitions while qualifying a business as an MSME. The factors considered for the qualification may also vary depending upon the country where the analysis has been made. One country may consider a criterion based on the number of employees, and on the other hand, country Y may refer to the turnover criterion to give a firm the benefits accorded to an MSME entity. An additional concern arises when even within nations, there is a presence of variations in the definition used depending upon the sector for which this criterion may be used. This leads to a multiplicity of definitions and issues while providing incentives and benefits to an enterprise.

This paper highlights the definitional commonality at the international level. In the absence of the same, it analyses the heterogeneous characteristics in the definition, which gets adopted by different nations across various sectors. The paper has been divided into six sections. Section two of the paper covers the methodological and data-related issues. Section three addresses the multilateral initiatives and the challenges in the context of the application of national treatment for MSMEs. The fourth section deals with an analysis of the three common criteria used by thirty-five countries to define a firm as MSME. In the fifth section, thirty-five countries have been analysed in detail by categorising them into manufacturing and non-manufacturing national definitions. The last part of the paper concludes the study and provides

⁹ IFC, 2017, “MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging markets”, International Finance Corporation, Washington, <https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSMEReportFINAL.pdf?MOD=AJPERES&CVID=m5SwaQA>.

¹⁰ RBI, 2019, Report of the Expert Committee on Micro, Small and Medium Enterprises, Reserve Bank of India, June.

¹¹ International Trade Centre, (2020), SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and its Impact on Small Business, June, <https://www.intracen.org/publication/smeco2020/>.

¹² *ibid.*

recommendations.

2. Methodology and Data

Against the backdrop of increasing attention to the MSMEs, the paper focuses on some of the critical questions. The core of our analysis in the paper focuses on the question: what exactly is considered an MSME? We have shortlisted thirty-five prominent countries (which consist of both developed and developing countries) based on their share of global exports. To bring out the definitional issue at the forefront, the authors first shortlisted countries, and they are listed in table 1. The authors then used secondary data such as each country’s official website to source the definition of MSME. It was found that countries use three criteria: the number of employees, annual turnover and capital assets to define MSMEs. For the financial figures, the paper used US dollars to arrive at a comparable common currency as all thirty-five MSME definitions of annual turnover and capital assets were in local currencies.

Table 1: List of Thirty-Five Countries Shortlisted for Analysis

List of Thirty-Five Countries				
Australia	Germany	Lao PDR	Philippines	Switzerland
Austria	Hong Kong, China	Macao	Russian Federation	Thailand
Belgium	India	Malaysia	Singapore	Turkey
Brazil	Indonesia	Mexico	South Africa	United Arab Emirates
Canada	Italy	Netherlands	Spain	United Kingdom
China	Japan	New Zealand	Sri Lanka	United States
France	Korea, Rep	Pakistan	Sweden	Vietnam

Source: Based on global trade share of countries

In the existing literature, there are only a few studies reviewing this question. Rudolf and Marta¹³, in their paper, very briefly highlight the definition used to describe MSMEs across a limited number of countries and focus on providing an overview of the issues that Members might want to address at the WTO. Tom & Van der¹⁴, in their paper, reviewed how SMEs are defined in developing countries and highlighted the multiplicity of definitions across some of the listed countries. Moreover, most of the other existing studies, such as the one by Esubalew & Raghurama,¹⁵ have tried to discuss the parameters used to define MSMEs by different international multilateral institutions.

We have analysed in this paper the definition used by International Finance Corporation, a member of the World Bank Group. IFC uses a common standard definition according to which

¹³ Rudolf Adlung and Marta Soprana, SMEs in Services Trade - A GATS Perspective, 2021, Staff Working Paper ERSD-2012-09, WTO.

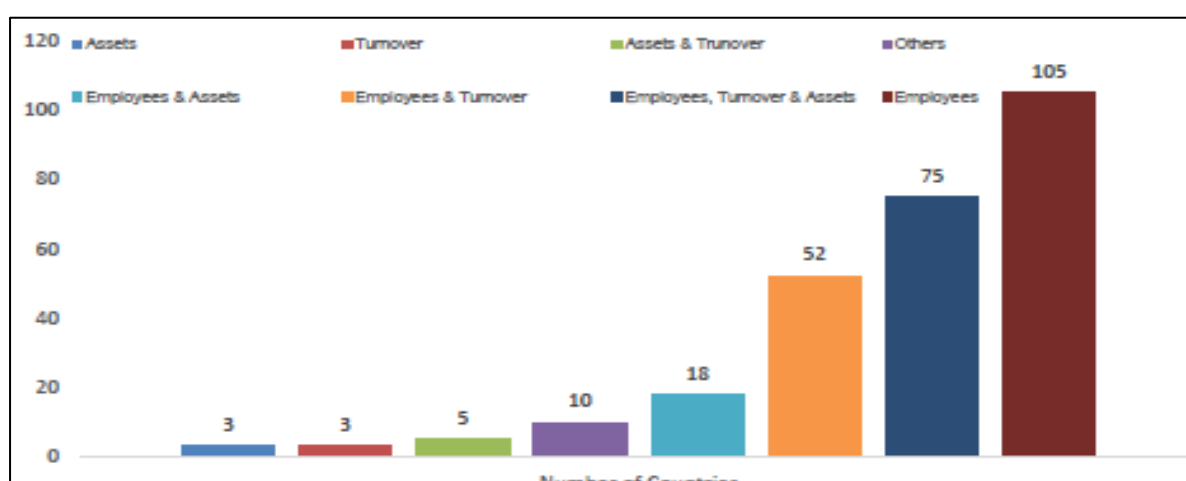
¹⁴ Tom, G., & Van der, V. Defining SMEs: a less Imperfect Way of Defining Small and medium Enterprises in Developing Countries 2008, Brookings Institute.

¹⁵ Esubalew, A. & Raghurama, A.; Revisiting the Global Definitions of MSMEs: Parametric and Standardization Issues, 2017, Asian Journal of Research in Business Economics and Management, Vol. 7, No. 8, pp. 429-440.

an enterprise is “micro” if its total assets and annual sales are up to USD 100,000, a number of employees is less than 10; an enterprise is “small” if it has total assets and annual sales are in between USD 100,000 and USD 3 million, a number of employees are between 10 and 49, and an enterprise is “medium” if it has total assets and annual sales are in between USD 3 million and USD 15 million, the number of employees is between 50 and 300. Additionally, an enterprise qualifies as a micro, small or medium enterprise if it meets two out of the above three criteria. However, this definition has various drawbacks. First, the definition is not universally accepted. Second, if the criteria mentioned in this definition are used, it may encompass even some of the large entities existing in the developing countries and the LDCs.

As per IFC (2014) report, among the 267 definitions used by different institutions in 155 economies, a widely used variable for defining an MSME is the number of employees (92% of the analysed definitions utilised it). Overall, 11% (out of 267) of the analysed definitions utilise alternative variables such as loan size, formality, years of experience, type of technology, size of the manufacturing space, and initial investment amount, among others which can be seen in figure 1.¹⁶

Figure 1: Heterogeneity in Definition of MSMEs



Source: Reserve Bank of India, 2019, Chart 4 Page 13.

A detailed breakdown of the definition used by various other multilateral organisations is given in tables 2, 3 and 4 below.

Table 2: Definition of Micro Enterprises Under the Multilateral Institutions

SN.	Institution	Areas of Operation	Max. No. of Employees	Max. Revenues or Turnover (\$)	Maximum Assets (\$)
1	World Bank (IFC)	Dev. Finance	9	< \$100,000	< \$100,000
2	Af. Dev. Bank	Dev. finance	9	(none)	(none)
3	As. Dev. Bank	Dev. finance	No universal definition, and it uses the national definitions.		
4	UNDP	Dev. Agency	5	(none)	(none)

¹⁶ RBI, 2019, Report of the Expert Committee on Micro, Small and Medium Enterprises, Reserve Bank of India, June.

5	WTO*	Commercial & Dev	(none)	(none)	(none)
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Note: Af. Dev = African Development Bank, As. Dev =Asian Development Bank.

Source: Adapted based on table 1 on page 5, Gibson and Vaart (2008), * = authors interpretation.

Table 3:Definition of Small Enterprises Under the Multilateral Institutions

SN.	Institution	Areas of Operation	Max. No. of Employees	Max. Revenues or Turnover (\$)	Maximum Assets (\$)
1	World Bank (IFC)	Dev. Finance	49	< \$3,000,000	< \$3,000,000
2	Af. Dev. Bank	Dev. finance	49	(none)	(none)
3	As. Dev. Bank	Dev. finance	No universal definition, and it uses the national definitions.		
4	UNDP	Dev. Agency	200	(none)	(none)
5	WTO*	Commercial & Dev	(none)	(none)	(none)

Note: Af. Dev = African Development Bank, As. Dev =Asian Development Bank.

Source: Adapted based on table 1 on page 5, Gibson and Vaart (2008), * = authors interpretation.

Table 4:Definition of Medium Enterprises Under the Multilateral Institutions

SN.	Institution	Areas of Operation	Max. No. of Employees	Max. Revenues or Turnover (\$)	Maximum Assets (\$)
1	World Bank (IFC)	Dev. Finance	300	\$15,000,000	\$15,000,000
2	Af. Dev. Bank	Dev. finance	250	(none)	(none)
3	As. Dev. Bank	Dev. finance	No universal definition, and it uses the national definitions.		
4	UNDP	Dev. Agency	200	(none)	(none)
5	WTO*	Commercial & Dev	(none)	(none)	(none)

Note: Af. Dev = African Development Bank, As. Dev =Asian Development Bank.

Source: Adapted based on table 1 on page 5, Gibson and Vaart (2008), * = authors interpretation.

The paper, therefore, highlights the shortcomings in the definition of MSMEs and their related developmental implication with an increased emphasis on trade as a vehicle for national development at the multilateral levels. The paper contributes to the existing literature by putting forth an updated official definition of as many as thirty-five countries with a significant share in global trade in value terms. Secondly, the paper goes beyond just listing the criteria. After using the exchange rate to bring the financial figures into a common currency, visual representation and in-depth analysis are conducted to highlight the heterogeneity between definitions of various countries.

3. Developments related to MSMEs at International Trade Organisations¹⁷

The overall awareness of policymakers and the developmental ecosystem are crucial to forming a trade agreement - reflected by ensuring a balanced outcome in terms of benefit sharing and enhancing the participation of marginalised sectors at national and global levels. The stalling of the Doha Developmental Mandate had a particular impact on the NAMA negotiations¹⁸,

¹⁷ The authors acknowledge some contribution from Ms Keerti Singh, former Research Fellow (legal) CWS.

¹⁸ Doha Developmental Round negotiations was to address the inequalities of the global commerce, and to do it, a development-oriented approach was taking on the non-agricultural market access (NAMA) forced the

which initiated the subsequent branching out of the multilateral initiatives and negotiating efforts in the so-called new areas like healthcare, gender, digital commerce, MSMEs and the expansion seen in the environment under Para 31.¹⁹ Across all these sectoral/plurilateral negotiations, a common aspect was having a harmonious approach targeted toward addressing and achieving a rule-based horizontal liberalisation of all trade barriers. An increased focus on the incentives addressing adequate participation of the MSMEs through trade agreements can provide the sector with adequate benefits and protection. In WTO's 12th Ministerial Conference to be held in Geneva (June 13-15, 2022), one of the agendas for discussion is the concerns and issues related to the MSMEs. However, any negotiation on the MSMEs would have to start on the basis of the draft declaration and the oath taken in 2021. The friends of MSMEs led by Canada, EU, Korea and others have seen an increase in the number of supporters from 28²⁰[36²¹] from the proposal document to the General Council to 55²² at the 11th Ministerial Conference and finally 64²³ in October 2021. Thereby indicating a growing recognition of the process within the WTO.

