

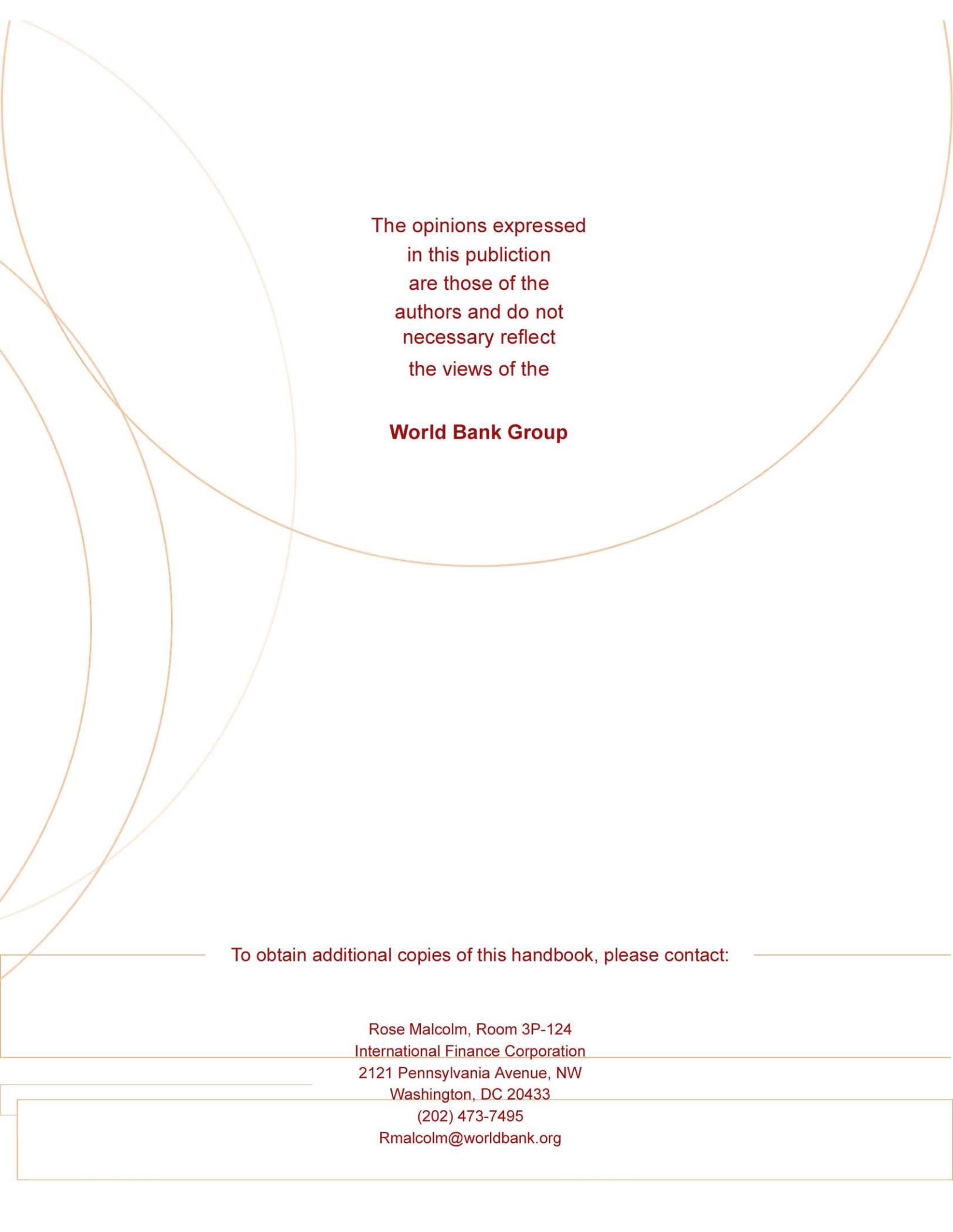
Building The Capacity of Business Membership Organizations:

GUIDING PRINCIPLES FOR PROJECT MANAGERS

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World Bank Group
- Small and Medium Enterprise Department -





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Introduction

Business Membership Organizations (BMOs) can be a tool for small and medium enterprise (SME) promotion in developing countries. From a donor perspective, BMOs are a channel through which a large number of enterprises could be reached. BMOs can also be effective providers or facilitators of selected enterprise support services that can work concurrently at the policy level.

Introduction

Based on this premise, the World Bank Group's SME Department has been developing activities to build the capacity of BMOs as professional advocates and as demand-driven service providers over the past two years. The following initiatives mark the discussion which has taken place since 2001:

World Bank initiatives in BMO capacity building

- In 2001, the World Bank Group created the Business Association Knowledge Network. Members of this network are BMOs from industrialized countries with long experience in assisting both similar organizations in developing countries and IFC-managed SME support programs (Project Development Facilities and the Private Enterprise Partnership).
- With the support of this network, a first draft of the Business Association Handbook was written. The objective of this publication was to summarize all the expertise acquired in the area of technical assistance to BMOs.
- In January 2003, the World Bank organized a workshop on building the capacity of business associations. This workshop proved to be a successful platform for project managers to exchange experiences in BMO assistance and discuss the concept of this Guide.

In this discussion, it was agreed that although there exists an extensive literature on individual BMO management and training programs, there is a need to bring this knowledge together in one publication that would provide task managers of BMO projects with operational guidelines.

The objective of this Guide is to help improve the effectiveness of BMO projects by providing:

Objectives

- (i) A reference to key documents, organizations, and other resources in the field of BMO development.
- (ii) A conceptual framework for BMO projects.
- (iii) Guidelines for BMO support based on lessons learned.
- (iv) An analysis of typical issues faced by BMOs in developing countries in terms of internal management, service delivery, advocacy, and practical recommendations to solve these problems, with reference to products and services available to cope with and address these weaknesses.

To this end, a research team organized by SEQUA in close cooperation with IFC has undertaken a review of the existing literature on BMO development in order to derive the most important facts and recommendations on the issue. The literature studies are supplemented by several case studies of BMO development projects from around the world. These practical experiences may illustrate the possible problems and opportunities of these projects. *Methodology*

The structure of this Guide roughly follows the project cycle: The first part addresses conceptual issues, which have to be clarified before starting the project. It describes the rationale for BMO development projects and gives a short overview of BMO types and systems. The second part discusses more practical questions, which may appear during the implementation phase of a project. It provides the reader with tools to assess beneficial project partners and the surrounding framework conditions for BMOs. It follows with a detailed analysis of possible instruments of donor intervention in the area of advocacy, service provision and BMO management. The Guide concludes with ten basic rules and recommendations for successful donor intervention. *Structure*

