GLOBAL ALLIANCE FOR TRADE FACILITATION

LESSONS LEARNED SERIES **LL-01**

Engaging the Private Sector in Trade Facilitation Reform

LESSONS FROM THE GLOBAL ALLIANCE FOR TRADE FACILITATION

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This paper is part of the Global Alliance for Trade Facilitation Lessons Learned Series. It was prepared by Maria Gabriela Diaz Cordova, Project Manager, and Barbara Ramos, Knowledge Lead, under the general guidance of the Alliance Management Team.

THE GLOBAL ALLIANCE FOR TRADE FACILITATION LESSONS LEARNED SERIES

The Global Alliance for Trade Facilitation is a collaboration of international organisations, governments and businesses working to help developing and least developed countries implement the World Trade Organization's Trade Facilitation Agreement. We do it by bringing together governments and businesses as equal partners to address delays and unnecessary red-tape at borders and deploy targeted reforms that deliver commercially quantifiable results.

Alliance projects help to create an environment where businesses can trade more easily, with predictable procedures, streamlined regulations and modern automation.

When cross-border trade is simple, fast and cost-effective, it can create new business opportunities, enable greater economic and social development and reduce poverty.

We document the insights, lessons and emerging best practices we identify while implementing trade facilitation reforms around the world and share them through our Lessons Learned Series. Our goal is to help governments, businesses and other organisations pursue meaningful reforms together and to enrich understanding of how trade facilitation can benefit people's lives.

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INTRODUCTION

Although public-private cooperation is not a new concept, it became ubiquitous in international development discourse with the adoption of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs). Public-private cooperation has become part of the development lexicon, with the number of initiatives aimed at leveraging each partner's strengths growing exponentially at the domestic and international levels. Across the globe governments and businesses strive to work together based on the understanding that their combined resources and expertise will more effectively, efficiently and sustainably solve myriad complex problems from environmental degradation to poverty.

In the area of trade facilitation, the value of partnering with the private sector is particularly evident.[1] First, businesses **know where the shoe pinches**, as demand for trade facilitation reform is rooted in the frustrations experienced by the private sector itself. Second, businesses **have skin in the game**, as they are directly affected by the ease of trading. Finally, since competition pushes businesses to innovate, they often **think outside the box** and can provide a unique set of skills, expertise and solutions. Thus, as the end user, the private sector is not only a powerful stakeholder to drive change, but a key source of knowledge for the identification, design and implementation of trade facilitation reform.

The private sector, however, is not a homogeneous entity. It comprises multinational companies, conglomerates, and small and medium-sized enterprises (SMEs) in different sectors, some with global reach and others with local footprint. Moreover, companies themselves, especially large ones, are often subdivided into national subsidiaries and operational branches, all of which might have somewhat different objectives and policy priorities. In this heterogeneous context, engaging the private sector in policy reforms is an art rather than a science.[2]

Trade facilitation reforms can unlock considerable gains – for instance, improving border administration and transport and communications infrastructure halfway to global best practice has the potential to increase exports by 63.1% in sub-Saharan Africa and by 65.2% in South and Central Asia.[3] Yet neither the public nor the private sector alone can deliver the full potential of such reforms . In this context, the Global Alliance for Trade Facilitation was established to support the implementation of the WTO Trade Facilitation Agreement (TFA) in developing and least developed countries by delivering projects that are designed and implemented by both sectors working together.

Understanding that there is no one-size-fits-all approach, this paper draws on the experience the Alliance has garnered in its first four years of operation in working with the private sector in the identification, design and implementation of trade facilitation projects in developing and least developed countries. Specifically, it examines the challenges commonly faced in involving businesses in trade facilitation reform, presents the approach adopted by the Alliance to operationalise the role of business in its activities and the results achieved so far, and identifies emerging success factors in private sector engagement.

THE CHALLENGE

The private sector has a central role in fostering sustainable economic growth. Businesses advance innovation, generate income and jobs, mobilise domestic resources and, in turn, can contribute to poverty reduction. Over the past two decades the private sector has also gained a prominent role in development cooperation. The UN Global Compact (2000), the Accra Agenda for Action (2008), the Busan Partnership for Effective Development Co-operation (2011) and, most recently, the 2030 Agenda for Sustainable Development have paved the way for businesses to be recognised as partners by national governments.