In 2021 the WTO Members took an oath, and the details are:

“We, the Heads of Delegations representing the following Members of the WTO: [...],

- *Acknowledging that the integration of Micro, Small and Medium-sized Enterprises (MSMEs) in international trade enhances their contribution to the economic development of WTO Members as sources of job creation, innovation, entrepreneurship and economic growth;*
- *Stressing that promotion of the participation of MSMEs in international trade is, therefore, an important issue in the WTO agenda;*
- *Recalling the centrality of the multilateral trading system, with the WTO at its core, to foster a transparent, inclusive, [non-discriminatory], and predictable global trade environment [where MSMEs can compete on a level playing field] [that supports MSMEs' involvement in international trade];*
- *Recognizing that the COVID-19 pandemic has had a significant negative impact on MSMEs and that a coordinated global response remains necessary to help MSMEs bounce back;*
- *Reaffirming our pledge, as contained in our Joint Ministerial Statement at Buenos Aires, to address obstacles related to foreign trade operations that represent a significant burden for MSMEs interested in participating in international trade;*
- *Reiterating our resolve to favour horizontal and non-discriminatory solutions which are likely to yield benefits for the participation of MSMEs in international trade, taking into account the specific needs of developing Members and least developed countries;*
- *Desiring to support the consideration of MSME-related issues in the regular work of WTO bodies and any other relevant work in the WTO.”²⁴*

WTO membership to achieve a meaningful result through the liberalisation of other areas like digital trade, trade and environment, gender and trade and the MSMEs.

¹⁹ WTO, 2001, Doha Ministerial Declaration, adopted on 14 November 2001, https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm.

²⁰ WTO, 2017, Draft Ministerial Decision on Establishing a Work Programme for Micro, Small and Medium Enterprises (MSMES) in the WTO, Proposal by the Group of Friends of MSMES, JOB/GC/147, 30 October 2017,

²¹ WTO, 2017, Draft Ministerial Decision on Establishing a Work Programme for Micro, Small and Medium Enterprises (MSMES) in the WTO, Proposal by the Group of Friends of MSMES, JOB/GC/147, 30 November 2017.

²² WTO, 2017, Buenos Aires Ministerial Declaration, 10-13 December 2017, 11th Ministerial Meeting in 2017.

²³ Refer, <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/MIN21/1.pdf&Open=True>

²⁴ World Trade Organization, Informal Working Group on MSMEs, Draft Declaration on Micro, Small and Medium-Sized Enterprises (MSMEs), WTO doc. INF/MSME/W/33/Rev.2 (13 July 2021).

Against this backdrop, many initiatives have been taken by international organisations to ensure an increase in the participation of MSMEs in international trade. The Informal Working Group (IWG) aims to address the obstacles related to foreign trade operations that represent a significant burden for MSMEs interested in participating in international trade. In addition, the IWG instituted a Digital Champions for Small Business plan to help small businesses go global. A trade for MSME web platform is also being developed by the IWG so that all trade-related information on MSMEs, like export procedures, trade guides, and good practices, can be made available on a single platform.²⁵ On 24 September 2021, a draft Ministerial declaration for the 12th Ministerial Conference on MSME issues has been finalised by this group and has been made open to all WTO members for their sponsorship.²⁶

To address MSME concerns on trade finance, the Working Group on Trade, Debt and Finance launched during the Doha Declaration has been working on enhancing the availability of finance and providing solutions to debt-related problems faced, especially by MSMEs, women and youth. Additionally, the Aid for Trade initiative,²⁷ which works on addressing the trade-related constraints of the developing and least-developed countries, in its 2018-19 Work Programme, examined how trade could contribute to economic diversification, empowerment and poverty reduction through MSME participation. The MSME discussion has been continued for the 2020-22 Aid for Trade Work Programme, which seeks to analyse how economic growth and industrialisation interact with ‘green growth’ specifically with MSMEs, women and youth. All such efforts would be taken in a horizontal manner, thereby treating the MSMEs as a single entity world over.

However, the important definitional consideration which forms the basis for all the trade policymaking in this sector has remained absent from the initiatives that are being considered at the WTO. In 2003, during the Special Session on Council for Trade in Services, a few delegations had expressed an interest in adopting a common understanding for the classification and definition of SMEs, but the proposal could not reach a consensus.²⁸ Since then, multiple initiatives have come to force relating to MSMEs, but there has been almost no discourse at the WTO on the definitional aspect of addressing MSMEs uniformly.

3.1 NT Principal and the Challenges for the MSMEs

The two basic principles of non-discrimination which would challenge the question of definitional uniformity are: national treatment (NT) and the other being the most favoured

²⁵ World Trade Organization, General Council, Minutes of Meeting held on 27-28 July 2021, WTO doc. WT/GC/M/192 (4 October 2021).

²⁶ See, https://www.wto.org/english/news_e/news21_e/msmes_28sep21_e.htm

²⁷ The focus areas of the WTO’s trade4msmes have been limited to the following eight areas like trade in Goods; trade in Services; intellectual property; contractual disputes; digital technologies and trade; access to finance; capacity building; and regional trade agreements (RTAs). Refer, <https://trade4msmes.org/msme-resources/msme-library/>.

²⁸ World Trade Organisation, Council for Trade in Services Special Session, Report of the Meeting held on 28 October and 1 November 2002, WTO doc. TN/S/M/4 (11 February 2003).

nation (MFN) treatment. Under the WTO, the latter may not be directly relevant and is generally a measure applied at the border and may not be directly relevant in the case of MSME negotiations. The former is relevant and may have a counter-productive impact on application and practice. What is particularly significant is the applicability of national treatment in adopting common guidelines, codes, rules, frameworks and regulations on trade between two territories for the MSMEs as a group. National treatment as a principle provides for equal treatment of goods manufactured locally and globally. In other words, this principle ensures competitive equality between goods and services imported and the ones produced domestically. It would mean any benefits that a national government extended are similar to the product produced domestically and those which are imported. Therefore, it becomes a significant policy concern for a nation which applies the NT principle to a sector or product belonging to MSME uniformly across the otherwise heterogeneous group belonging to different national territories. This issue stems from the very fundamental concern as to how the MSMEs have played a central role in the nation's development policy space.

For example, an entity that is USD ninety thousand (in terms of turnover) in country 'X' will be treated equivalently and be provided with the same treatment and benefits similar to USD one thousand in country 'Y'. Under these conditions, both entities will face equal treatment under the multilateral rules. Having a common/uniform definition across territories could be desirable, but it may also be counter-productive. Adopting a common definition would ensure an easier and more effective comparison between the data points by way of comparing the facts and figures of various MSMEs and better formulation of policies. While on the other hand, due to the difference in economic development between nations, the acceptance of an international definition could prove to be counter-effective. This is primarily because of the varying definitions based on various economic realities and social considerations prevalent across territories. There are concerns that uniformity or homogeneity in definition will lead to equal implications (transparency obligations & rules) due to a similar treatment that gets accorded to firms with otherwise differential capacities. MSME growth is a significant area in ensuring comprehensive economic and social development. If each country incentivises its MSMEs adequately in the coming years, it could provide far-reaching returns in international trade and businesses.

3.2 ISO²⁹ Standards and MSMEs

Over the years, the adoption of ISO standards has been increasing across agro-based, manufacturing and non-manufacturing sectors through the various codes, guidelines, standards, and regulations. These standards provide internationally agreed processes that describe the

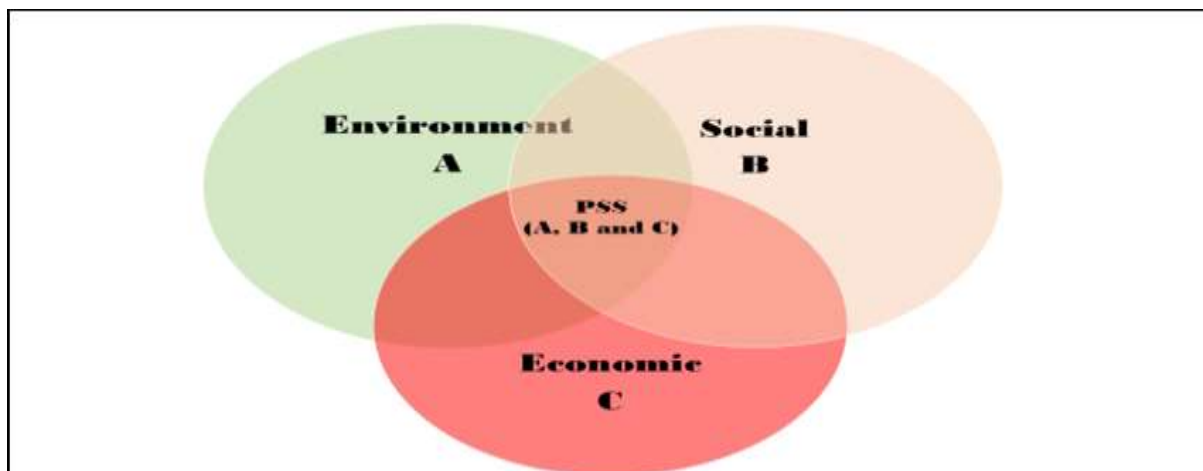
²⁹ The International Federation of the National Standardizing Associations (ISA) and United Nations Standards Coordinating Committee (UNSCC) delegates from 25 countries met in London and agreed to join forces to create the International Organization for Standardization (ISO) on 23rd February 1947 in London, with its headquarters in Geneva.

best way of doing a specific activity, ensuring safety, reliability, and quality, and the size of the firm is not a consideration. Adoption of an ISO standard would enable and facilitate an increased possibility of a trade. Since 1947 the ISO has developed close to 29,986³⁰ standards focusing on health, safety, documentation and transparency and environment for firms to adopt.

Globally the transition from millennium development goals (MDGs) to sustainable development goals (SDGs) happened in 2015 and brought about radical changes in the approaches to standardisation. Under the MDGs, the social, environmental and economic issues were dealt with separately, but soon it was realised that such treatment had its negative consequences. Therefore, the SDG was introduced after nearly two decades and addressed all of the seventeen Goals in an interconnected manner, meaning that success in one affects the success of others – like intersecting ‘Venn diagram’ of concerns which have social, environmental and economic implications, see figure 2. The core wherein all the conditions were met was treated as a sustainable measure, and thus all ISO standards will not meet the SDGs. To quote from Oslo Governance Centre:

*“...All 17 Goals interconnect, meaning success in one affects success for others. Dealing with the threat of climate change impacts how we manage our fragile natural resources, achieving gender equality or better health helps eradicate poverty, and fostering peace and inclusive societies will reduce inequalities and help economies prosper”.*³¹

Figure 2: Private Sustainability Standards and the SDGs.



Note: A represents the conservation, preservation and protection of nature; B represents the promotion of community, eradication of poverty and ensuring equality; and lastly, C represents financial feasibility, long-term management and a balanced global economy.

Source: Kallummal and Gurung, (2018), figure 6, page 16.

So, since 2015, with the increased environmental concerns across all ISO standards, have been

³⁰ There is certainly a possibility of double counting the total number of ISO standards, codes, and guidelines applied to 17 SDGs.

³¹ United Nations Development Programme (UNDP), website, <https://www1.undp.org/content/oslo-governance-centre/en/home/sustainable-development-goals/background.html>.

adopted as SDG compliant³². As a result, it can pose an additional challenge for small businesses which adopt the ISO standards to meet the SDGs in order to remain price competitive. Many of the 17 goals are cost-enhancing goals when translated into operation. Therefore, it will result in misplaced results for the society and environment, as only a tiny proportion of the existing ISO standards would qualify to be treated as sustainable standards, see figure 2.

In order to participate in the GVCs, the original equipment manufacturers (OEM) having a higher disclosure requirement as mandated by ISO standards or consumer-driven (private standards) can insist on the use of standards that can have transparency and traceability obligations for the MSMEs which could lead to a surge in cost of production.³³ Although the ISO standards are non-mandatory, both the consumers and big firms may insist on using these measures as they are from the industrialised world, and it may continue to grow in significance in order to meet the seventeen SDGs.³⁴ A report by UNDESA has demonstrated how small enterprises can contribute to each of the 17 SDGs:

*'The report unpacks the role of MSMEs in economic activity, in creating employment and incomes, particularly for the poor and marginalised groups, as service providers (for example, in education, health, water and sanitation) and as energy users/polluters with environmental footprints. Through these lenses, it is possible to establish direct and indirect linkages between MSMEs and the seventeen goals.'*³⁵

There are three streams which emerge from the play-off between the ISO and the SDGs firstly, the re-assignment of all ISO standards. Secondly, the MSMEs centric and identified ISO standards and lastly, the ISO 26000 standards³⁶, which specifically addressed the SDG concerns. Re-assignment of 29 thousand of the ISO standards as SDG compliant meant that adopting any one of them would help the firm meet one or more of the seventeen sustainability goals. Additionally, the ISO introduced MSMEs specific ISO standards, but these are yet to be tried and tested. The year of the proposal (creation date) is critical, and any adoption of an existing ISO standard (set before 2015) to fit the transparency needs could be counter-productive and jeopardise the SDGs themselves. Each ISO standard has gone through nine

³² All of the ISO standards, codes and guidelines are primarily non-mandatory. However, when countries adopt such measures as part of the conformity measure, it may have a mandatory indirect impact.