Executive Summary

1. Support for small and medium enterprises (SMEs) has to be regarded as an integrative part of every strategy for private sector promotion in developing countries because of their contribution to poverty alleviation and equitable growth. In order to grow and prosper, all private enterprises, but especially SMEs, need a suitable legal and regulatory environment, a reliable infrastructure as well as different financial and business services. The most important actors, which can influence the SMEs' environment, are on the one hand government and public institutions, and on the other hand private service providers, with business membership organizations (BMOs) in between. *Background*
2. BMOs can promote SME growth through facilitation or direct provision of selected demand-driven services and through advocacy aimed at creating a better business environment. BMOs are in the position to play this "dual role" because of certain characteristics: they are intermediary, networking, and self-regulative bodies. It is this unique combination of strengths that makes them effective tools to increase the growth of firms in a given country. *BMO strengths*
3. By supporting BMOs, donors can reach higher cost-effectiveness as well as greater outreach and sustainability. Because of their size, BMOs can reach out to a large number of firms. Because of their membership nature and mandate, BMOs can represent and voice the concerns of their members at the policy level, creating a constituency for change that can lead to sustainable, bottom-up policy reforms. However, donors should also keep in mind that most BMOs have a mixed membership including smaller and larger enterprises with at times diverging interests. *Advantages for donors*
4. Developing BMOs fits with the World Bank's broader strategic goals and Private Sector Development Strategy in the areas of diagnostic and policy analysis, local ownership and consensus building, monitoring and feedback of policy reforms, and SME promotion. *BMOs and WB strategy*
5. BMOs have to be defined as nonprofit and democratically guided membership organizations that finance themselves by a mix of membership dues, service fees, and subsidies from government or donors. *Definition*
6. BMOs can be divided into two major groups: business associations and chambers of commerce and/or industry. Business associations (e.g., industry associations, small-scale enterprises' associations, women's associations, or employer's associations) are usually private law organizations concentrating on single branches, firm sizes or functions. They are characterized by a more homogeneous membership structure and include a relatively small number of (potential) members. Chambers combine the broad based business interests of a certain geographic region. The Anglo-Saxon model can be distinguished from the Continental model of chamber development. The latter is characterized by mandatory membership, and the former by voluntary membership. *BMO typology*

7. The ideal partner for BMO development projects combines the following characteristics: a high number and extensive coverage of dedicated members primarily from the SME community, a committed and visionary leadership, a democratic and efficient governance structure, sufficient financial, personnel and physical resources, and high-quality services and advocacy. *Ideal partner characteristics*
8. Using tools for BMO selection based on these criteria provides a framework of a more structured decision-making process for partner selection. However, it is important to remember that only few real-life BMOs conform to ideal standards – and that it is necessary to remain open-minded and flexible while choosing partners. *Partner selection*
9. A country's political, economic, and social conditions define the limits of the scope of BMO development. The most important factors are the strength and structure of the private sector, general economic policies, the degree of decentralization, cultural traditions, and the legal framework. In this context, donors may be of great help by lobbying for a conducive environment in which BMOs can better operate. *Environment*
10. BMOs in developing countries are typically characterized by poor organizational capacity and technical skills, lack of proper accounting systems and governance, and lack of demand-driven orientation resulting in low levels of sustainability. The development objectives of BMO projects are to improve the functioning of BMOs and to create a better environment for their growth. The most important areas for donor intervention are the development of selected services, advocacy, and BMO management. *BMOs in developing countries*
11. It can be argued that BMOs have competitive advantages in the facilitation or provision of certain business development services and that those BMOs and commercial service providers complement rather than compete with each other. However, most BMOs in developing countries only offer a limited range of low-level services because they lack the financial and human resources as well as the know-how needed to upgrade and diversify their service portfolio. *BMOs and service provision*
12. Membership services can be classified into trade and market development, training, advice and consulting, information and networking, office facilities and infrastructure services, and delegated government functions. *Types of services*
13. The present capabilities and experiences of BMOs, the competition and demand in service markets, the necessary financial and personnel resources, and the potential short and long-term benefits will influence the composition of a BMO's service portfolio. The chosen area and method of service provision will also influence the scope of donor intervention. *Selection of services*
14. The introduction of new services and the reorientation of existing ones may be described as a sequence of seven steps, which constitutes a phase model of service development. Donor interventions are most helpful during the pre- and post-delivery phases of a service transaction. Possible support measures include planning workshops and focus group meetings, staff training, seed financing, and commissioning background surveys and evaluation reports. *Donor interventions in service provision*

15. Lobbying and advocacy for a more conducive economic environment are another core activity of BMOs. By actively engaging in advocacy, a BMO raises its profile among policymakers and enhances its reputation within the business community. But most BMOs are not very successful in interest representation and advocacy, because of the interference and mistrust of government bodies, the political ambitions or closed shop mentality of the BMOs' leaders, missing know-how and contacts, the fragmentation of private sector interests, and a prevalent informal and ad-hoc style of lobbying. *BMOs and advocacy*
16. The most important ways for BMOs to influence the policy-making process are by using dialogue platforms, direct advocacy, grassroots campaigns, public relations use of the media, and lawsuits. Since policymaking is a complex, multilevel process, these activities have to be used in combination to have a significant impact. *Advocacy instruments*
17. There are many ways by which donors may support the advocacy efforts of BMOs. For example, donors may start off a National Business Agenda, train their partner to use the media and communicate its political message efficiently, or help in building networks and grassroots campaigns. *Donor interventions in advocacy*
18. Better organized BMOs are more focused, enjoy greater membership participation and improve their public recognition and acceptance. They are able to fulfill their responsibilities for the whole – small and large – business community and can therefore be regarded as genuine representatives of the private sector. However, BMOs in developing countries often suffer from organizational weaknesses. Low membership, a limited financial sustainability, and bad management practices reinforce each other, constituting a vicious circle of poor BMO management. *Management of BMOs*
19. Capacity building is a gradual process. Therefore, BMO management capabilities will develop on an incremental basis. Donors have to consider the different phases of organizational development while designing suitable interventions. *Gradual capacity building*
20. Possible areas for donor intervention include the promotion of sound accounting and sustainable financing practices, new income-generating services, membership recruitment and retention measures, membership surveys and strategy workshops, modernization of secretariat organization and administrative systems, and internal and external communication. *Donor interventions in BMO management*
21. Performance indicators are of special importance, since they document the consensus of donors and partner BMOs on the set of objectives that should be achieved. The most important indicator for BMO development is any measure related to increasing membership participation. Performance indicators will be helpful in facilitating an initial assessment, progress reports, evaluations, and benchmarking efforts against other BMOs. *Performance indicators*

A. General Considerations Before Starting a Project

1. Rationale

The contribution of small and medium enterprises (SMEs) to economic growth and sustainable development is well documented and widely acknowledged: these firms contribute to employment creation by using labor-intensive technologies, help mobilize otherwise underutilized physical resources as well as personal skills, and may therefore alleviate poverty and structural imbalances in the economy.¹ However, the most important argument for governments to support SMEs is that they constitute the overwhelming majority of private businesses in poor countries.² Every strategy for the development of a dynamic and viable private sector thus has to take into account the capabilities, existing local resources, and policy environment under which these smaller enterprises have to operate. All local actors, i.e., government bodies, private service providers, and Business Membership Organizations (BMOs) have to complement each other in private sector development.

Why assist SMEs?

SMEs face a different set of opportunities and constraints than large firms do. As a consequence, the private sector in many developing countries exhibits a dual structure – a few large, modern, capital- as well as import-intensive enterprises on one end of the spectrum and a majority of micro and small enterprises serving local markets with simple and traditional technologies on the other. It is evident that SMEs cannot fulfill their potential role because of the various bottleneck factors, which include resource endowments, economies of scale, demand conditions, market size, as well as availability of technology and suitable institutions.

Through the formation of BMOs, SMEs can address these problems related to their size and improve their competitive position. It is also recognized that BMOs represent an increasingly important form of participatory development in developing countries. They can make a major contribution to the improvement of the environment SMEs operate in by serving as a vehicle for the expression of their views, taking collective action, delivering core services, and networking among members and other stakeholders.

Role of BMOs

2. Definitions and Overview of Existing BMO Systems

The designation “Business Membership Organization” mirrors the outstanding importance of the members as the base of strength and power of this kind of business association. The main role of BMOs is to promote the growth and prosperity of their members and related business actors. In doing so, they act both as service facilitators or providers and as a representative body - members join because they want to access business development services and influence the political decision-making process to create a more favorable business environment. Diverse possible organizational settings result from the variety of business needs and interests, which are combined with the functional flexibility of BMOs. The following section is intended to familiarize the

Introduction

¹ See, for example, Little (1987).

² Hallberg (2000), p. 5.

reader with the different types of BMOs. It will also discuss the pros and cons of existing BMO systems.