In the field of trade facilitation, the value of including businesses in the implementation of the TFA was recognised in the agreement itself, as illustrated by provisions calling for consultations for example. Yet, even though the value of engaging the private sector in public sector reform may be clear, how to make it a reality is less so.

Based on the Alliance's experience, several challenges to enacting trade facilitation reform through a public-private approach have been identified, namely:

- potential lack of trust between public and private sector stakeholders;
- different cultures in the public and the private sectors;
- misalignment on key trade facilitation priorities;
- lack of coordination within stakeholder groups; and
- collective action problems within the private sector.

First, **lack of trust**, a precondition to effective and meaningful engagement, limits the kind of information sharing necessary for successful public-private collaboration. This challenge is particularly difficult to overcome in a context in which one of the parties – government – is responsible for regulating the other – business. On the one hand, governments may be reluctant to share information on issues that are regarded as being strictly under their authority or that may increase the possibility of capture by private interests (e.g. businesses providing input to the definition of rules and regulations by which they should abide). On the other hand, although businesses understand they have much to contribute and are increasingly interested in sharing information that can lead to better policies, they may be concerned that such information will be used to justify undue regulation, or that it may benefit a competitor at its expense.

Second, what makes public-private partnerships valuable can also make them challenging: the **different cultures** in the public and the private sectors. While governments and businesses need to closely coordinate in order to jointly identify problems and craft broad-based solutions, they also need to manage significant differences in professional language, organisational/working culture, and modus operandi.

Third, the public and the private sectors often have **different views on the main challenges** to be addressed. With regards to trade, while governments and businesses share the overall goal of fostering cross-border exchanges, they are not necessarily aligned on which specific policies and reforms are necessary to achieve that goal, or at least prioritise them differently. For instance, while governments tend to prioritise revenue collection and compliance, companies emphasise time and cost reductions. Even though these goals are not contradictory – and the Alliance's experience has shown that they can indeed be complementary – the divergence of priorities often delays the selection and design of interventions.

Fourth, the large number of actors involved in trade reform and the **lack of coordination** within the public and the private sectors make it difficult to find common ground. On the government side, trade operations cut across multiple agencies with responsibility over different processes and that are often unwilling to surrender or share authority among themselves. On the business side, there may not be a single private sector voice, in the sense that interests and priorities may differ significantly across sectors and industries, even in those where associations or confederations represent sector- or industry-wide interests.

Finally, even when all identified challenges are overcome, securing private sector contributions to specific interventions is not straightforward due to **collective action problems**. Although businesses know that burdensome trade processes generate losses, they may not fully recognise the benefits that could arise from specific reforms. Similarly, they may find the cost of reform to be too high for a single company to bear compared to the benefits that can accrue, or, in the absence of a coordination mechanism, they may fear that other companies will "free ride" and benefit from reform without contributing to it.

In conclusion, while progress in public-private coordination in trade facilitation has been observed in the last decade, and governments and businesses are increasingly working together to implement needed reforms, challenges remain. The next section highlights what the Alliance is doing to help overcome them.

THE ALLIANCE APPROACH

The express goal of the Alliance is to support the implementation of the TFA in developing and least developed countries by harnessing public-private collaboration to design and implement commercially meaningful trade facilitation projects.

To this end, the Alliance relies on the processes of **co-creation and co-implementation**, characterised by the deep inclusion of the private sector in identifying, designing and implementing trade facilitation reforms. For instance, the Alliance organises public-private dialogues in which both sides work in tandem to identify bottlenecks, priority areas for public-private cooperation, and the technical design of reforms. We have observed that incorporating the different perspectives from the outset allows government agencies to gain insight into business priorities, and companies to appreciate government processes and constraints, helping bridge the trust gap.