³³ Chin Corinna and Rowley Chris, 2018, The Future of Chinese Manufacturing Employment and Labour Challenges, see Chapter three titled FDI Manufacturers and Their Upgrading Strategies, page 38, eBook ISBN: 9780081012321.

³⁴ United Nations, 2018, Contributing to the UN Sustainable Development Goals with ISO standards, <https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100429.pdf>. And also see Mujica Sergio, n.d., Standards: Sustainable Development Goals, ISO Secretary-General, <https://www.iso.org/sdgs.html>

³⁵ United Nations, 2020, Micro, Small, and Medium-Enterprises (MSMEs) and their Role in achieving the Sustainable Development Goals (SDGs), DESA, <https://sdgs.un.org/publications/micro-small-and-medium-sized-enterprises-msmes-and-their-role-achieving-sustainable>

³⁶ ISO 26000, Clause 6 explains the core subjects and associated issues relating to social responsibility. For each core subject, information has been provided on its scope, its relationship to social responsibility, related principles and considerations, and related actions and expectations., see <https://www.iso.org/obp/ui/#iso:std:iso:26000:ed-1:v1:en:sec:B>.

stages: preliminary (00), proposal (10), preparatory (20), committee (30), enquiry (40), approval (50), and publication (60). In addition, some standards may go through additional stages like the review (90) and finally the withdrawal (95). An ideal SDG-relevant MSME standards would have the proposal year of 2015 or beyond to address the SDGs' complete objectives as agreed under UNFCCC, United Nations. Prima facie, the ISO standards initiated before 2015 could be questionable as they are insufficiently equipped with the objectives and directives addressing the SDGs.³⁷ It could be said that with an increased role of the current form of ISO standards being adopted by the MSMEs as a prerequisite for integration with the global supply chain, the SDG-compliant ISO standard will become too onerous and cost-enhancing commitments without actually attaining sustainable goals. Although some of the SDGs were linked to the ISO Standards, those relevant for MSMEs have been analysed in annexe table 5, which highlights that most of these have been window dressing.³⁸ Lastly, there are some initiatives at the ISO which specifically address sustainability concerns, like ISO 26000 integrating social responsibility and ethical values.³⁹

At the national level, firms could achieve a balance between sustainability goals and real-world challenges as they are insulated and supported by national legislation. However, when competing with unequal MSME players from developed and industrialised countries meeting the SDGs would be onerous for all players at the global level. Therefore, evolving a solution at the international level will be a real challenge for firms from LDCs and developing countries. Under a given socio-economic ecosystem, while most countries have adopted a national strategic approach, on the other hand, SDG-compliant strategies driven by lead firms address the solution at a global level, and therefore such an approach could be highly onerous for the MSMEs belonging to less developed regions.⁴⁰ Some of the onerous conditions are the very concept of transparency-related obligations, traceability-related challenges and lastly, low participation of firms in the process of standardisation.

3.2.1 Transparency Obligations

The MSMEs from LDCs and developing countries may be faced with unreasonable transparency requirements to be performed under a particular ISO standard⁴¹, which lacks the capacity to do so. The reasons could be oversight issues or financial and technical aspects.

³⁷ With the SDGs, the adoption and understanding of sustainability as an interdependent concept became more explicit and therefore, all ISO standards initiated before 2015 stand to be scrutinised.

³⁸ ISO Standards have been shortlisted based on authors understanding.

³⁹ ISO, 2018, ISO 26000 and the SDGs, International Organization for Standardization, Geneva, <https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100401.pdf>.

⁴⁰ Refer, <https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100374.pdf>.

⁴¹ UN, Department of Economic and Social Affairs, https://sustainabledevelopment.un.org/content/documents/25851MSMEs_and_SDGs_Final3120.pdf.

3.2.2 Traceability Challenges

As discussed in the previous sub-section (transparency), the issue of traceability may lead to a diversity of issues. Most MSMEs of the Developing and LDCs are at the early stages in terms of value addition processes across both agriculture and manufacturing. The introduction of traceability in these sectors requires detailed documentation (either through paper or digital tags), which must be kept as information on the label for each product or consignment. Many MSMEs in the informal sector would find it extremely difficult to comply with such standards. For example, MSMEs operating in a Developing country like India, sourcing their produce from multiple farmers, would find it onerous to keep records meticulously and give separate labels to tag the farmer, mandi, state, etc., while exporting their produce. On the other hand, similar MSMEs from a Developed country like the US or EU source their products from a single farmer and would find the process relatively cost-effective and more competitive. Additionally, the application of the national treatment on the two would be unfair to the former MSME exporters; given their enormous socio-economic contribution, it would be unsustainable in accordance with SDG goals like 1,2, 3, 5, and 8.⁴²

3.2.3 Standardisation Concerns

The definitional differences at the national level in MSMEs across countries would give an upper hand to relatively larger MSMEs, which will be discussed in the latter part of the paper. The ISO standards made with intensive resource or technology use would be favourable for Developed country MSMEs. The vast majority of Developing and LDCs MSMEs would get eroded, and it will be more devastating for those belonging to the informal economy. Therefore, there is a direct conflict that such standards adopted by non-participation of MSMEs from the LDCs and developing countries could be counter-productive.

3.3 Growing Significance of Private Standards

Over the years, the emergence of private standards has also contributed to the aberrations seen in the development of global value chains that favour unreasonableness in the treatment of similar products. Private standards are those standards that are developed by private bodies⁴³ and are voluntary. At the global level, there are only two databases which compile with all the private standards. The Ecolabel Index⁴⁴ is the first dataset and is the most extensive global directory of ecolabels with records of 465 ecolabels from 199 countries, covering 25 industrial sectors. The second dataset is the 'Standards Map⁴⁵', which provides information on 210 standards.

⁴² Refer, <https://msme.gov.in/about-us/about-us-ministry>

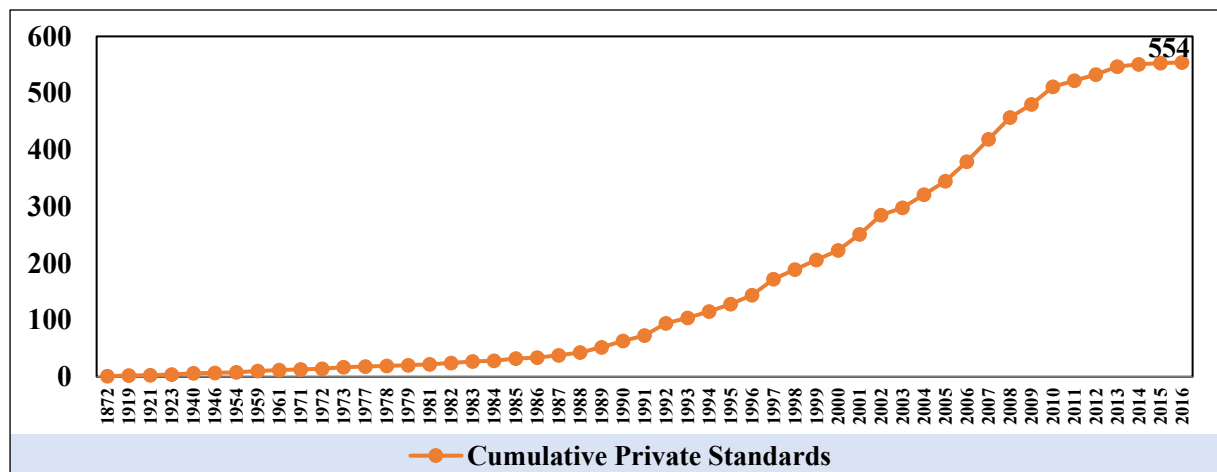
⁴³ Private bodies are, for example, actors like individuals, firms/corporate sector, large retailers and warehouses and industry associations.

⁴⁴ Refer, <http://www.ecolabelindex.com>

⁴⁵ Refer, <http://www.standardmap.org/lbcs/identify>.

Total private standard dataset consists of 675 private standards, which brings together information from the two datasets.⁴⁶ With the duplicates eliminated, the final count decreased to 621 private standards. Further, with no establishment year for 67 private standards, figure 3 provides a detailed list of 554 yearly private standards⁴⁷. The trend in private standards suggests an increasing significance, wherein private standards emerged actively after a prolonged stagnation until 1985, with an average of nearly two private standards. However, the annual numbers decreased after a peak of 40 private standards in 2007. After 1985, the private standards grew in strength to touch 11 standards in 1990, and they peaked at 21, 28 and 34 in the years 1992, 2002 and 2006 respectively. It suggests that certain countries were actively pursuing private standards even while they negotiated a global multilateral deal under the WTO. The private standards recorded a nearly 19 per cent growth rate from 1981 to 1995. After that, this growth decreased to 4.5 per cent for the period 1996 to 2010, and subsequently, there was a drastic decrease with it, recording a 41 per cent negative growth rate.

Figure 3: Cumulative Global 554 Private Standards: 1872 to 2016



Source: Kallummal and Gurung, (2018), figure 3b, page 10.

Figure 3 suggests that after 2013, there has been a minimal incremental yearly increase in the number of new private standards. As seen in the trends from figure 3, the private standard decreased from a peak of 40 in 2007 to 31, 14 and 2 in 2010, 2013 and 2015, respectively.⁴⁸ Private Standards are unlike the TBT and SPS measures which are permitted to be used for regulating the market access of any product. So, there are clear legal clarities on the usage, scope and coverage of TBT and SPS measures,⁴⁹ while the private standards offer no such clarity.

⁴⁶ Until the December 2016.

⁴⁷ Out of the total 621 private standards, some 67 private standards could not be traced to the year of establishment.

⁴⁸ Kallummal Murali and Gurung Hari Maya, (2018), Socioeconomic and International Geo-Politics in Private Sustainability Standards (PSS): Relevance for India, (December 11, 2018). Available at SSRN: <https://ssrn.com/abstract=3528066> or <http://dx.doi.org/10.2139/ssrn.3528066>.

⁴⁹ WTO, 2014, 'The WTO Agreements Series Technical Barriers to Trade', ISBN 978-92-870-3836-4.

3.3.1 Growing Role of the Private Sector

A related and additional challenge is the increased role of the private sector, suggesting a move towards a regulated and viable⁵⁰ means of achieving the future growth of countries rather than the development-centric approaches. Expressing the same the WTO's DG identified four international organisations, the WTO, IFC, the African Development Bank and the Export-Import Bank for Africa in helping small businesses access trade finance, particularly in Africa. As also suggested by the 2016 survey findings they have a larger influence on commerce aspects rather than developmental concerns.⁵¹ Global surveys⁵² also suggested that of the 30% of international trade finance which goes to MSMEs the banks rejected around 40% of applications for one reason or the other. All of these suggested an increase in the role of big Tech firms in the promise of WTO's TradeTech report with growing linkages with the private sector for data management.⁵³

3.4 Provision on MSMEs in the RTAs

Regional Trade Agreements, which capture the changing trends globally, indicate that MSMEs have gained trade significance. A study found that MSME-related provisions are increasingly being included in Regional Trade Agreements (RTAs). Of the notified 270 RTAs, 136 of them contained provisions on MSMEs,⁵⁴ most of these provisions are highly heterogeneous and differ in location, language, scope and commitments under the RTA, see figure 4.

⁵⁰ Viable in the SDG context is the intersection as seen between environment and economy in figure 2.