All BMOs have certain common characteristics: First, they are nonprofit organizations. This does not mean that they are not allowed to charge for services but that their primary objective is to take collective action for their members. Secondly, they are guided democratically by the decisions of their members (or elected representatives). It is important to note that membership should in principle be open to all eligible enterprises willing to join. Thirdly, they finance their operations by a mix of membership fees, service charges, voluntary grants, and public subsidies.

Common characteristics of BMOs

These organizations can be divided into two major groups, which differ markedly in relation to their structure, membership, and functions (see table 1):

Two types of BMOs

Business (industry) associations are usually private law organizations concentrating on single branches, firm sizes, or functions. They are characterized by a more homogeneous membership structure and include a relatively small number of (potential) members. These enterprises generally have corresponding interests and have to cope with similar problems and needs, e.g., how to sustain competitiveness or how to find export markets. Thus, they find it easier to harmonize the interests of their members and engage in advocacy on special economic issues. Their professional expertise qualifies them for providing selective services, e.g., an industry-wide exchange for raw materials, the formulation and implementation of industry standards, or gender-specific entrepreneurship training.

1. Business associations

The universe of business associations includes several subgroups: next to industry-specific groups, there are (among others) cooperatives or associations of small-scale enterprises, women's organizations, and employers' associations:

Subgroups of business associations

- *Trade or industry associations* are the most common subtypes of business associations in all countries. They consist of professionals or business owners of a more or less narrowly defined industrial sector or trade. Next to advocacy efforts, their most important function is the regulation of horizontal competition among their member companies and of vertical competition along the supply chain. For example, trade or industry associations engage in export quota allocation, the development of professional standards, and quality upgrading.³
- *Small-scale enterprises' associations* mostly arise from the self-help efforts of the small producers of a certain region or enterprise cluster (e.g., an industrial park). Therefore, they offer services, which relate to the specific needs of SMEs such as microfinance schemes or group marketing instruments.⁴

³ Doner and Schneider (2000), pp. 264-267.

⁴ See, for example, Gibson and Havers (1994).

- *Women's organizations* also develop from the need to alleviate economic biases against a certain group of entrepreneurs. In many ways comparable to small-scale enterprise associations, they focus more on women-specific concerns and engage in gender-related advocacy.
- *Employers' associations* are essential players in the labor relations of every country. Thus, they are usually concerned with labor standards, wage level negotiations, staff training, etc. Most often, they combine all the enterprises of a specific trade or industry; however, they may also organize different sectors in accordance with their counterparts, the labor unions.

(Con)federations are BMOs established mostly under private law and formed by other business associations. In general, confederations are working nationwide or at least cover larger regions, allowing local BMOs inside the respective area to join. Their membership can either be made up exclusively of business organizations or be mixed with individual enterprises. Sometimes, local BMOs are obliged by law to be a member of their respective national confederation. Confederations are preferably used for high-level interest representation, for mediation between different associations when it comes to forming a unified opinion of business, and for services, which are too costly for a single BMO.⁵

Confederations

Binational chambers are private law associations specializing in the promotion of economic activities between two countries. They comprise individual enterprises and associations from both partner countries, thus disposing of a unique pool of knowledge on two national markets. They are therefore a tool for bilateral trade promotion.

Binational chambers

⁵ Müller-Falcke (1998), p. 2.

Table 1: Characteristics and Functions of Different Types of BMOs		
BMO Type	Defining Factor	Typical Functions and Services
Business Associations		
• Trade/industry assoc.	Occupation/Industry	Arbitration, quota allocation, industry standards setting, lobbying, quality upgrading
• SME associations	Size of firm	Entrepreneurship training and consulting, finance schemes, group services
• Women's assoc.	Gender	Entrepreneurship training, microfinance, gender-specific advocacy
• Employers' assoc.	Labor relations	Interest representation vis-à-vis unions, professional information, and training
• Confederations	Apex bodies	High-level advocacy, general business information, research, coordination of member associations
• Bi-national assoc.	Transnationality	Trade promotion, trade fairs, match-making
Chambers	Geographic region	Delegated government functions, arbitration courts, basic information services, matchmaking, local economic development

Chambers (of Commerce and/or Industry) are organizations under public or private law representing the business interests of a certain geographic region. Potentially, all enterprises in a respective region will be members of the chamber irrespective of the sector they belong to. Since a chamber has a heterogeneous membership, a chamber has to balance the often conflicting demands of all branches and sectors. Entrepreneurs may not find it very profitable to pay fees for this kind of general interest representation of regional businesses. Therefore, a chamber has to concentrate more on the delivery of interesting services for its members.⁶ On the other hand, chambers are well suited for performing functions delegated by the government exactly because of their broad membership base and their regional coverage.

2. Chambers

Differing mainly with respect to the existence or absence of a special chamber law and the question of mandatory or voluntary membership, two basic models of chamber systems have developed over time: the Continental and the Anglo-Saxon model (see table 2).

Basic features of Continental and Anglo-Saxon chamber models

⁶ Bennett (1996), p. 656.

The Continental model is prevalent in many European and Middle Eastern countries. Under the Continental model, chambers are corporations under public law with mandatory membership. The public law status, under the Continental model, gives BMOs preferential treatment vis-à-vis the government, usually expressed through a formal consultative status and the delegation of certain public functions. The Anglo-Saxon model, by contrast, does not have a specific legislation regulating chambers. Membership is voluntary. Therefore, chambers have to act in a more competitive and pluralistic environment.

Table 2: The Continental and Anglo-Saxon Models of Chamber Development		
Continental Model		
Features	Strengths	Weaknesses
1. Special chamber law (public law status)	<ul style="list-style-type: none"> • "Chamber" designation is legally protected 	<ul style="list-style-type: none"> • Limited range of activities
2. Mandatory membership	<ul style="list-style-type: none"> • Fully representative • No-free-rider behavior • Broad and stable income 	<ul style="list-style-type: none"> • Incentive problems to work efficiently and be demand-oriented
3. Formal consultative status vis-à-vis government	<ul style="list-style-type: none"> • Formal access to public administration 	<ul style="list-style-type: none"> • Difficulty in presenting clear-cut positions owing to an obligation to present balanced view
4. Regulated regional coverage	<ul style="list-style-type: none"> • Only one chamber per location 	<ul style="list-style-type: none"> • Incentive problems owing to monopoly
5. Delegation of public tasks	<ul style="list-style-type: none"> • Chambers are closer to the private sector 	<ul style="list-style-type: none"> • Identity conflict – public or private sector entity
6. Special public supervision	<ul style="list-style-type: none"> • Protection 	<ul style="list-style-type: none"> • Public interference
Anglo-Saxon Model		
Features	Strengths	Weaknesses
1. No chamber legislation	<ul style="list-style-type: none"> • Independence • Freedom of individual businesses to join or establish a chamber 	<ul style="list-style-type: none"> • Overlapping chambers in certain geographical locations
2. Voluntary membership	<ul style="list-style-type: none"> • Strong incentive to work efficiently and remain demand-oriented 	<ul style="list-style-type: none"> • Free-rider behavior • Limited influence because of low membership • Low financial income from membership dues
3. No delegation of public tasks	<ul style="list-style-type: none"> • Free decision of chamber on range of activities 	<ul style="list-style-type: none"> • Low financial income from fees for delegated services

Source: Pilgrim and Meier (1995), pp. 50, 53.

Donors will have to fit their interventions to the environment under which chambers have to operate. For example, chambers with mandatory membership are well suited for interventions in the field of public-private partnership and delegated government functions, because they are fully representative of the business of a specific region. In such a context, donors will face more incentive problems and public interference. As another example, BMOs with no legal protection and voluntary members (as is the case in most developing countries) often perform very well in the fields of advocacy and self-regulation of business, but donors may have a hard time making them financially sustainable.