Even though public-private dialogue is one of the principles underlying the TFA, what is different in the Alliance's approach is the **wide range of actors** that are brought to the table. We engage headquarters, regional managers as well as in-country branches, as their contributions to trade reform in general and our work specifically are complementary. For instance, headquarter and regional staff provide holistic and strategic insight to our work, including information on global and regional best practices. In addition, they open to us the doors of their local subsidiaries, which share practical insights from the ground and provide technical input to project design. As described by **Mark FeDuke, Director of Risk Management and Regulatory Affairs at ArdoVLM:**

"Alliance projects are developed from the ground-up by governments and local businesses, with our experts acting as a sounding board along the way, advising on technical aspects and sharing our knowledge of international best practices."

By engaging actors at **all levels**, the Alliance helps untangle complexity and align expectations, encouraging joint project ownership and accountability. As remarked by **Steven Pope, Vice President of Trade, Deutsche Post DHL Group,** during a technical visit to our project counterparts in Kenya: "We brought all functions of both Customs and DHL – from the Deputy Customs Commissioner to customs officers on the ground, from the company's Vice-President of Trade to local staff – into a room to discuss required changes."

Moreover, the Alliance plays the role of a neutral facilitator that aims to ensure that partners abide by their commitments and execute agreed upon tasks, all of which help build trust. In fact, an independent evaluation of the Alliance indicated that public and private sector stakeholders reported increased levels of trust in the wake of the Alliance's involvement.[4]

Although multiple and sometimes opposing interests are commonplace within the private sector, the Alliance works with companies at the global and country levels to **create common ground** and design projects that respond to shared concerns. For example, at the global level, the Private Sector Working Group (PSWG) brings together like-minded businesses into a community of trade facilitation leaders committed to accelerating trade reform. During monthly calls and a yearly in-person meeting, global companies share insights and best practices directly applicable to Alliance operations. According to the Alliance 2018 Partner Survey, 100 percent of respondents confirmed that the Alliance is relevant in bringing together the business community to accelerate trade facilitation reforms.[5]

Through global, regional and national events and targeted communications, the Alliance **raises private sector awareness of the TFA and its associated benefits**, increasing demand and support for in-country reforms. The Alliance counts on the level and reach of its host organisations' networks to sensitise the private sector on the benefits of trade facilitation reform. For example, it has organised information sessions during the World Economic Forum's Annual Meeting in Davos, as well as regional fora in Africa, Asia and Latin America, and collaborated with the International Chamber of Commerce's Customs and Trade Facilitation Commission and National Committees. In addition, in the view of Alliance project managers,[6] the private sector is not particularly focused on the TFA at a conceptual level, but rather interested in the downstream benefits of implementing specific trade facilitation measures. The co-creation approach captures and leverages this "targeted" perspective in that the design and selection of projects is directly informed by operational pain points.

Finally, the Alliance **facilitates and incentivises private sector participation** by leveraging its core functions and delivering commercially meaningful results. Thus, many companies regard their participation in Alliance projects less as an additional effort and more as a core business function that advances their internal and external goals. In the words of **Amgad Shehata, Senior Vice President of International Public Affairs and Strategy at UPS**:

"Participating in the Alliance goes far beyond the typical business involvement in many other initiatives. It's more than attending events, adding our logo to materials or giving money. Our experience so far has seen us lend our in-house experts in technical engineering, legal and brokerage directly to Alliance projects [...] We have this expertise because we face these types of non-tariff barriers to trade around the world every day. The Alliance gives us a platform to lend that expertise to delivering real change and at the same time offer great development opportunities for our staff."

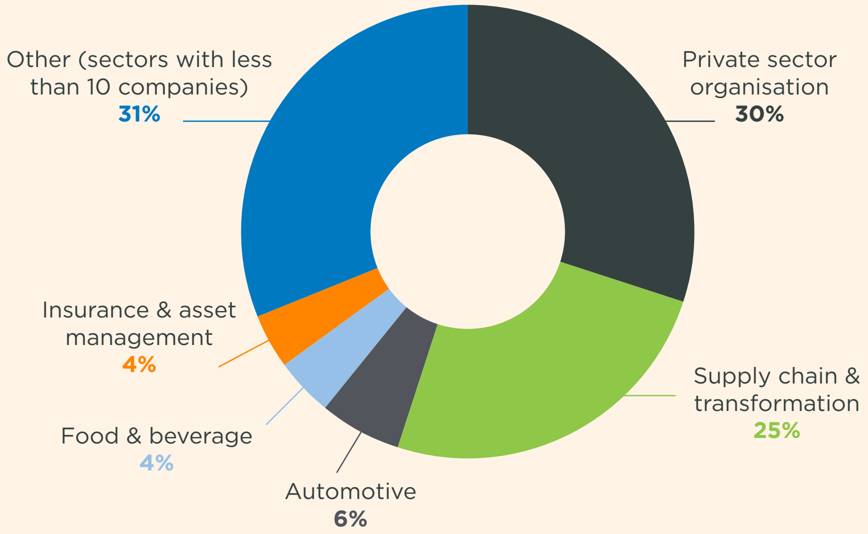
The focus on co-creation and co-implementation translates into concrete contributions from the private sector to Alliance operations on the ground, which are quantified and explained in the next section.