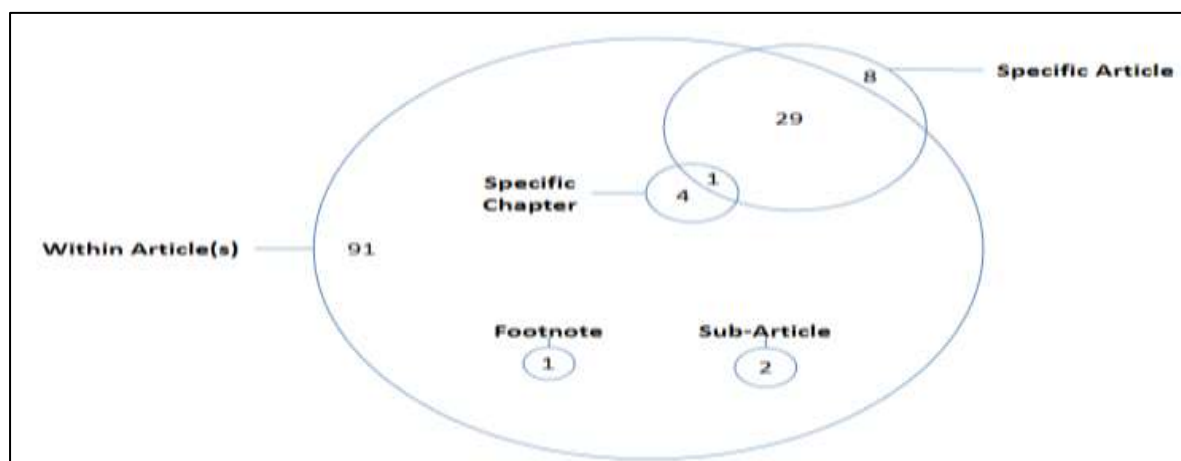
⁵¹ WTO, 2022, DG Okonjo-Iweala underlines need to help African small businesses access trade finance, Trade Finance, dated 23 May 2022, https://www.wto.org/english/news_e/news22_e/trfin_23may22_e.htm

⁵² WTO, 2016, "Trade finance and SMEs: Bridging the gaps in provision", WTO Secretariat, see page 26, ICC Global Survey 2014, based on data from 298 banks in 127 countries, confirms such findings. Forty-one per cent of respondent banks acknowledged the existence of a shortfall in global trade finance supply, with an emphasis on SMEs and Africa. International Chamber of Commerce (ICC) is an institution with more than 45 million companies spread across 100 countries.

⁵³ WTO, 2022, The promise of TradeTech Policy approaches to harness trade digitalization, jointly published by the World Trade Organisation and World Economic Forum, Cologne & Geneva, https://www.wto.org/english/res_e/booksp_e/tradtechpolicyharddigit0422_e.pdf.

⁵⁴ José-Antonio Monteiro, (2016) 'Provisions on Small and Medium-Sized Enterprises in Regional Trade Agreements', World Trade Organisation Economic Research and Statistics Division, WTO Working Paper ERSD-2016-12, accessed 22 December 2021 https://www.wto.org/english/res_e/reser_e/ersd201612_e.pdf.

Figure 4: SMEs Reference in the RTAs Text



Source: See page 8 in Monteiro 2016, WTO Working Paper ERSD-2016-12, WTO.

What is more relevant is to look at the requirements for recognising national definitions and the nature and extent of these provisions. However, these have continued to remain heterogeneous. Therefore, it will become essential to examining the legal language of the provisions that the RTAs have adopted. Focus on MSMEs is mainly located in chapters on cooperation and government procurement. Additionally, it also suggests a growing realisation of MSME provisions in e-commerce or digital modes of trade. The increasing discussions and debates at the national and international levels suggest the need for a detailed analysis of the relevance of MSMEs in the trade context. Under the FTAs surveyed according to provisions location, deep integration has been observed in seventeen common areas. These were Cooperation, Government procurement, Electronic commerce, Customs and trade facilitation, Investment and trade in services, Intellectual property, Administration of the RTA, Labour, Community policy, Transparency, General provisions, [M]SME, Rules of Origin, Competition, Environment, Annex and side agreement. MSMEs have been ranked twelfth, suggesting that FTAs have a lower priority. Approaches taken under trade negotiations at the RTAs contradicts the recent enthusiasm shown at the WTO, as under the RTAs addressing the MSMEs concerns has remained a low priority under the various other areas topped in the figure.⁵⁵

The fourth and fifth sections of the paper seek to analyse the definitional heterogeneity across nations. Section four provides an aggregated understanding of the three criteria popularly used across thirty-five countries. Section five provides a disaggregated assessment of the three criteria-based differences across sectors and sizes using inter-country national definitions harmonised to the US dollar.

4. Criteria for Identification of MSMEs

Increasing globalisation of the world economy is affecting micro, small and medium enterprises mainly in two ways; for some businesses, it opens up new opportunities for outward

⁵⁵ *ibid*, location of provisions referring to SMEs in RTAs, figure 7 page 9.

expansion and growth, whereas, for a much larger group of MSMEs, globalisation poses new competitive challenges and threats domestically. There have been several initiatives by the WTO to generate awareness, including favouring horizontal and non-discriminatory solutions across regions to facilitate the participation of MSMEs in international trade; however, the level of trade consciousness among MSMEs remains far from satisfactory.

Hence, against this state of affairs, we probe what exactly the term “MSME” encompasses in the thirty-five countries mentioned above. Upon scrutiny, we can conclude that economies usually define MSMEs based on some combination of the following criteria: a) annual turnover, b) the number of employees, and c) capital assets.

Additionally, not only does the spectrum of definition vary between countries, but even within some countries, the definition varies with different domestic institutes having their own guidelines to classify enterprises as MSMEs. Amongst these groups of countries, the employee-based definition is the most frequently used criterion (used by thirty-one countries), followed by turnover-based (used by twenty-six countries) and capital asset-based definition (used by four countries). It was further observed that the majority of the countries (around twenty-five) have laid down more than one criterion to define MSMEs.⁵⁶ Vietnam and Pakistan are the only two economies to lay down a definition based on all three criteria (number of employees, annual turnover and capital asset).⁵⁷ Since there exist wide deviations across countries with even non-existence of definition in some, we proceed with our analysis by taking up each of the criteria separately for examination.

4.1 Turnover

As observed in figure 5, which lays out the turnover-based definition in twenty-six countries in descending order, Korea has the most significant turnover ceiling compared to others. Korea defines an enterprise as MSME only using the annual turnover criterion and has annual sales revenue of less than USD 127 million. In Singapore, although firms that have annual sales equal to or less than USD 72.48 million are classified as SMEs, however, they also need to meet additional criteria set out by the authorities, such as local shareholding etc. Countries such as Brazil and Lao PDR have the lowest upper limits at the other end of the spectrum. In the former, SMEs are defined only using the turnover criterion and need to have turnover equal to or less than USD 0.93 million, whereas in the latter. However, three different measures have been laid out, and an enterprise needs to satisfy only one, including having an annual turnover of less than USD 0.11 million, to qualify as an MSME.

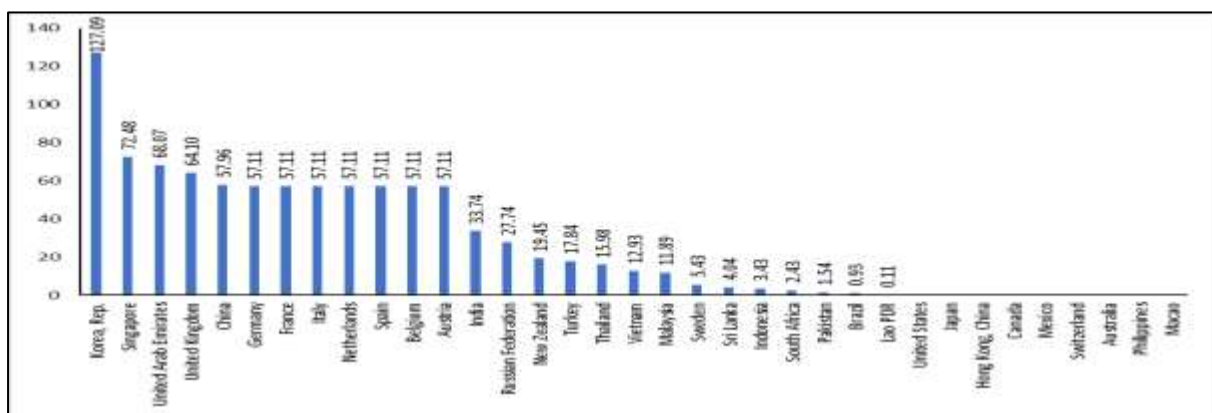
Only countries wherein we witnessed harmonised definition were countries that are a member

⁵⁶ When a country lays down more than one criterion, an enterprise doesn't need to meet all the requirements to qualify as a micro, small or medium enterprise.

⁵⁷ In Vietnam, a firm needs to meet the number of employee criteria and the capital or revenue criteria to classify as an MSME. A firm in Singapore needs to meet either annual sales or employment size criteria and some additional criteria to organise as an MSME.

of the European Union, such as Germany, Italy, France etc. It was further noted that although the United Kingdom is no longer a part of the EU, however, it still follows the EU’s definition to classify a firm as an MSME. Territories where turnover-based definition did not exist, including the USA, Japan, Hong Kong, and inter alia. Lastly, in India, there has been a recent revision in the definition. The MSMED Act, 2006 defined MSMEs on the basis of investment in plant and machinery only. This disadvantaged the sector as it disincentivised investment and prevented the MSMEs from reaping the benefits of economies of scale and contributing more significantly to employment generation.⁵⁸ In June 2020, the Government of India included the annual turnover of the enterprise as an additional criterion for the classification of MSMEs.⁵⁹

Figure 5: Annual Turnover-Based Definition in USD Million



Source: Author’s calculation based on countries’ official website data

According to the latest definition, an enterprise needs to meet both capital and turnover-based definitions. As far as the turnover-based definition is concerned, a firm’s annual turnover should not exceed USD 33.74 million.

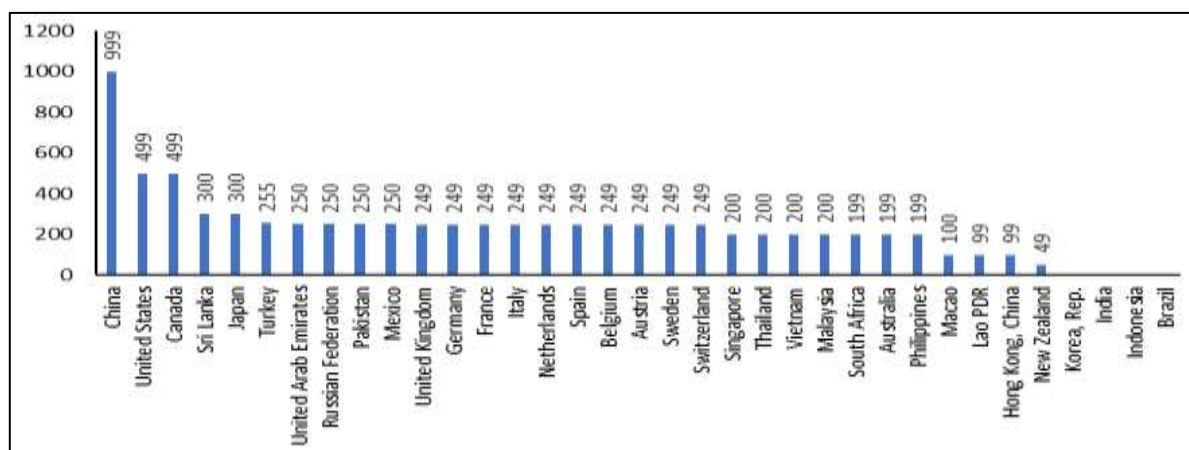
4.2 Number of Employees

The number of employees-based definitions was found to be the most widely used definition amongst the countries. As illustrated in figure 6, China leads the group of countries by setting the highest cap. An enterprise in China is classified as an MSME if it has 999 or fewer employees. In descending order, we next come across USA and Canada, wherein both have a similar definition. If a firm has 499 or fewer employees, it falls under the MSME sector in both countries. Additionally, the employee-based definition is the only criterion that both countries follow.

⁵⁸ Economic Times, 2021, Economic Survey Reveals the Governments Rationale Behind Revisiting the Definition of MSMEs, <https://economictimes.indiatimes.com/small-biz/sme-sector/economic-survey-20-2021-reveals-governments-rationale-behind-revising-the-definition-of-msme/articleshow/80582395.cms>

⁵⁹ Government of India, 2021, Economic Survey 2020-2021, Volume II, <https://www.indiabudget.gov.in/economicsurvey/>

Figure 6: Number of Employees Based Definition



Source: Author’s calculation based on country’s official website data.