However, these differences should not be overstated. Independently of the system, all BMOs, being member-based organizations, have the obligation to take care of the requests of their member enterprises. Furthermore, it is important to keep in mind that existing chamber systems always reflect a country's particular historical conditions. Thus, most "real world" chamber systems do not fit neatly into these two idealized models. In most developing countries elements of both models are present and these can therefore be described as mixed chamber systems.

It becomes clear from this short organizational typology that BMOs may have very different legal structures, target membership, and functional specialization. Certainly, not every kind of BMO has to be adopted in every country. Especially developing countries may have a less structured system of business organizations, featuring a few bigger BMOs integrating very different members and functions in competition with a lot of smaller associations with little power and capacity ("mushrooming").

3. Why Assist BMOs?

The rationale for supporting BMOs rests on the catalytic role these bodies can play in private sector development. This role is based on their (i) network, (ii) self-regulative, and (iii) intermediary character, which makes them interesting for SMEs and donors alike. In particular,

Potential role of BMOs in SME promotion

- **Networking:** BMOs are well placed to act as a "hub" for the dissemination of information. Using their business network, they can acquire first-hand experiences about the problems and needs of SMEs. This specific knowledge base makes BMOs the "natural" first stop for SMEs seeking short-term advisory and referral services.
- **Self-regulation:** Especially when BMOs cover large parts of the relevant business population, they may have the authority and legitimacy to take over regulative functions. For example, many BMOs are involved in business arbitration and standard setting. In doing so, they help in modernizing social and economic institutions and improve the business environment for SME growth. These self-help efforts allow governments to step back and promote objectives such as democratic participation, decentralization, and privatization.

Networking

Self-regulation

- **Intermediation:** BMOs function as a bridge between government and SMEs. Most enterprises join them to have a voice in the political decision-making process. This is particularly true for SMEs which are “too big to hide, but too small to fight”. Left to their own devices, they do not have the power to influence government, but neither can they escape into the informal economy to fight off predatory officials, bureaucratic procedures, and poor policies in general. As an intermediary, BMOs can articulate the demands of their membership and influence policies by showing the power and legitimacy of an authentic business advocate. On the other hand, they provide public bodies with valuable economic information and improve the acceptance as well as awareness of policy measures.

Intermediation

A critical assumption throughout this Guide is that BMOs offer a unique combination of strengths. They can influence the policy framework by giving firms (particularly SMEs) a collective voice. They can also deliver or facilitate selected services (including delegated government functions). Many BMOs in developing countries feel the need to upgrade their capacity with the help of external facilitators in order to maximize these opportunities.

Particular strengths of BMOs

As for the donors' side, two major trends in promotional policies have influenced the rationale for supporting BMOs and not SMEs or government agencies as facilitators. One is the poor record of most traditional support programs. The other is the decisive change of attitude regarding the role of the state and its relationship to civil society.

Two trends in SME promotion policies:

Originally, most traditional promotion measures in developing countries concentrated on direct input support (subsidized credit, management training, etc.) by government agencies to a limited number of SMEs. However, these supply-side approaches often lacked integration with the general policy environment in the respective countries. In addition, they proved to have a poor cost-benefit ratio, which made it difficult to achieve wide reach and sustainability.

1. Dissatisfaction with traditional approach

Consequently, a new wave of cooperation between the public and the private sector influencing the design of support programs became the preferred tactic in many developing countries. Owing to the broader trend toward privatization and democratization (“good governance”), a consensus on more market-led policies has emerged, implying a higher degree of congruency of public and private interest. Therefore, joint initiatives by government and businesses are nowadays common policy elements, and self-help activities are to be promoted.

2. Closer cooperation between public and private sector

Another critical assumption of this Guide is therefore that, under certain circumstances and for particular interventions, donors can reach higher cost-effectiveness and greater outreach and sustainability by supporting BMOs based on the following reasons:

Three advantages of SME promotion through BMOs:

- **Economies of scale and scope:** Donors can reach more SMEs more effectively by promoting them indirectly through BMOs rather than through direct measures. Better access to the target group may also be related to a broader regional coverage of enterprises.

1. Economies of scale and scope

- Although BMOs are not the most effective provider of all Business Development Services (BDS), they have a comparative advantage in certain services (e.g., group insurance policies) and act as an effective facilitator for the rest (see reasons outlined above).
- **Integrative character:** Because BMOs are able to offer a wide spectrum of services (direct services, industry-specific actions, general business advocacy), they are a suitable tool to improve the overall situation of SMEs at several different policy levels at the same time. Taking into account the increasingly complex framework for enterprise development in developing and developed countries, such an integrative approach becomes more and more important. Another advantage of working with BMOs is that their versatile nature allows for a flexible adaptation of interventions to industry- or country-specific circumstances. *2. Integrative character*
- **Sustainability:** Experience shows that the success of any policy reform effort depends upon creating widespread support for the intended changes. Without the support of all parts of society, especially the private sector, reforms will be inadequate, misdirected, or ephemeral. BMOs can represent a wider pool of local firms – including SMEs – which donors cannot reach by traditional “top-down” operations. Through the institutionalized participation of its members, BMOs can create a constituency for change and provide donors as well as government bodies with important feedback. Reform measures will thus have a lasting impact even after donor support has been phased out. *3. Sustainability*

4. Role of BMO Assistance within World Bank Strategy

Developing the capacity of BMOs fits in with the core objectives of the World Bank Group’s Private Sector Development Strategy, as well as with the goals of the Poverty Reduction Strategy Papers (PRSP) and Country Assistance Strategy (CAS) in many countries. The PSD Strategy focuses on improving the business climate and supporting SME growth, while PRSP focuses increasingly on private sector development and emphasizes the importance of local stakeholder participation. *BMOs and World Bank strategy*

BMOs can play a key role in supporting the Private Sector Development Strategy and broader World Bank strategic goals in four key areas: *Key areas*

1. **Diagnostic and policy analysis:** A large number of surveys are underway to analyze the cost of doing business in particular countries, and improvements in the business conditions will be used as triggers for increased development assistance to those countries. BMOs are often key counterparts of survey teams, as they have access to a large number of enterprises and staff that can help with data collection. Helping BMOs to develop a reliable member database and technical skills to collect and use data for policy formulation can contribute to the sustainability of future surveys and diagnostic work. *Diagnostic and policy analysis*
2. **Policy reform and monitoring of changes in the business climate:** BMOs can help to implement World Bank PSD credits by monitoring progress and providing feedback from the firms on the impact of the reforms. Helping BMOs to understand the reforms, monitor changes *Monitoring and feedback on policy reforms*

reforms. Helping BMOs to understand the reforms, monitor changes in the business climate, and communicate changes to their members can contribute to the sustainability of the reforms.

3. Promotion of SME growth through facilitation or provision of selected services: Although BMOs may not be the most efficient direct providers of a number of business support services, they are in a unique position to reach out to a large number of members with information about providers and a selected number of services. Supporting BMOs to define their comparative advantage in business service delivery and develop services and products can have an impact on SME growth. *SME promotion*
4. Local ownership and consensus-building of strategy and policy reform processes: Based on their membership nature, BMOs can voice the concerns of the private sector and create a constituency for change for policy reforms. As representatives of the private sector, BMOs can also make important contributions in the PRSP and other strategy formulation processes. Supporting BMOs with advocacy training will make them more effective partners. *Local ownership and consensus-building*

B. Implementation of a Project

1. How to Make a Good Choice: Tools for the Selection of Beneficiary BMOs

The identification of suitable project partners certainly is critical for the success of BMO support projects. The selection process has to balance two extremes: On the one hand, a minimum of organizational capacity and stability is necessary to ensure the long-term success of support measures. On the other hand, excessively strong BMOs tend to develop their own agenda, which may conflict with the objective of SME promotion; they may also no longer need donor support.⁷ This section will discuss the critical elements of beneficial project partners in greater detail and deliver tools for partner analysis and selection.