THE RESULTS

The Alliance has been successful in mobilising an increasingly diverse group of private sector partners and supporters at the global and the country level. As of December 2019, **25 companies had become Alliance private sector partners,**[7] with hundreds more supporting our work.

Alliance private sector partners and supporters include **large companies (69%) and SMEs and associations (31%)**,[8] from an array of sectors (Figure 1). The bulk of Alliance supporters are classified as private sector organisations (30%), which include industry associations and confederations, followed by companies in the supply chain and transportation sector (25%), and in the automotive (6%), food and beverage (4%) and insurance and management (4%) industries. The high percentage of companies in the supply chain and transportation sector reflects the Alliance's mandate to facilitate the movement of goods across borders, while the presence of companies in the automotive, food and beverage and insurance industries is reflected in the target sectors of current Alliance projects.[9]

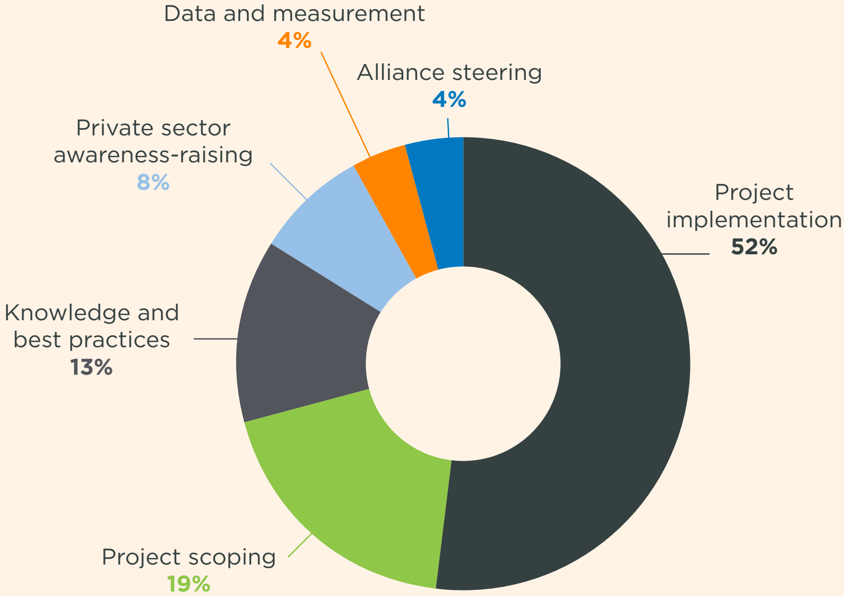
FIGURE 1: ALLIANCE PARTNERS AND SUPPORTERS BY SECTOR
(Percentage of partners and supporters contributing to Alliance activities, Jan 2018 – June 2019)



Source: Own calculations based on the Global Alliance for Trade Facilitation in-kind tracker

Through its business partnerships the Alliance has leveraged significant contributions in-kind, improving the effectiveness of our operations and constituting a positive **efficiency case to donors**.[10] Between January 2018 and June 2019, private sector partners and supporters made in-kind contributions[11] to various Alliance workstreams (Figure 2). These contributions amounted to nearly **USD 720,000 dollars**, with 70% corresponding to engagement at the country level (i.e. related to projects) and 30% at the global level (e.g. Alliance Steering Group, which provides strategic guidance and oversight to the initiative, and Private Sector Working Group).