On the other hand, Lao PDR, Hong Kong and New Zealand have the lowest upper limits. Amongst the former two countries, the definition coincides and states that if a firm has 99 or fewer employees, it qualifies itself to be an MSME. In comparison, an enterprise falls under the MSME sector in the latter if it has 49 or fewer employees. Countries that don’t have an employee-based definition are Korea, India, Indonesia and Brazil.

Despite India being an abundant labour country, it did not provide an employee-based criterion. One of the reasons cited by the Department-Related Parliamentary Standing Committee (DRPSC) report (2018) states, to quote:

‘...the problem with employment criteria in the Indian context is the non-availability of reliable/verifiable sectoral data and the seasonal variance in labour engagement. The employment system, if taken into consideration, will increase the need for inspection, which will involve huge transaction costs and could place a question mark on the veracity of the figures given by the enterprises in different Sectors. Moreover, it will also lead to a large number of litigations...’⁶⁰

4.3 Capital Asset

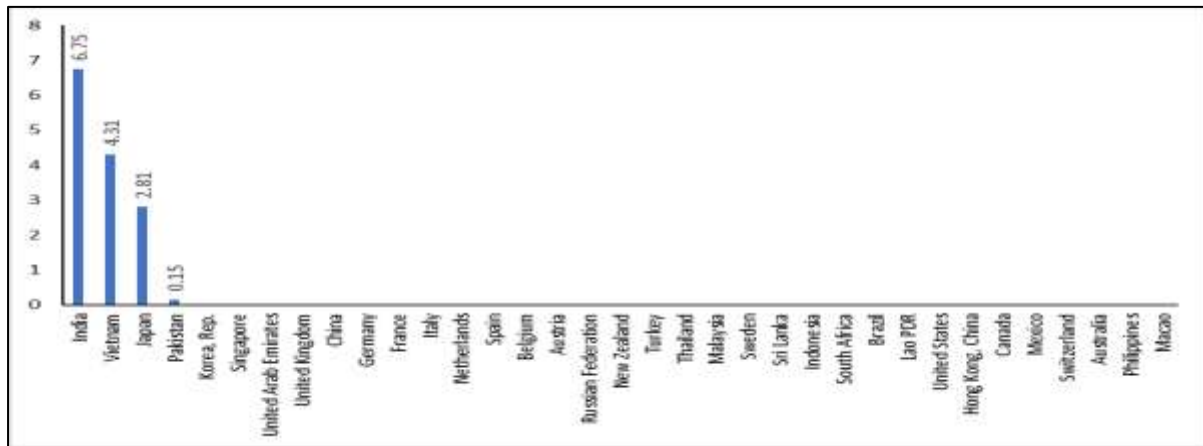
Total capital or investment in plant and machinery-based definition was the least-specified criteria. As seen in figure 7, only four countries, i.e., India, Vietnam, Japan and Pakistan, have a capital asset-based definition. Out of these, India has the highest capital threshold. An enterprise with USD 6.75 million or less capital will classify as an MSME. In June 2020, the Government of India revised the investment limits upwards since the DRPSC had agreed to enhance the investment limits for the classification of the MSME sector in view of inflation. It had observed:

‘...Considering the inflation and dynamic market situation, the Committee feels that the definition of MSMEs as provided in the Act may be revised every five years’⁶¹

⁶⁰ Government of India, 2021, Economic Survey 2020-2021 Volume II,

⁶¹ Government of India, 2021, Economic Survey 2020-2021 Volume II,

Figure 7: Capital Based Definition in USD Million



Source: Author’s calculation based on country’s official website data

After India, Vietnam sets the cap at USD 4.31 million. An enterprise in Vietnam needs to comply either with capital or turnover-based criteria. However, only the employee-based criterion is compulsory for an enterprise in Vietnam to classify as an MSME. In Japan, an enterprise needs to comply with either employee-based or capital-based criteria to be eligible, and an enterprise needs to have USD 2.81 million or less capital.

Lastly, Pakistan has the lowest cap set at USD 0.15 million, with an enterprise in Pakistan having the flexibility to comply with any of the three criteria it has laid down to classify as an MSME.

5. Thirty-Five National Definitions of MSMEs

The analysis so far focused on the definitional criteria used and the discrepancy across countries. The term “MSME” is a broad term for micro, small and medium-sized enterprises. Hence, we further dissect with the intent to explore if there is any heterogeneity in definition when we focus on each of the different-sized enterprises. Additionally, the definition of MSMEs may also vary by the sector of economic activity since MSMEs have gained significant importance across certain sectors, and it’s no longer necessary that MSMEs only engage in the manufacturing sector. Hence, we move ahead with the objective of exploring these issues in this section. Lastly, as seen above, the capital criterion is the least used criterion; hence for our analysis, we focus only on the former two criteria, i.e., annual turnover and number of employees-based definition.

5.1 Micro-Sized Enterprises

As mentioned above, the definition of MSMEs may also vary by the sector of economic activity; therefore, our analysis is divided into two parts: the manufacturing and non-manufacturing sector. Under each of these sections, we further scrutinise them on two criteria each, i.e., turnover and number of employees.

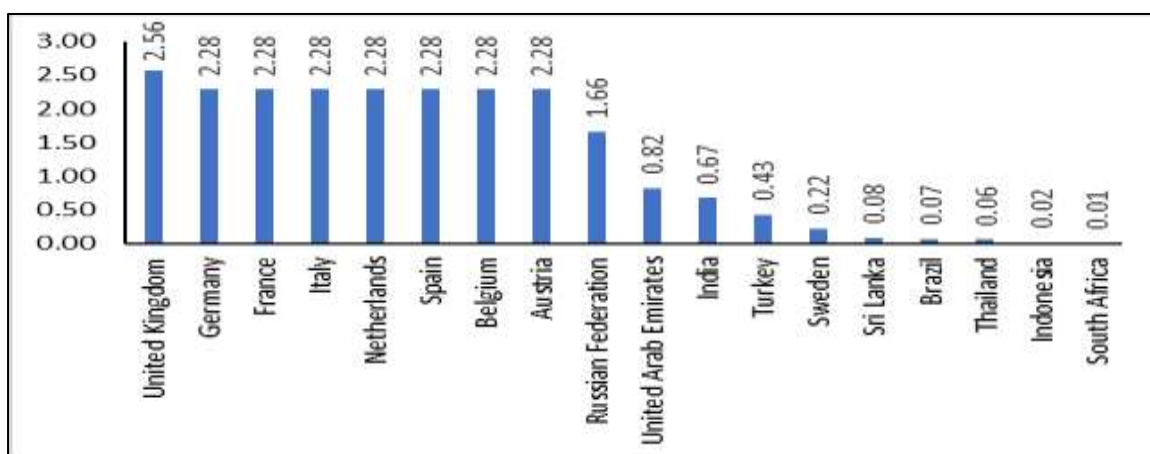
5.1.1 Manufacturing Sector

For the purpose of market access negotiations, the WTO treats agricultural, non-agricultural and service sectors separately, however, for the definition of MSMEs, at the national level, one can find only two segregation: the manufacturing and services sectors. There is a need to further explore this aspect in detail, and we are not attempting it in this paper.

5.1.1.1 Turnover-Based Definition

Our brief overview above highlighted that as many as twenty-six countries laid out this criterion. Out of these, only eighteen countries have further given classification for each size of the enterprise. In figure 9, the UK, followed by other existing EU countries, have a higher threshold.

Figure 8: Turnover of Micro-Sized Enterprises in USD Million



Source: Author's calculation based on country's official website data

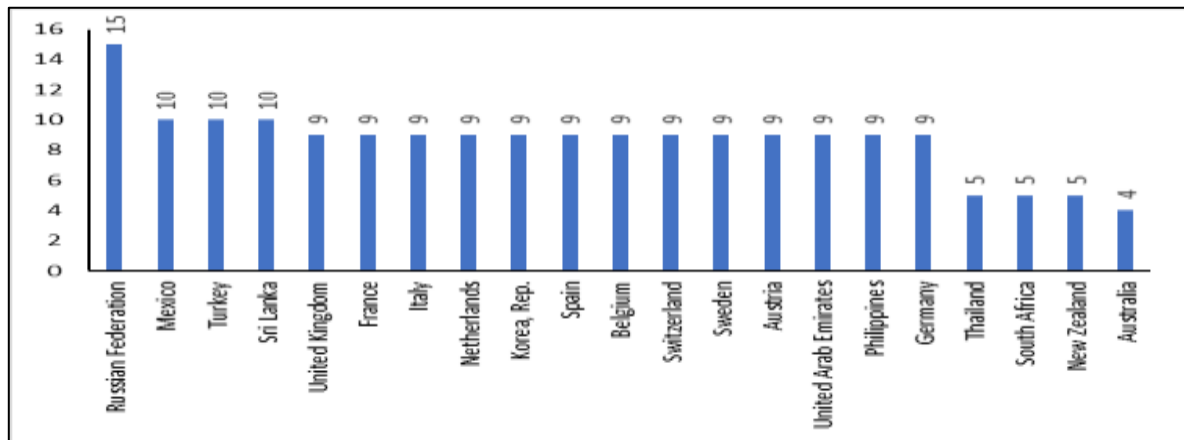
They define a 'micro enterprise' as having a turnover of less than USD 2.56 and USD 2.28 million, respectively. On the other end, Indonesia and South Africa have lower limits and define a 'micro enterprise' as having USD 0.02 and USD 0.01 million turnover, respectively. In South Africa, a firm needs to meet additional criteria such as gross asset value and the number of employees to classify as a 'micro-sized enterprise'. However, no such requirement is ordained in Indonesia. In India, a 'micro-sized enterprise' is one that has a turnover of less than USD 0.67 million and also meets the capital asset requirement, figure 8.

5.1.1.2 Number of Employees Based Definition

If the number of employees is the criteria, only twenty-one out of thirty-one countries further gives a definition for micro, small and medium-sized enterprises. As seen in figure 10 below, Russia has the highest threshold of fifteen or fewer employees, followed by Mexico, Turkey and Sri Lanka (with ten or fewer employees). In the UK and other EU countries, an enterprise classifies as 'micro' if it has nine or fewer employees. New Zealand and Australia, on the other hand, define a 'micro enterprise' as having five and four employees or fewer, respectively, see

figure 9.

Figure 9: Number of Employees in Micro-Sized Enterprises



Source: Author's calculation based on country's official website data

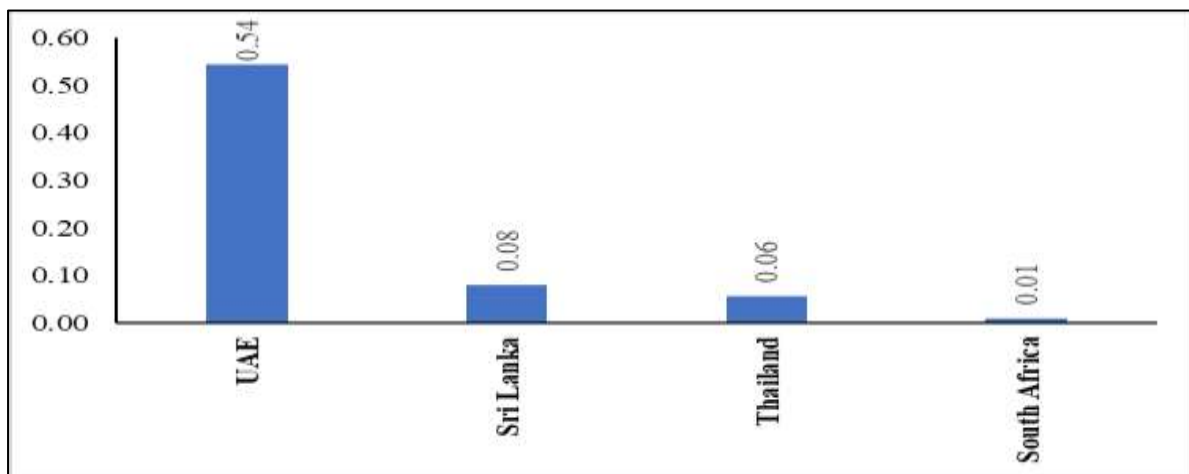
5.1.2 Non-Manufacturing Sector

The non-manufacturing sector has become important for trading nations as they have a significant share of service sectors – with a general characteristic of being micro in terms of size.