Ideal partner characteristics

The ideal partner for BMO development projects combines the following characteristics: (i) a high number and extensive coverage of dedicated members mostly from the SME community; (ii) a committed and visionary leadership; (iii) a democratic and efficient governance structure; (iv) sufficient financial, personnel, and physical resources; and (v) high-quality services and advocacy.

The following paragraphs elaborate on these criteria. They are intended to help project managers in the field to fill in the assessment tool presented in this section (as well as the checklist in appendix A):

Membership: The first and most important element of a good project partner is a committed membership base. Since it is the members who provide most of the money for operations, this aspect is especially relevant for voluntary BMOs. However, both voluntary and mandatory BMOs are based on the commitment of their members as the “owners” of the association. A strong membership base is also essential for acquiring political clout and thus influencing the political decision-making process.

Membership

A strong membership base is based on (i) the membership size (the more members the better); (ii) the coverage (ratio of members to non-members in the respective geographical area, industry sector, etc.); diversity (subsectors covered; number of small, medium, large members); and relevance (financial status and political influence of members). A high rate of SME participation in a BMO is usually critical if the goal of the project is to promote SME growth.

Membership growth is also an important factor, since it provides information on the attractiveness and success of a BMO. Younger associations, which are founded because of acute problems usually, show higher growth rates than older, more established bodies.

It is important that BMOs maintain an efficient and updated list of members. A (computerized) database with comprehensive company information contributes greatly to the information services provided by the association's policy and business information units. Quite often, however, associations in developing countries have only insufficient and outdated membership records. As a consequence, nominal and non-paying members cannot be identified, making membership retention strategies and financial planning difficult to develop.

⁷ Gibson and Havers (1994), pp. 17-18.

It is also good practice to lay down membership categories and procedures in the bylaws of the BMO. Associations have different kinds of members just as they have different kinds of structures.⁸ Usually, these include active ordinary or lifetime (voting) members as well as affiliated or associated members and honorary (nonvoting) members. The contribution of an enterprise to the association may depend on its membership category and/or size.

Leadership: Apart from committed members, leadership is the most important asset of BMOs. Because of the difficulties in assembling the entire membership, most decisions are usually delegated to office bearers (president, vice presidents, secretary general, treasurer) and the executive board. These leaders set out the general policies and strategies, and supervise the secretariat (if there is one) and the day-to-day operations of the BMO. Additionally, the office bearers represent the organization vis-à-vis government and other business associations. Therefore, the reputation, foresight and experience of the Board members are vital to the BMO's success.⁹

Leadership

A good leader has a long-term vision and focus and provides for a strategic plan identifying goals, activities, and performance indicators. He communicates the BMO's priorities in a mission statement and takes care of their implementation. Planning helps to keep the organization focused and reduces transition problems from one set of leaders to the next. Additionally, committed leaders should be respected figures inside the business community who are able to communicate, compromise, and cooperate for the good of all members.

Even with good leaders, the interests of donors and BMOs do not always coincide. Thus, donors have to be very clear and transparent about their objectives and strategies, study the vision of the targeted BMO and its expectations for the partnership, and match the objectives of both partners in a participatory process.

Assuming that the main development goal is to support the growth of SMEs, the complementariness of interests between the donor and the BMO can only be taken for granted, when the membership of the prospective BMO is dominated by the intended target group (e.g., SMEs). However, there are few such "ideal" (SME dominated) BMOs in developing countries, and they are often small, locally oriented, and unstable. As a consequence, these organizations have only limited political influence and capacity to offer quality services to their members. With more established and larger BMOs, a clash of interests is more likely to occur, since they typically articulate the interests of large businesses. Therefore, cooperation with these organizations should concentrate on areas in which potential conflicts of interests can be minimized or in areas that address the specific needs of the smaller members of the BMO. Another possible strategy may involve the establishment of a dedicated subcommittee for SMEs within the BMO, which may function as a focus to represent the interests of the smaller members.

⁸ Milner (1999), p. 14.

⁹ Tan Lan Eng (2000), pp. 15-16.

Governance: There are certain structural features, which determine the level of ownership, control, transparency, and accountability of a BMO. At least theoretically, most BMOs have a democratic structure, which ensures the participation and ownership of their members. *In practice*, however, structures may not work as intended. One possibility is that a few influential members (or the president) use the association to serve their private interests. Excessive government influence on the operations and staffing of a BMO can also be problematic. In both cases, BMOs will not be able to act as authentic representatives of their SME members.

Therefore, the ideal governance structure of a beneficial project partner should be:

- Democratically organized: Key issues here are legitimization and representation. There should be general meetings and elections on a regular basis following procedures adequately described in the bylaws. Term limits for board members can be useful, to avoid the indefinite prolongation of office terms and manipulation by those in charge.
- Autonomous from government: Structures should allow the BMO to work without public intervention. The appointment of representatives, the stipulation of standards and conditions for the delivery of member services, as well as a strict monitoring and supervision by government bodies are not desirable in this context.
- Open: BMOs should not view themselves as closed shops or entrepreneurs' clubs, but be willing to attract new members.

Furthermore, donors should recognize that BMOs may also be used as a vehicle for influencing policies for private interests by influential membership groups. But supporting a particular interest group may lead to unintended distortions. Thus, donors should always scrutinize which group the BMO is actually representing, not only in terms of region, sector, trade or firm size but also in terms of other factors such as ethnic composition.

Box 1: Cooperation with Existing BMOs versus Creation of New BMOs

Donors may basically follow two approaches in BMO promotion: they can either initiate cooperative efforts with already existing BMOs or help to establish new BMOs. A country's institutional landscape evolves step by step over a long period of time. Therefore, jump-starting intervention through the establishment of additional institutions has usually failed. In general, donors should favor cooperation with existing organizations.

Especially in countries with a tradition of collective organizations like BMOs combined with a profound change in the institutional framework, experience has shown that it is better to try to transform existing institutions than to create new ones. Most countries in Eastern Europe and the former Soviet Union, for instance, have opted for the former. Under the communist regime, BMOs completely lost their independence as representatives of the business sector and became integrated into the bureaucratic system of a centrally planned economy. After the collapse of the Soviet Union they not only had to redefine their role,

but also find new tasks and reestablish their legitimacy. Donors have been successful in steering change, thus facilitating BMOs' transition into authentic representatives of the private sector.

There is a great danger in creating organizations, which are not responsive to the needs of the targeted enterprises. The members do not feel that they are the owners of these BMOs, which leads to low levels of sustainability. Thus, newly created BMOs should always be attached to already existing institutions (e.g., producer cooperatives, informal business meetings, etc.). In this respect, the government has to play a crucial role by giving the right incentives for the formation of BMOs. An example has been the creation of regional government-business meetings (Joint Public-Private Consultative Committees) in Thailand that stimulated the formation of local chambers.

Resources: BMOs differ considerably in terms of the quantity and quality of resources available to them. Some of them are small bodies with no professional staffing and no permanent offices, surviving only through the commitment of their honorary officeholders. But others are bigger organizations which employ more than 100 staff and own splendid office complexes. Some poor BMOs are completely dependent on public subsidies or cash injections of big members. Other BMOs, on the contrary, are financially self-sustainable due to profitable services and valuable assets. In any case, a minimum level of resources seems to be necessary for a beneficial project partner so as to allow for effective advocacy and service provision, even when taking into account that organizational strengthening is one of the objectives of BMO projects. *Resources*

BMOs obtain financial resources primarily through the contributions of their members. If a BMO consistently fails to bring in the money that it spends, the organization will go out of business. Therefore, BMOs have to be innovative when seeking means to finance their activities and attain financial sustainability in the long run.¹⁰ Sound financial practices include a mix of income from different sources (subscription fees, service fees, sponsorships, subsidies and product sales), which allow for a certain degree of cross-financing. Additionally, accurate and transparent accounting procedures guarantee that there is enough money to cover the running expenses of the BMO.