FIGURE 2: PRIVATE SECTOR IN-KIND CONTRIBUTION BY WORKSTREAM
(Percentage of in-kind contribution, Jan 2018 – June 2019)



Source: Own calculations based on the Global Alliance for Trade Facilitation in-kind tracker

In-kind contributions are largely of technical expertise geared towards **project scoping and implementation** (19% and 52%, respectively). For example, for the project in Zambia, where we are supporting the design and introduction of a new framework for licensing customs clearing agents, DHL Express offered training materials to support the development of a curriculum for clearing agents. For the project in Vietnam, focused on the development of a modern customs bond system for the conditional release of goods, Roanoke Insurance Group worked with the General Department of Vietnam Customs and other government agencies to provide key inputs into the design of the customs bond system, including on certain legal aspects related to implementation of the customs bonds pilot.

The Alliance has regularly received support from private sector partners to identify and share **knowledge and best practices** (13%). For instance, for the Morocco project, where we support the automation of port processes, technical visits were carried out to Spain and the Netherlands to exchange best practices and propose recommendations on the optimisation of such processes. In addition, for the development of the Alliance internal guidelines to mainstream gender considerations into project design and implementation, we sought the expertise of partner companies that strive to include women-owned businesses in their supply chains.

Our private sector partners also serve as Alliance ambassadors in **raising awareness of the TFA** (8%). Every year dozens of high-level private sector representatives speak on the Alliance's behalf in various fora around the globe, with the goal of raising the initiative's profile, but most importantly, to sensitise fellow private sector representatives on the importance of their engagement with the public sector for successful and sustainable reform.

Finally, **provision of data for project identification and results measurement** (4%) is also a relevant form of in-kind contribution. In support of diagnostic and impact assessment work conducted through the Total Trade and Logistics Cost (TTLC) methodology[12], private sector companies provide data that allow the Alliance to measure the direct and indirect costs of import and export processes to better target trade facilitation reforms and/or quantify the impact of its interventions in terms of time and cost savings.

LESSONS LEARNED AND SUCCESS FACTORS

Businesses have different priorities depending on their sector of operation and their geographical base and size, which affect how they evaluate the costs and benefits of engaging in public-private initiatives. Despite these differences, we have identified a set of common factors that drive companies' decision to join and remain active in the Alliance.

Alignment with a company's core business: The resources companies can dedicate to non-core business activities are limited so they tend to participate in initiatives that demonstrate the capacity to deliver business value and concrete benefits.

- Alliance operations tap into core technical competencies, skills and practices, allowing companies to contribute what they do best. As a result, governments gain by leveraging privately-available resources, and businesses help build a better environment for cross-border trade.
- Most importantly, the Alliance delivers commercially-meaningful results, that is, cost and time savings to importers and exporters. This gives companies a clear commercial interest in shaping and participating in Alliance operations.

Promotion of corporate values and principles: Companies seek to engage with initiatives that promote their corporate values and principles and enhance their reputation and brand as responsible and responsive businesses.

- The Alliance is co-hosted by organisations whose missions are to promote positive societal values and with which companies want to be associated, as it helps sustain their reputation with external stakeholders (governments, customers, consumers and suppliers) and internally (with shareholders and employees).
- The Alliance's goal is to foster economic growth and reduce poverty, which supports corporate social responsibility and sustainability strategies. As recognised by **Allan Lerberg Jørgensen, Lead Sustainability Advisor at A.P. Møller - Mærsk A/S:**

"International trade has been a massive driver of prosperity and has helped lift over a billion people out of poverty. At the same time, we recognise that we need to make global trade available for everybody so that all can share in its benefits. Today, developing countries face nearly twice the logistics costs of developed countries, according to the International Trade Centre. That's why a key pillar of our sustainability strategy is to multiply the benefits of trade. One of our focus areas here is to support countries to implement the World Trade Organization's Trade Facilitation Agreement – and why we work with the Alliance to do it."

Participation of like-minded companies: When it comes to trade facilitation, there is strength in numbers and challenges are more successfully addressed through joint action. Thus, the number and reputation of companies that are already participating in a given initiative influence the decision of other companies to engage.