5.1.2.1 Annual Turnover-Based Definition

An observation was made that in several countries, identical criteria were stipulated for manufacturing and non-manufacturing activities. Only nine out of thirty-five countries in the analysis have a distinct definition for MSMEs engaged in non-manufacturing activities. However, we come across a mosaic wherein only five out of these nine countries further have a definition for micro-enterprises. The other four countries do not recognise micro-sized enterprises. Our research, in line with the above analysis, continues to focus on the aforementioned two criteria, i.e., annual turnover and number of employees.

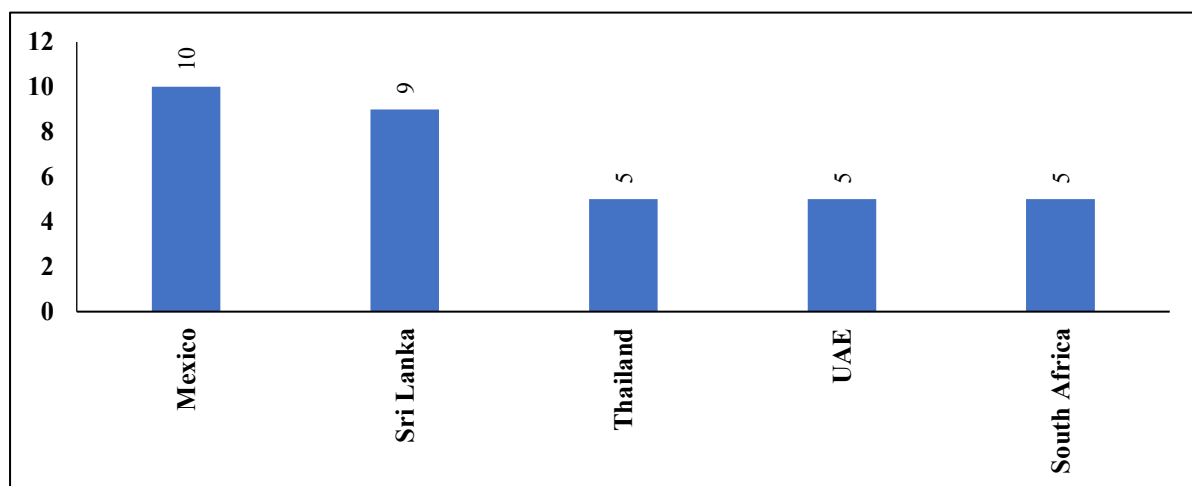
Figure 10: Turnover of Non-Manufacturing Micro-Sized Enterprises in USD Million



Source: Author's calculation based on country's official website data

As seen in figure 10 above, there is a deep plunge between the UAE and the rest of the countries. UAE sets the highest threshold at USD 0.54 million, whereas Sri Lanka sets the threshold at only USD 0.08 million. This is closely followed by Thailand, wherein an enterprise classifies as micro if its turnover is less than USD 0.06 million. In South Africa, it was observed it had a distinct definition for as many as ten sectors other than manufacturing. For our analysis, we have used the definition for trade services wherein a firm with a turnover equal to or less than USD 0.01 million classifies as a micro-sized enterprise. Lastly, Japan and Mexico do not have a turnover-based definition, whereas, in Malaysia, the definition for micro-sized enterprises doesn't exist.

Figure 11: Number of Employees in Non-Manufacturing Micro-Sized Enterprises



Source: Author's calculation based on country's official website data

5.1.2.2 Number of Employees Based Definition

As far as employee-based definition is concerned, Mexico has the largest threshold wherein a firm with ten or fewer employees classifies as a micro firm. This definition is closely followed by Sri Lanka, wherein an enterprise needs to have nine or fewer employees. Thailand, UAE and South Africa have identical definitions of five or fewer employees. Lastly, although Japan and Malaysia have an employee-based definition, they only impose criteria for firms above small-sized enterprises.

5.2 Small-Sized Enterprises

In this sub-section, we focus on how various countries define 'small-sized enterprise' wherein, as mentioned above that the definition of MSMEs may also vary by the sector of economic activity; therefore, our analysis is further divided into two parts: manufacturing and non-manufacturing sector. Under each of these sub-sections, we further scrutinise them on two criteria each, i.e., turnover and number of employees.

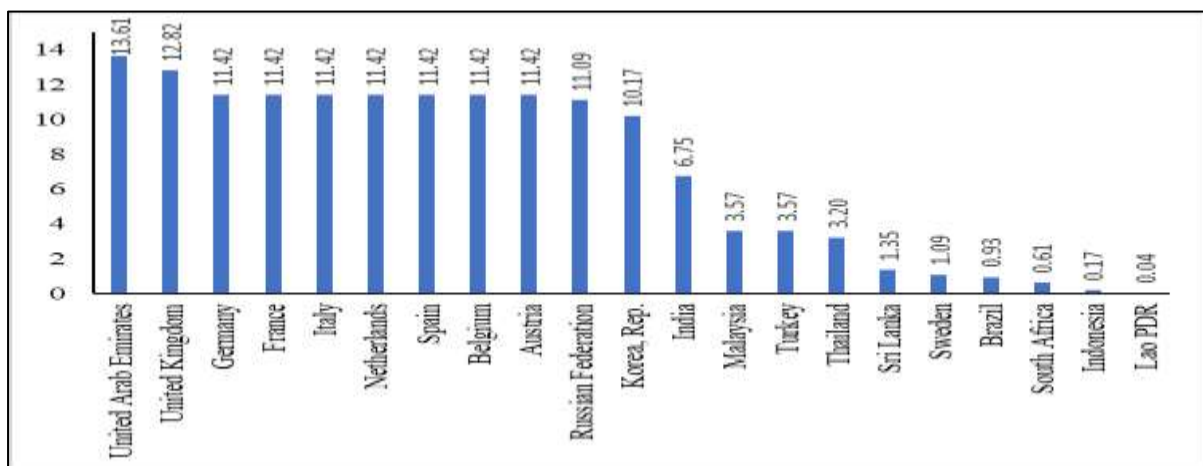
5.2.1 Manufacturing Sector

Comparing figures 8 and 12 above, we see that in the manufacturing sector, in addition to the

existing eighteen countries that had a definition for ‘micro-sized enterprise’, three more countries (Korea, Malaysia, Lao PDR’s) classification of manufacturing firms started instead from ‘small-sized enterprise’. UAE has the highest threshold whereby it states that if an enterprise has a turnover of less than USD 13.61 million; however, higher than USD 0.82 million, it classifies as a ‘small-sized enterprise’. Up next, UK and EU countries have the second-highest threshold at USD 12.82 million and USD 11.42 million, respectively. On the other end, South Africa, Indonesia and Lao PDR have the lowest threshold. In South Africa, a firm classifies as ‘small’ if it has a turnover between USD 0.01 million and USD 0.61 million.

5.2.1.1 Turnover-Based Definition

Figure 12: Turnover of Small-Sized Enterprises in USD Million



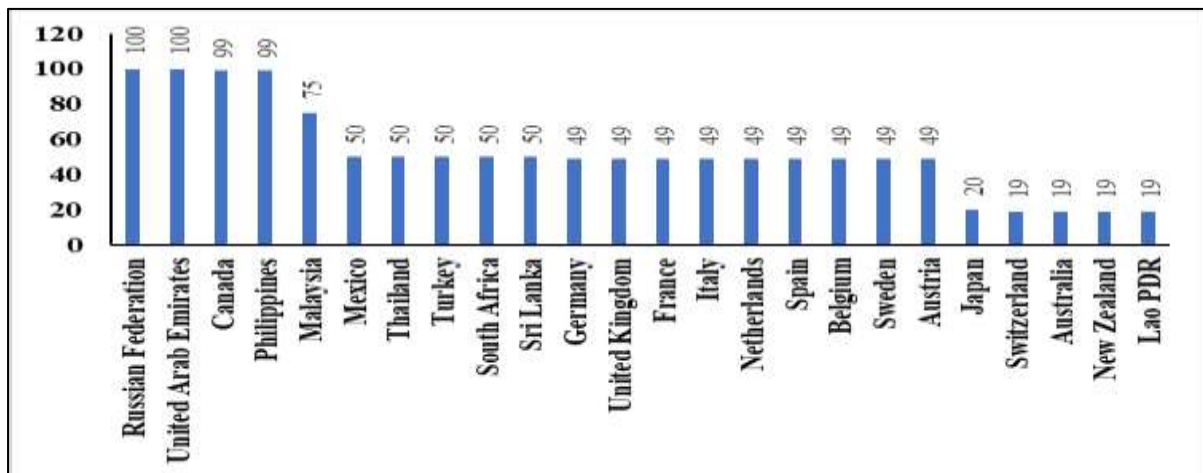
Source: Author’s calculation based on country’s official website data

A firm in Indonesia is a ‘small-sized enterprise’ if its turnover lies between USD 0.02 million and USD 0.17 million. Lastly, a manufacturing enterprise in Lao PDR having a turnover of less than \$0.04 million is a ‘small-sized enterprise’.

5.2.1.2 Number of Employees Based Definition

Comparing figures 9 and 13, we observe firstly that in the manufacturing sector, in addition to the existing twenty-one countries that had a definition for ‘micro-sized enterprise’, four more countries (Canada, Japan, Malaysia, Lao PDR’s) classification of manufacturing firms start instead from ‘small-sized enterprise’. Secondly, figure 13 below highlights that Russia and UAE have larger and identical upper thresholds. In Russia, an enterprise classifies as ‘small’ if it has employees fewer than a hundred but greater than fifteen. In UAE, a firm having a number of employees between nine and a hundred is classified as a ‘small-sized enterprise’.

Figure 13: Number of Employees in Small-Sized Enterprises



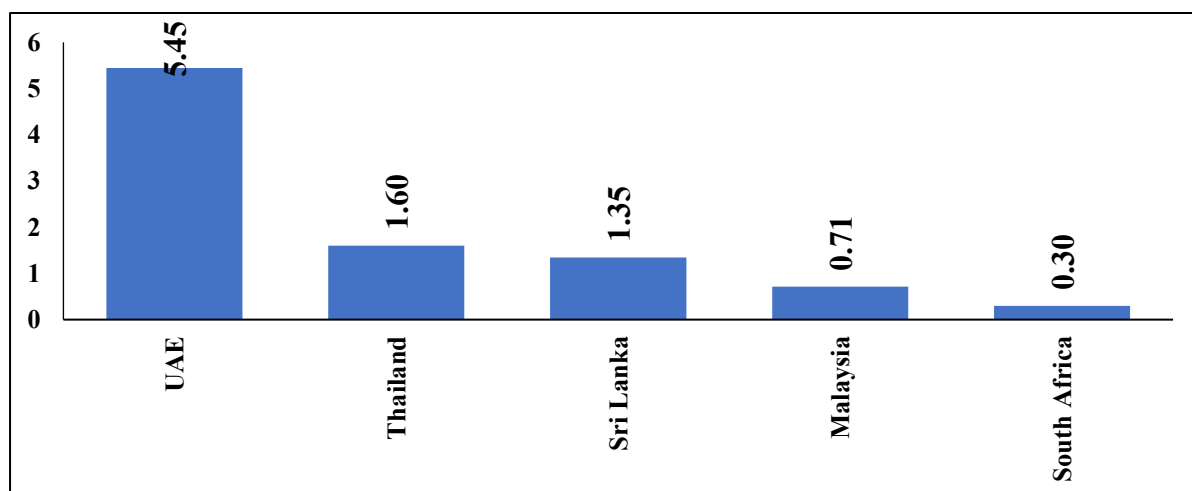
Source: Author’s calculation based on country’s official website data

On the other end, Switzerland, Australia, New Zealand and Lao PDR have the lowest but identical upper limit definitions. However, the lower bound differs across countries. For example, a firm with nine to nineteen employees classifies as a ‘small firm’ in Switzerland, whereas, in Australia, a firm with a number of employees between four and nineteen is classified as a ‘small-sized enterprise’. In New Zealand, a firm with a number of employees between five and nineteen classifies as ‘small’. Lastly, we also observe that Korea, which although had an employee-based definition while defining micro firms, now no longer has one for small and medium-sized enterprises.