¹⁰ Financial sustainability can be defined in this context as a BMO's ability to cover its operating expenses as well as to finance a gradual expansion of activities without being overly dependent on external sources of finance, e.g., wealthy members, government bodies, or donors.

Personnel and physical resources are more difficult to assess. The number and educational background of the staff and the available office space and equipment give an indication of the BMO's actual capacity. However, the quality of the secretariat and its internal organization are also crucial for success. It can be expected that these resources will evolve as the BMO develops its activities. Another aspect in the process of institutional building is functional specialization: a clear division of tasks between board members and professional staff helps to raise BMOs' institutional capacity.

Advocacy and services: A final important aspect during the selection of a partner is the scope and reach of its activities. Enterprises expect benefits from their membership, either directly through valuable services or indirectly through better economic policies. A BMO with a well-developed capacity for interest representation and service provision will be more attractive for existing as well as potential members. A broad range of beneficial services is possible in this respect; the following section will discuss the different activities in greater detail. BMOs will usually choose to specialize in only a few tasks, however. Experience shows that organizations, which stick to one area of specialization, show better results than "multipurpose" BMOs.¹¹

Advocacy and services

Policy advocacy is widely seen as a key role of BMOs. However, powerful interest representation is not an easy task. It requires established contacts with government bodies, which are based on the good reputation and track record of the association. Furthermore, the BMO has to track the legislative process proactively and participate in policy formulation and committees. A certain organizational capacity is also necessary to prepare expert position papers and media events.

Enterprise services such as business advice or training will benefit BMO members more directly. The selection of services offered will ultimately depend on the members' wishes in combination with the BMO's experiences, available capacities, and resources. Measures of success will include outreach (how many members are served how often); diversity (how many different services and activities) and cost-effectiveness (generated income in relation to costs). A member satisfaction evaluation is certainly the most useful tool to measure the impact of the services.

¹¹ Gibson and Havers (1994), p. 31.

Table 3: A Tool for Partner Selection					
Criteria for Partner Selection	Weighing (example)	BMO A	BMO B	BMO C	BMO D
Democratic governance and independence from government	10%	3	2	1	1
Number of SME members	20%	1	2	2	3
Commitment and vision of leadership	20%	2	3	3	3
Propensity to take up SME issues	10%	2	3	1	2
Financial sustainability	10%	2	1	2	3
Number and quality of staff	5%	1	2	1	3
Office, equipment	5%	2	3	2	2
Advocacy and services for SME	20%	1	1	1	2
Total	100%	1.65	2.05	1.75	2.15
Ranking		4	2	3	1

(Note: 1: low; 2: medium; 3: high relevance)

Table 3 presents an example of the procedures that could be used to select BMOs. Each of the potential project partners will be evaluated with respect to eight important characteristics, which are marked on a three-point scale (with higher values indicating better performance). However, it is important to remember that only few real-life BMOs conform to ideal standards – and that it is necessary to remain open-minded and flexible when choosing partners. Thus, a donor may adapt the tool to his own priorities by changing the order of importance of individual items. As a result, the tested BMOs can be ranked by performance, indicating their appropriateness as project partners.

Tools for selection of project partners

Such a tool for BMO selection provides a framework for a more structured assessment based on relevant criteria and can therefore shorten the decision-making process of partner selection. A more detailed checklist for partner analysis can be found in appendix A.

Case Study 1: Selecting Partner Business Associations in Albania, Bosnia and Herzegovina, FYR Macedonia, and Serbia and Montenegro

At the end of the civil wars in Southeast Europe, the countries of the region started their process of economic reconstruction. The business associations were suffering from weak leadership and poor institutional capacity, and the business environment was extremely unpredictable.

There was therefore a need for strong, self-standing business associations, which led the Southeast Europe Enterprise Development (SEED) to initiate an extensive, regional program to enhance capacities of independent, voluntary business associations (BAs). In choosing which business associations to provide assistance to, SEED used an extremely rigorous selection process that contributed to the success of the program.

SEED sought business associations that had a specific profile. They wanted those that had the capacity to advocate on behalf of their members, that were focused on becoming able to sustain their operations from income from fees and services, and that had the competence to provide business services to their members.

First, SEED assessed the capacity of various independent business associations in each country. They then created an individual country profile with a brief overview of the current economic and sociopolitical situation, highlighting the most prominent obstacles private businesses were faced with. SEED was willing to invest in assisting selected business associations to get started and develop commercial products that would enable them to secure their financial independence and long-term sustainability.

SEED staff from each country, along with an expert consultant from IFC's PEP Facility, visited and conducted interviews at 35 BAs nationwide. During the individual interviews, which generally lasted a couple of hours, the team focused on identifying key leadership in the BAs and assessing its motivation and the quality of its governing mechanisms to act on behalf of and legitimately represent its members. The team also tried to achieve a balance in the type of BAs it selected. It aimed for a balance of horizontal/general and vertical/sector associations. Other criteria that influenced the selection process were whether the association was already part of another donor assistance project, the level of assistance it was receiving, and which aspect of BA development that assistance focused on. And finally, it evaluated

the quality and feasibility of the associations' development plans.

SEED was not trying to create new business associations but rather to assist BAs that were already established (i.e., legally registered) and that showed interest, commitment and capacity to take part in a longer-term technical assistance program. At the end of the assessment phase (January through March 2002), SEED had selected seven BAs to partner with.¹²

SEED has succeeded in helping business associations build their financial sustainability. By providing the six remaining BAs with advisory services, training courses and TA, it has equipped them to better represent the interests of the private sector. In ten months of direct SEED assistance, the six business associations have increased their income by 30 percent on average. SEED plans to continue providing technical assistance to business associations in order for them to reach financial self-sustainability in the next two years.

As of July 1, 2003, the business associations focused on increasing membership by organizing a promotional campaign through TV and newspaper advertisements and by making targeted visits to SMEs that would allow them to develop their membership base (the average increase in membership has been 20 percent across the six partner business associations). Business associations also succeeded in establishing regular internal and external communication mechanisms (they published a monthly newsletter, gave out frequent surveys to their members, and involved members in BA work), and they enhanced their business services and products (they hired a legal adviser and an advocacy specialist).

Lessons learned:

- **Rigorous selection criteria are necessary to ensure effective collaboration with business associations.**
- **One of the most important selection criteria is the BA's willingness to engage in a long-term partnership with the donor.**

Case study contributed by Lada Busevac and Ivana Curic, SEED

¹² One business association withdrew from the program due to lack of capacity to commit to a six-month-long partnership.

2. Political, Economic, and Legal Environment

A country's political, economic, and social conditions define the possibilities for BMO development. Information on these conditions complements the selection process described above, because they affect the number, actual capacity and development potential of BMOs.

Background

The organizational background of BMO systems varies considerably between regions and countries. The division of tasks between government, different BMOs and private service providers will depend on a variety of factors. Therefore, it is essential to analyze the existing environment in order to understand the constraints and opportunities for BMOs. The following are the most important aspects for the institutional development of a certain region: (i) strength and structure of private enterprises; (ii) general economic policies; (iii) legal environment; (iv) degree of decentralization; and (v) cultural traditions.