- Companies willing to join the Alliance as business partners must have a positive compliance track record and undergo a due diligence process. As such, they are well positioned to advocate for governments to simplify and streamline processes for companies that, like them, abide by the rules, while focusing efforts on non-compliant traders, thereby creating additional incentives for compliance.
- The Alliance's over two dozen business partners include champions of corporate sustainability and trade facilitation reforms, which attracts other businesses to the initiative.

Presence of a neutral facilitator: Companies also prefer to join initiatives that are led by champions that "pull the ropes", maintain constant dialogue and keep all parties engaged and committed.

- Based on the strengths of its donor governments, host organisations and implementing partners, the Alliance is recognised as a legitimate facilitator by both governments and businesses, which gives it unparalleled convening power.

THE NEXT FRONTIER

The Alliance's vision is a world where cross-border trade is simple, fast and cost-effective, creating new business opportunities, enabling greater economic and social development and reducing poverty. In its first four years of operation, the Alliance has set itself apart by the depth and breadth of private sector engagement in trade facilitation reforms. Looking ahead, the Alliance, along with its public and private sector partners, will continue to push the envelope by focusing on three main issues: innovation, impact and inclusion.

Fostering innovation: The Alliance is constantly seeking ways to breed innovation into its projects and has been experimenting with different modalities of private sector engagement for project design. Specifically, we are piloting a new workstream through which businesses can pitch project ideas to the Alliance, which are subsequently validated with public and private stakeholders in-country. In addition, we are seeking ways to increase engagement with start-up companies alongside global businesses through the organisation of innovation challenges and competitions to bring fresh solutions to longstanding trade facilitation problems.

Demonstrating impact: Ultimately, the most powerful way to sustain and expand private sector engagement is by demonstrating that we can have a meaningful and measurable impact on trade facilitation. As our projects conclude, we will strive to show how the public-private partnership approach improves outcomes in terms of greater effectiveness (i.e. better targeting of projects), efficiency (i.e. reduction in project cost), and impact (i.e. driving economic growth through trickle down effects).

Growing an inclusive network: The next frontier for private sector engagement is to strengthen the participation of SMEs and women-owned businesses, as both partners and beneficiaries of trade facilitation reforms, and leverage multinationals headquartered in developing countries as Alliance business partners. Women-owned businesses and SMEs tend to face specific challenges in international trade and have different priorities from those of large global businesses, in addition to not having as many resources, while partnering with companies from developing countries is key in fostering South-South cooperation. Going forward, the Alliance will continue to make efforts to create a more inclusive business network to ensure that its projects are sensitive to the needs of the whole of the private sector and that the concerns of smaller players are reflected in global-level discussions.

ENDNOTES

1. For the purpose of this paper, private sector is defined as "organisations that engage in profit-seeking activities and have a majority private ownership. This term includes financial institutions and intermediaries, multinational companies, micro, small and medium-sized enterprises, co-operatives, and individual entrepreneurs (...)" (Di Bella, J., et al. 2013), in addition to business associations and confederations.
2. For the purpose of this paper, private sector engagement is defined as "working with the private sector in development cooperation to realise sustainable development outcomes" (OECD 2016).
3. World Economic Forum et al. (2013) note that improvements in transport and communications infrastructure are not covered in the Trade Facilitation Agreement.
4. MDF (2019)
5. Global Alliance for Trade Facilitation (2018)
6. Butterly (2019)
7. Alliance Business Partners are defined as global companies that support the Alliance through in-kind contributions. Partners need to submit a commitment letter and pass due diligence.
8. It is important to note that local business associations tend to be mostly constituted by SMEs.
9. The Alliance projects in Colombia specifically target the automotive and food and beverage sectors, while the one in Vietnam mostly involves the insurance industry.
10. MDF (2019).
11. The Alliance calculates private sector in-kind contributions based on a valuation of the time businesses spend on Alliance activities. Provision of data, methodologies, and lending of facilities are also considered in the valuation.
12. The TTLC methodology captures both the direct and indirect costs of transport and logistics involved in cross-border trade. The methodology itself was provided by Maersk to the Alliance as in-kind contribution valued at half a million dollars. The amount is not included in the results presented in this paper as it was provided in 2016, and detailed tracking of in-kind contributions made prior to 2018 is not available, and thus does not allow for the kind of analysis conducted here.

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