5.2.2 Non-Manufacturing Sector

5.2.2.1 Turnover-Based Definition

Figure 14: Turnover of Non-manufacturing Small-Sized Enterprises in USD Million



Source: Author’s calculation based on country’s official website data

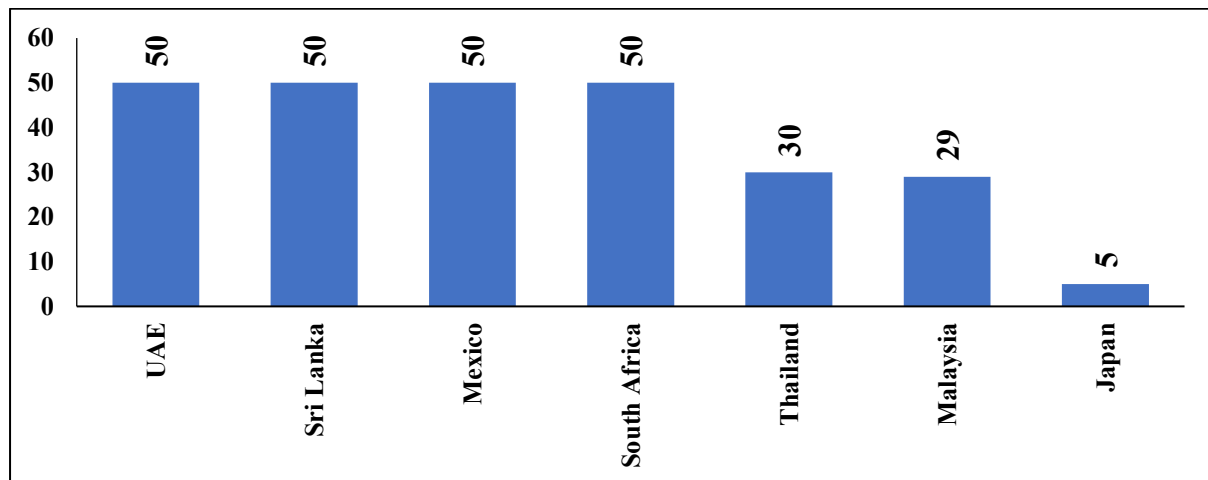
In the comparison of figures 10 and 14, it is observed that as far as ‘small-sized enterprises’ in non-manufacturing activities are concerned, we firstly witness Malaysia joining the existing four countries where the definition for ‘micro-sized enterprises’ existed. Secondly, it defines

an enterprise as ‘small’ if it has a turnover from USD 0.07 million to less than USD 0.71 million. UAE has the highest upper limit definition and describes a firm as ‘small-sized’ if it has a turnover between USD 5.45 million and USD 0.54 million. South Africa, on the other hand, has the lowest upper limit threshold. According to the official definition, an enterprise is considered ‘small-sized’ if it has a turnover of less than USD 0.30 million but higher than USD 0.01 million.

Comparing figures 11 and 15, in addition to the five countries that had an employee-based definition for a ‘micro-sized enterprise’, now as many as seven countries have employee-based definitions, with Japan and Malaysia also joining the list of countries. Four of these countries (UAE, Sri Lanka, Mexico and South Africa) have identical highest upper limits. However, the lower bound tends to differ. For example, in UAE, a ‘small firm’ is defined as having employees between five and fifty, whereas a firm with employees between nine and fifty is defined as small in Sri Lanka and so on. Japan has the lowest upper threshold, which stands at five.

5.2.2.2 Number of Employees Based Definition

Figure 15: Number of Employees in Non-Manufacturing Small-Sized Enterprises



Source: Author’s calculation based on country’s official website data.

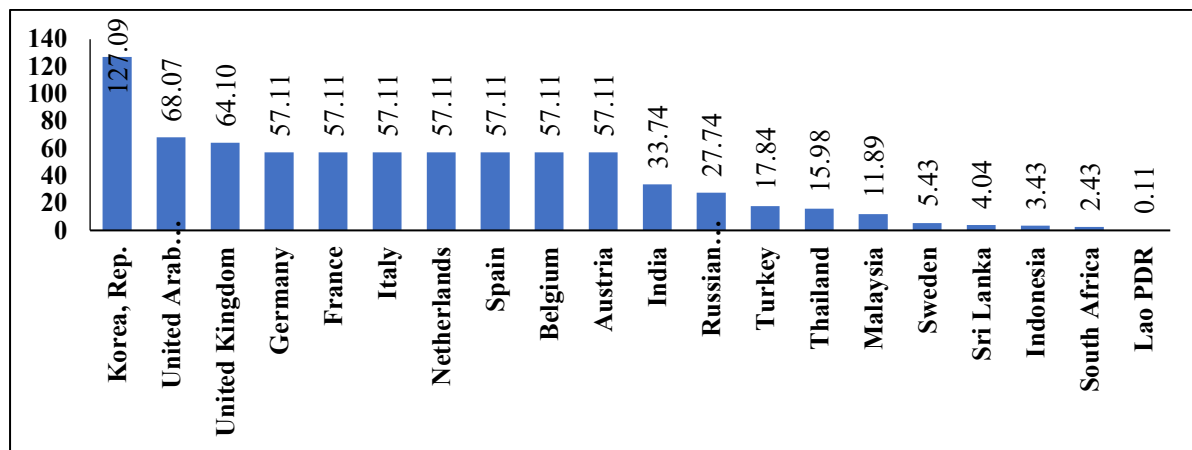
5.3 Medium-Sized Enterprises

In this section, we focus on how various countries define ‘medium-sized enterprise’ wherein, as mentioned above that the definition of MSMEs may also vary by the sector of economic activity; therefore, our analysis is also divided into two parts: manufacturing and non-manufacturing sector. Under each of these sections, we further scrutinise them on two criteria each, i.e., turnover and number of employees.

5.3.1 Manufacturing Sector

5.3.1.1 Turnover-Based Definition

Figure 16: Turnover of Medium-Sized Enterprises in USD Million



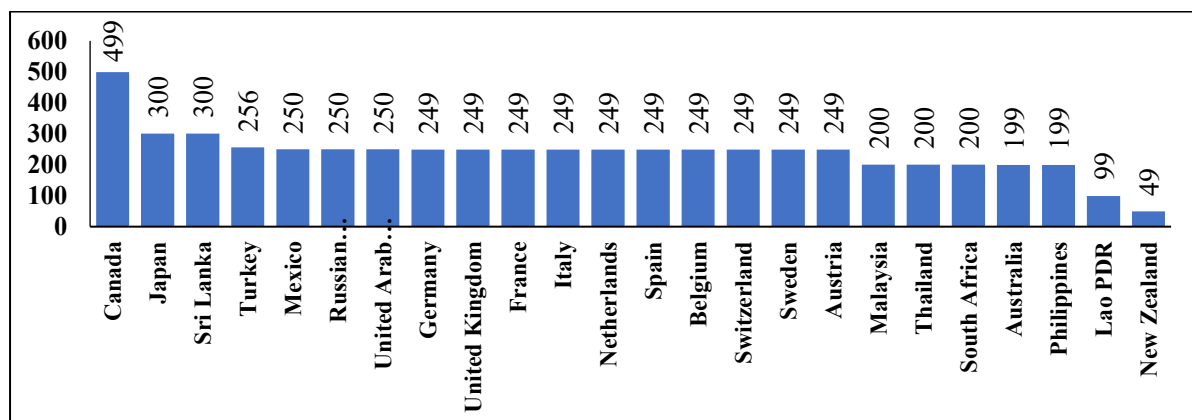
Source: Author’s calculation based on country’s official website data

Comparing figures 13 and 17, we first observe that Brazil no longer has a definition to classify firms as ‘medium-sized’. Secondly, as viewed in figure 16, there is a stark contrast between Korea and the rest of the countries. In Korea, a firm with a turnover higher than USD 10.17 million but lower than USD 127.09 million falls under the ‘medium-sized enterprise’ category. In UAE, a firm with a turnover between USD 13.61 million and USD 68.07 million falls in the same category. Whereas, on the other hand, in countries such as Sweden, Sri Lanka, Indonesia, South Africa and Lao PDR, the official threshold for definition is extremely low. For example, in Lao PDR, a firm with a turnover between USD 0.04 million and USD 0.11 million classifies as a ‘medium-sized enterprise’.

5.3.1.2 Number of Employees Based Definition

If we look at figure 17, which gives us an employee-based definition across twenty-four countries, there once again exists a stark division in the definition. According to the definition, in Canada, a firm with a number of employees between ninety-nine and four hundred ninety-nine is categorised as a ‘medium-sized enterprise’.

Figure 17: Number of Employees in Medium-Sized Enterprises



Source: Author’s calculation based on country’s official website data

Whereas, in New Zealand, a firm with employees in the range of nineteen and forty-nine

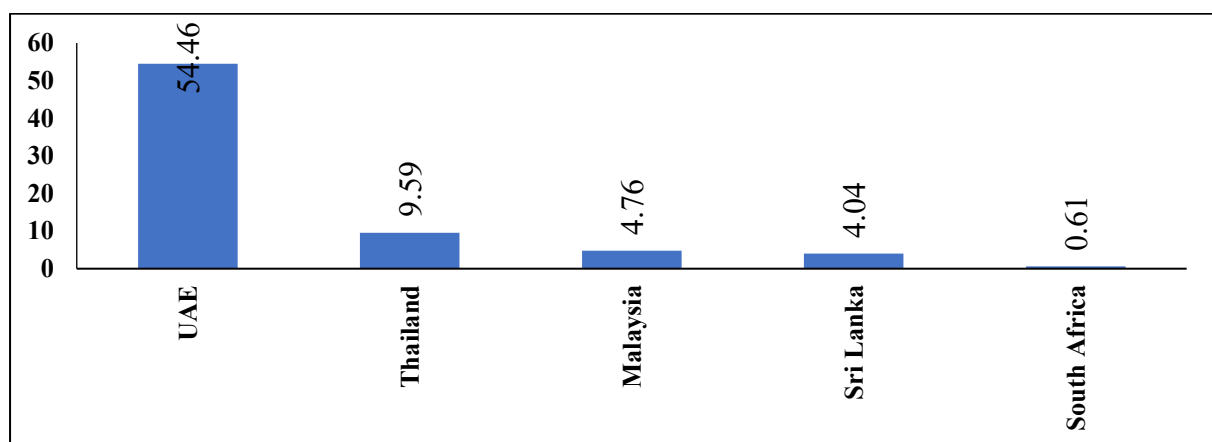
classifies as a ‘medium-sized firm’. So, it can be observed that even in the industrialised and developed world, there is a fundamental difference in the definition of MSMEs.

5.3.2 Non-Manufacturing Sector

5.3.2.1 Turnover-Based Definition

In turnover-based definition, UAE continues to hold the highest threshold wherein a firm with a turnover between USD 5.45 million and USD 54.46 million classifies as ‘medium-sized’. The rest of the four countries seen in figure 19 have lower thresholds in comparison. Amongst them, South Africa once again has the lowest upper limit and defines an enterprise as ‘medium-sized’ if it has a turnover between USD 0.30 million and USD 0.61 million.

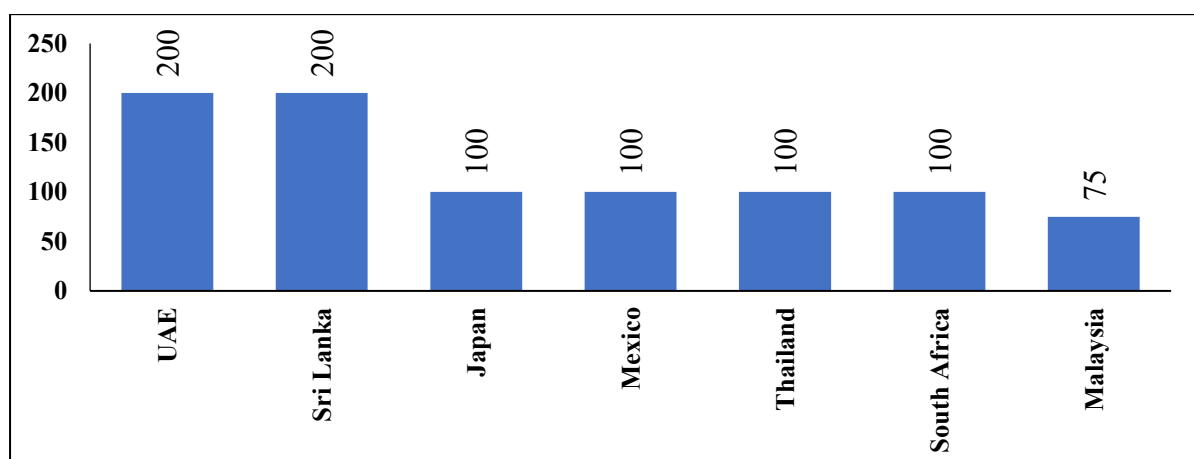
Figure 18: Turnover of Non-Manufacturing Medium-Sized Enterprises in USD Million



Source: Author’s calculation based on country’s official website data

5.3.2.2 Number of Employees Based Definition

Figure 19: Number of Employees in Non-Manufacturing Medium-Sized Enterprises



Source: Author’s calculation based on country’s official website data

In the employee-based definition, out of the seven countries in figure 19, UAE and Sri Lanka continue to have the highest and identical upper thresholds. For example, in both countries, a firm with employees more than fifty and equal to or less than two hundred falls under the

‘medium-sized category’. Other than Malaysia, the remaining four countries have identical upper limits, which are bound at hundred employees in this case. Lastly, Malaysia has the lowest upper limit of seventy-five employees. Hence, any firm with employees greater than twenty-nine but less than seventy-five will be classified as a ‘medium-sized enterprise’ in Malaysia.