Important elements of environment

- **Strength and structure of private sector:** This aspect refers to all the economic settings that may facilitate or hinder private initiative, risk-taking, and competition. It includes the general orientation of the economic system, which can be state- or market-led. It also encompasses the question of whether monopolistic or oligopolistic structures are prevalent. These characteristics can, in turn, be attributed to the existing size structure of industries and the importance of natural and artificial barriers to entry. In this sense, BMO development relies on the existence of a minimum number of private enterprises, which feel the need for collective action. An inadequate physical infrastructure or noncompetitive behavior of established firms often gives rise to the formation of BMOs.
- **General economic policies:** Appropriate monetary, fiscal and trade policies are central to maintaining a hospitable environment for private sector development. But apart from a conducive macroeconomic framework, the willingness of government officials to regard private businesses and their BMOs as partners and not as hostile competitors is also important. If the government is committed to the principles of good governance, i.e., participation, transparency, accountability and less corruption, there is more room for public-private-partnership action from which both parties can benefit. This cooperation may lead to the development of a more comprehensive and capable BMO system.
- **Legal environment:** The laws and regulations of a country also influence the development of BMOs. In its most basic form, this applies to the freedom of coalition and expression. Some developing countries still have restrictions on the formation of business associations. Government bodies may exert strict surveillance over the formation and the operations of BMOs. Apart from the freedom of coalition, there may be specific laws stipulating the duties and rights of BMOs. For successful interest

Private sector development

Economic policies

Legal environment

representation, associations have to have the right to criticize government and to use the courts for checking public decisions and actions.

- **Degree of Decentralization:** Another important factor is geography, namely the size of the country and its demography in combination with the state of the transportation and communications infrastructure. Taken together, these factors will ultimately determine the degree of economic decentralization. While it is desirable to locally deliver advocacy as well as business development services through providers, which are close to the business community, some centralization of activities may be unavoidable. *Decentralization*

The organizational breakdown and the location of BMOs are also influenced by a country's administrative divisions (regions, provinces, states), i.e., the degree of political decentralization. The empowerment of regional administrative bodies that may have developed differs historically between countries. While federalist nations delegate ample competencies and responsibilities to their subdivisions, centralized countries prefer a more hierarchic and bundled decision-making process. Since effective interest representation requires a certain proximity to decision-makers, there usually are many more BMOs in a decentralized system focusing on regional issues.

- **Cultural Traditions:** As a broader set of factors, social and cultural values, gender, and ethnicity shape the environment for production and exchange. For example, a high esteem for entrepreneurship has been a decisive factor for private sector growth in many countries. In developing countries, informal norms and relations can be used as a substitute for formal economic institutions by promoting social cohesion and penalizing the detrimental behavior of community members. In countries with a more individualistic tradition, there tends to be a larger number of BMOs than in a more pluralistic system. In contrast, a society featuring a high degree of collective bargaining will feature a more corporate BMO model. But sensitivity to the cultural and social context must not be mistaken for tolerance to collusive behavior or cronyism. *Cultural traditions*

However, BMOs are not only dependent on the prevalent framework conditions, but they may also be in a position to influence the circumstances surrounding their operations—especially policies, laws, and regulations. In this context, donors can support BMO's advocacy efforts on the policy level for a more conducive environment. As an example, donors can lobby on behalf of their partner BMOs for a national law on business associations, which prescribes an institutionalized role for BMOs in the policy-making process. Or they can press for reviewing burdensome BMO registration rules and regulations. These direct ways of supporting BMO partners may be seen as part of broader efforts to introduce good governance and participatory development practices. *Donors may help BMOs to improve the environment*

3. How to Assist BMOs: The Most Important Areas of Donor Intervention

While an improvement in the environment as described in the previous section will assist BMOs only indirectly, donor interventions are designed to help specific partner organizations have a direct impact on their operations. The most important areas of interventions are the improvement of advocacy and interest representation and the development and management of selected services for the benefit of SMEs. But these functions must not be considered in isolation, since a BMO will not be able to deliver demand-led services and perform effective advocacy without sound financial and management practices.

3.1 Advocacy

Even with efficient BDS markets in place, the private sector cannot grow and flourish without an adequate framework of economic policies. In most developing countries, SMEs in particular are unable to realize their full economic potential due to distorted and/or over-regulated markets. They are suffering from intended as well as unintended policy-induced constraints on their development: unsustainable and unstable macroeconomic conditions may be a general disadvantage, but more specifically an import-substituting foreign trade and exchange rate policy, biased tax laws, limited access to formal credit markets as well as burdensome bureaucratic procedures and administrative requirements may discriminate against SMEs.¹³ Despite the fact that SME development has been assigned high political priority in most developing countries during the past several years, existing programs lack scope and sustainability, and in some cases have led to even more policy biases.

Unfavorable environment for SMEs require strong advocates

As opposed to large companies, SMEs lack the power to influence government policies or public opinion when they act individually. BMOs can be instrumental in expressing the needs and problems of the whole private sector, but especially of SMEs. Lobbying and advocating for a more conducive economic environment are therefore core activities of BMOs. In this context, business associations with a more homogeneous membership will find it easier to design a coherent advocacy strategy. Chambers, which usually have more members from very diverse branches and professions, are, on the other hand, often readily accepted by government bodies as true speakers of the entire business in a region.

BMOs are advocacy platforms for SMEs

By actively engaging in advocacy, a BMO raises its profile among policymakers and enhances its reputation within the business community. This helps in attracting new members and raising contributions from old ones. In return, BMOs with better funding can devote more resources to advocacy. Policymakers may profit from advocacy by getting access to first-hand business information and feedback on policies; they may also improve their reputation among the BMO's members as potential voters. Therefore, BMOs have to be regarded as instrumental for facilitating more democratic participation in decision-making.

Despite their great importance, most BMOs are not very successful when it comes to performing the task of interest representation. BMOs in developing countries commonly have to face the following challenges:

Typical problems faced by BMOs

- An atmosphere of mistrust between private sector organizations and

¹³ Meier and Pilgrim (1994), pp. 32-37.

- public bodies, leading to more political interference and supervision,
- Insufficient capacities to monitor the policy-making process, analyze the impact of proposed laws and regulations on their membership, and prepare informative position papers.
 - A fragmentation of private sector interests and “mushrooming” of voluntary BMOs.
 - An informal style of interest representation, which favors influential bigger businesses and leads to frequent, unpredictable policy changes.
 - A closed shop mentality on the part of many BMOs (especially established chambers), which may not be too willing to accept SMEs or outsiders and therefore cannot be regarded as genuinely representative bodies.
 - Vested interests of influential members and officeholders, which may lead to self-serving behavior and a politicization of BMO advocacy efforts.

All of these factors can endanger the public prestige as well as the reputation of BMOs and therefore diminish the effectiveness of advocacy efforts.

In simple terms, advocacy is the act of “advocating” on behalf of a certain group in favor of or against something (or somebody). Policy advocacy of BMOs is geared toward initiating new, changing existing, or abolishing outdated laws and regulations concerning business. A BMO can become involved at every step of the legislative process. Advocacy is also about communicating and influencing public opinion regarding business. Therefore, BMOs can participate in the decision-making process in several ways. The most important tools are (i) dialogue platforms; (ii) direct advocacy; (iii) grassroots campaigns; (iv) public relations and use of the media; and (v) lawsuits.