6. Conclusions and Recommendations

MSMEs play an important role in the wider ecosystem of a firm’s linkages with other economic agents. Start-ups and young firms, which are generally small or micro firms, are the primary source of net job creation in many countries and are the driving force of innovation and sustainability in the private sector.⁶² Traditionally these were mostly manual and labour intensive. In the present time, it is driven by technology and innovative integration of digital modes, be it, big-data-driven aggregators, across sectors; the digital revolution has revolutionised and transformed societies and our lives with unprecedented scale and speed, thus delivering immense opportunities for some and daunting challenges for others.⁶³

In the absence of a universally accepted harmonious definition of Micro, Small and Medium Enterprises (MSMEs), the MSME sector, which can provide multifarious benefits to the global economy, remains underutilised. Despite several international incentives to encourage the growth and development of MSMEs, a lack of definitional clarity creates hindrances in implementing the policies universally, without ensuring that no access is denied to an enterprise in need, especially in the least developed and developing nations.

Our analysis has compared highly varied national definitions present across the globe to derive conclusions on the complex nature of the heterogeneity present in defining MSMEs. We observe that predominantly, there was a presence of three criteria in defining an MSME - number of employees, annual turnover and capital asset. Some countries were even found using a combination of these criteria for specifying an entity as an MSME. Out of these three criteria, the employee-based criteria were found to be the most commonly used method adopted by around 92% of the countries as one of their criteria for qualification. However, the adoption of these criteria as a standard criterion could be problematic. Firstly, because of the presence of seasonal variations in employment in various sectors. Secondly, with the increasing advent of technology and artificial intelligence, the number of employees in an enterprise may be negligible, but their turnover may still be very high.

We, therefore, suggest that the following recommendations should be adopted to deal with the conundrum of adopting a standard definition. Countries falling in similar income brackets

⁶² United Nations, 2019, Micro, Small and Medium Enterprises (MSMEs) and their Role in Achieving Sustainable Development Goals (SDGs), Department of Economic and Social Affairs (DESA), Geneva.

⁶³ UNCTAD, 2019, Value Creation and Capture: Implications for Developing Countries, Digital Economy Report 2019, United Nations, https://unctad.org/system/files/official-document/der2019_en.pdf.

should consider homogenising their definitions to overcome the complexity of maintaining and comparing data.

The prime difficulty in getting to a universal definition is the difference in both levels of development and the purchasing power parity. Therefore, the WTO should avoid looking for a universal definition but rather look for other means, like the application of Special and Differential Treatment provisions when uniformity of rules and obligations are addressed. As already specified categorically, the difference in the definitions can be attributed to local cultural, economic and social conditions and harmonising these should be a continuous effort by the multilateral system. Additionally, there are alarming trends in strategy and planning which suggest a withdrawal of governments from all socio-economic activities while engaging actively in trade negotiations, and this calls for increased consultative needs between private players to engage with local governments. The Director-General of WTO, speaking at a forum on global solidarity in responding to crises, said:

*“It’s very difficult to agree to things multilaterally, and that has been plaguing the WTO,” she acknowledged. We shouldn’t make light of it. That’s why we need to find ways forward to agree on some things to show that the organisation can function.”*⁶⁴

The same applies to MSMEs, and therefore it clearly suggested a differentiated approach while attempting to continuously move towards uniformity with the assistance of established tools that were used across past decades.

⁶⁴ WTO, 2022, WTO News, In Davos, DG Okonjo-Iweala calls for global solidarity in responding to crises”, https://www.wto.org/english/news_e/news22_e/dgno_30may22_e.htm.

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7. Annexures

Table 5: Nine selected ISO Standards relevant for MSMEs

ISO/IEC Standard	Technical Committee	Creation Date	Main Objective	Ten ISO Texts Relevant to MSMEs
ISO/IEC GUIDE 17:2016	ISO/(Technical Management Board – groups) TMBG -	1994	Guideline for writing standards taking into account the needs of micro, small and medium-sized enterprises	<p>ISO/IEC Guide 17:2016 provides guidance and recommendations to writers of standards on the needs of micro, small and medium-sized enterprises (SMEs) in order to avoid the exclusion of SMEs from the market and the distortion of fair competition.</p> <p>ISO/IEC Guide 17:2016 is relevant to all stakeholders involved in standardization, i.e. standards writers in working groups (WGs), technical committees (TCs), project committees (PCs), or subcommittees (SCs), as well as members of national mirror committees.</p> <p>Not all principles presented in this Guide necessarily have to apply to all standards. Furthermore, sector-specific questions might not be covered. TCs, PCs, SCs and WGs are best placed to evaluate how to address the specific needs of SMEs in their standards.</p> <p>ISO/IEC Guide 17:2016 contains a) considerations for the development of standards that are best adapted to SMEs’ needs; b) techniques for identifying and assessing provisions in standards that may especially impact SMEs; c) ways to reduce negative impacts on SMEs, resulting from some provisions in standards; d) guidelines for writing SME-friendly standards; e) a checklist; f) information on the impact that new standards can have on micro-enterprises.</p> <p>NOTE In this Guide, the term “standard” includes all ISO/IEC deliverables.</p>
ISO 44003:2021	ISO/TC 286	2013	Collaborative business relationship management — Guidelines for micro, small and medium-sized enterprises on the implementation of the fundamental principles	<p>This document gives guidelines for micro, small and medium-sized enterprises (MSMEs) to use the twelve principles of collaborative business relationships given in ISO/TR 44000 to improve their collaborative capability. This document is applicable to MSMEs regardless of what they do, where they are, their operating environment, culture, social capital and objectives.</p> <p>This document reinforces the twelve collaborative relationship management principles. ISO 44001 (2019) and related ISO collaborative management standards are based on the understanding and acknowledgement of these principles.</p> <p>NOTE: The definition of an MSME varies widely. This document is intended for the use of any organization that identifies or is identified as an MSME.</p>

ISO 9706:1994	ISO/TC 46/SC 10 - Requirements for document storage and conditions for preservation	2005	Information and documentation — Paper for documents — Requirements for permanence	Specifies the requirements for permanent paper intended for documents given in terms of minimum strength measured by a tear test, the minimum content of substance (such as calcium carbonate) that neutralize acid action measured by the alkali reserve, the maximum content of easily oxidized material measured by the kappa number, maximum and minimum pH values of a cold-water extract of the paper. It is applicable to unprinted papers. Is not applicable to boards.
ISO 25550:2022	ISO/TC 314 Ageing societies	2017	Ageing societies — General requirements and guidelines for an age-inclusive workforce	<p>This document provides requirements and guidelines to achieve an age-inclusive workforce, which has the potential to add value for organizations, workers, communities and other stakeholders. This document enables organizations and other stakeholders to develop, implement, maintain and support an age-inclusive workforce. It provides opportunities for older workers, working internal or external to the organization, to be productive.</p> <p>This document is applicable to all organizations regardless of type or size and to all work arrangements and all forms of relationships between organizations and workers.</p> <p>While organizations need to be inclusive of all workers regardless of age, these requirements and guidelines focus specifically on older workers.</p>
ISO 13009:2015	ISO/TC 228 Tourism and related services	2005	Tourism and related services — Requirements and recommendations for beach operation	<p>ISO 13009:2015 establishes general requirements and recommendations for beach operators that offer tourist and visitor services. It provides guidance for both beach operators and users regarding the delivery of sustainable management and planning, beach ownership, sustainable infrastructure and service provision needs, including beach safety, information and communication, cleaning and waste removal.</p> <p>ISO 13009:2015 is applicable to beaches during the bathing season.</p>
ISO 21570:2005	ISO/TC 34/SC 16 Horizontal methods for molecular biomarker analysis	2008	Foodstuffs — Methods of analysis for the detection of genetically modified organisms and derived products — Quantitative nucleic acid-based methods.	<p>-ISO 21570:2005 provides the overall framework of quantitative methods for the detection of genetically modified organisms (GMO) in foodstuffs, using the polymerase chain reaction (PCR).</p> <p>It defines general requirements for the specific amplification of DNA target sequences in order to quantify the relative GMO-derived DNA content and to confirm the identity of the amplified DNA sequence.</p> <p>Guidelines, minimum requirements and performance criteria laid down in ISO 21570:2005 are intended to ensure that comparable, accurate and reproducible results are obtained in different laboratories.</p> <p>ISO 21570:2005 has been established for food matrices but is also applicable to other matrices, e.g. feed and plant samples from the environment.</p>

ISO 10845-7:2011	ISO/TC 59/SC 18 Construction procurement	2015	Construction procurement — Part 7: Participation of local enterprises and labour in contracts	<p>ISO 10845-7:2011 establishes a key performance indicator in the form of a contract participation goal (CPG) relating to the engagement of local enterprises and labour on a contract for the provision of services or engineering and construction works. A CPG may be used to measure the outcomes of a contract in relation to the engagement of local enterprises and labour or to establish a target level of performance for the contractor to achieve or exceed in the performance of a contract.</p> <p>ISO 10845-7:2011 sets out the methods by which the key performance indicator is measured, quantified and verified in the performance of the contract in respect of two different targeting strategies: targeting strategy A and targeting strategy B</p>
ISO 10845-8:2011	ISO/TC 59/SC 18 Construction procurement	2015	Construction procurement — Part 8: Participation of targeted labour in contracts	<p>ISO 10845-8:2011 establishes a key performance indicator, in the form of a contract participation goal (CPG), relating to the engagement of targeted labour on a contract for the provision of services or engineering and construction works. A CPG may be used to measure the outcomes of a contract in relation to the engagement of targeted labour or to establish a target level of performance for the contractor to achieve or exceed in the performance of a contract.</p> <p>ISO 10845-8:2011 sets out the methods by which the key performance indicator is measured, quantified and verified in the performance of the contract in respect of two different targeting strategies: targeting strategy A and targeting strategy B.</p>
ISO/IEC 30105-1:2016	ISO/IEC JTC 1/SC 40 IT service management and IT governance	2013	Information technology — IT Enabled Services-Business Process Outsourcing (ITES-BPO) lifecycle processes — Part 1: Process reference model (PRM)	<p>ISO/IEC 30105-1:2016 specifies the lifecycle process requirements performed by the IT-enabled business process outsourcing service provider for the outsourced business processes. It defines the processes to plan, establish, implement, operate, monitor, review, maintain and improve its services. This document: - covers IT-enabled business processes that are outsourced; - is not intended to address IT processes but includes references to them at key touchpoints for completeness; - is applicable to the service provider, not to the customer; - is applicable to all lifecycle processes of ITES-BPO; - serves as a process reference model for organizations providing ITES-BPO services.</p>

Source: Authors Compilation based on ISO website < <https://www.iso.org/iso-and-smes.html> >

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The Centre for WTO Studies was set up in the year 1999 to be a permanent repository of WTO negotiations-related knowledge and documentation. Over the years, the Centre has conducted a robust research programme with a series of papers in all spheres of interest at the WTO. It has been regularly called upon by the Government of India to undertake research and provide independent analytical inputs to help it develop positions in its various trade negotiations, both at the WTO and other forums such as Free and Preferential Trade Agreements and Comprehensive Economic Cooperation Agreements. Additionally, the Centre has been actively interfacing with industry and Government units as well as other stakeholders through its Outreach and Capacity Building programmes by organising seminars, workshops, subject-specific meetings etc. The Centre thus also acts as a platform for consensus-building between stakeholders and policymakers.

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