Definition of advocacy and available instruments

- **Dialogue platforms:** These can take the form of institutionalized (mandatory) public-private consultations, e.g., joint committees, advisory councils, hearings, etc. All these allow for a formal participation and structured exchange of opinions between government officials and business representatives (mostly from BMOs) at regular intervals. Such an institutionalized dialogue may evolve gradually as a customary right or may be explicitly prescribed by law. Public-private dialogue platforms may be national or regional and targeted toward specific industries or economic issues. BMOs should strive for representation in all joint committees whose decisions are relevant for their members. Next to these (quasi-)mandatory consultations, there may be more voluntary, unregulated dialogue platforms which are initiated by the BMO itself, e.g., conferences or an informative *jour fixe* on pressing economic issues. In order to substantiate their claims, BMOs have to create institutional capacity for tracking and analyzing the political process or preparing draft laws.
- **Direct advocacy:** An informal way of interest representation, direct advocacy measures can take many forms: letters, telephone calls or office visits. These measures are intended to guarantee the support of politicians on specific issues. Despite the more informal nature of these activities, BMOs should make sure that the positions they present are carefully prepared and that the delegate who establishes

Public-private consultations

Direct advocacy is an informal way of interest representation

the contact has good communication skills. BMOs may also consider using the well-established relations of bigger member companies to support their case. However, they should make sure that these influential members do not follow their own agenda.

- **Grassroots campaigns:** BMOs may ask their members to support their initiatives by contacting politicians via e-mail, telephone calls, letters or fax messages. They can organize demonstrations in favor of their political objectives. These grassroots campaigns may also spread to other interested people and to nonmembers. Because of their established business network, BMOs can easily mobilize a substantial number of voters and therefore stand a good chance of influencing policymakers. To remain respected and serious dialogue partners, BMOs should be careful not to overdo such powerful actions¹⁴.
- **Public relations and use of the media:** Successful interest representation requires not only the recognition by politicians but also the support of the public. BMOs should therefore produce useful and easily understandable information on how new laws and regulations affect businesses, employees, investors, suppliers, and customers. Member surveys as well as external research bodies can deliver necessary background information on pressing policy issues. By publishing press kits, news releases and FAQ fact sheets and organizing live appearances on TV shows etc., BMOs may use the media to convey their messages to politicians and the general public.
- **Lawsuits:** Court action is the most extreme way of enforcing the lawful claims of the business community against government bodies. Because of their inherent conflict potential, BMOs should use lawsuits with extreme care and only in extreme cases. In some countries BMOs may not even be allowed to file lawsuits. It can often be sufficient for a BMO not to engage in a case directly, but to support the court action of one of its members instead. Nevertheless, a BMO should be able to have access to a minimum pool of legal know-how, because in many countries the economic environment is greatly influenced by court decisions.

Grassroots campaigns mobilize members

Media may transport BMOs' key messages

Lawsuits should only be used in exceptional cases

Since policymaking is a complex, multilevel process, the above activities have to be used in combination to achieve an impact. The adequate form of activity is very much situation- and country-specific. For example, it will depend on whether the BMO is constituted under public law with mandatory membership or as a completely voluntary organization. Public law BMOs, which are partly government-funded or financed by mandatory fees, may face restrictions on the scope of their advocacy activities. Naturally, BMOs will have more freedom for interest representation in countries with democratic governance structures.

The advocacy efforts of many BMOs in developing countries are focused too much on current pressing issues. Such short-term thinking often leads to highly personalized ad-hoc decisions on advocacy measures. To help BMOs represent the interests of their members in a more coherent and effective fashion, an eight-step strategy for successful advocacy should be followed (see figure 1).

Advocacy strategies

¹⁴ Milner (1999), p. 77.

Donors can help BMOs achieve more effective advocacy activities. However, both partners should keep in mind that the field of advocacy is particularly susceptible to a collision of interests between donors and BMOs. Donors have legitimate political objectives, which they try to promote by their projects. These do not necessarily have to be detrimental to the BMOs involved, but the agenda for advocacy should be defined primarily by the interests of the BMOs' members and representatives.

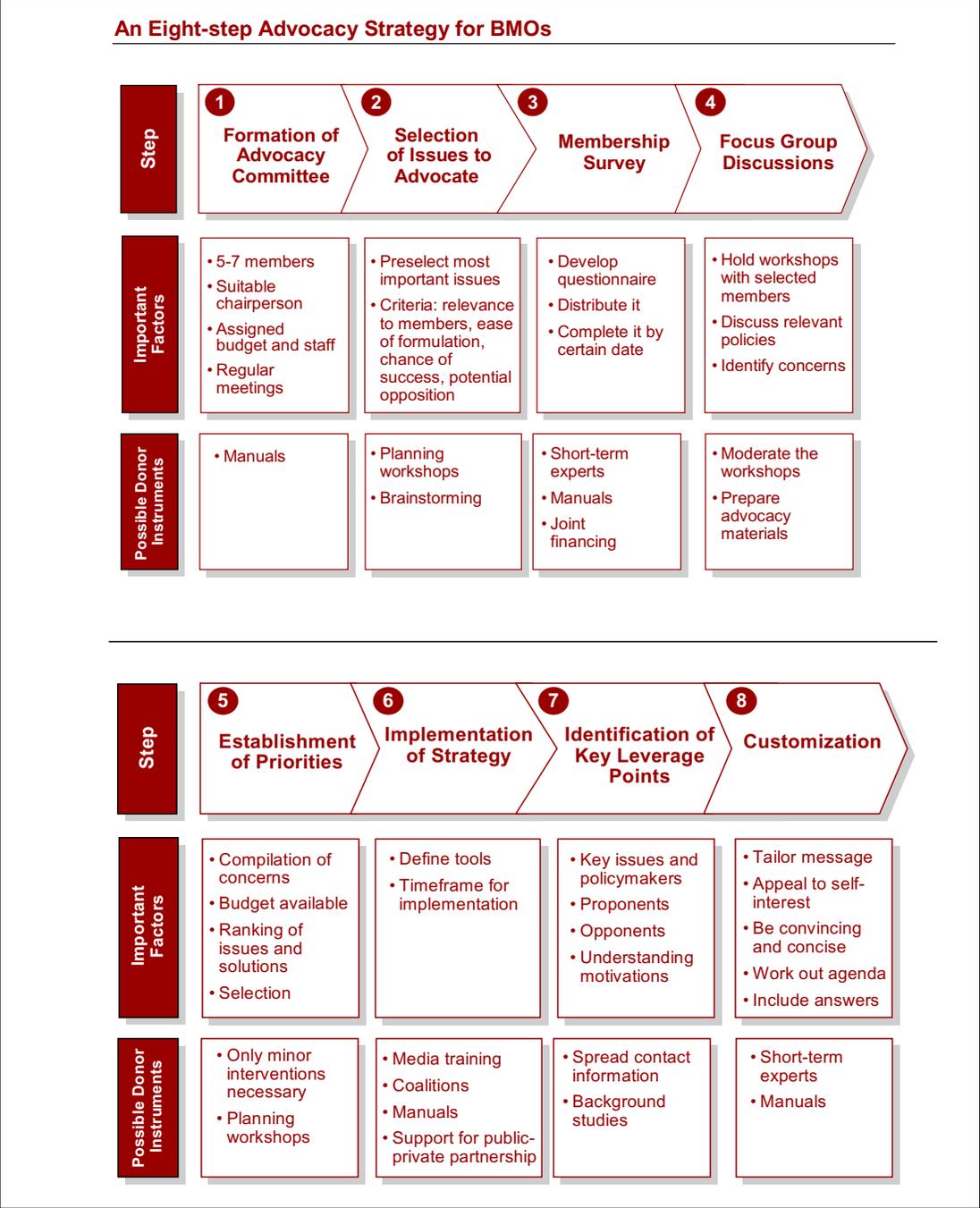
Possible donor interventions

Nevertheless, there are many ways by which donors may support the advocacy efforts of BMOs. Some of the instruments for donor intervention include:

National business agenda: Especially in times of political crisis, when the business climate is deteriorating, donors may support BMOs in launching a national business agenda (NBA). Such an agenda is intended to stimulate investment and economic growth by setting legislative and regulatory priorities and communicating them to policymakers. It consists of a collection of issue briefs, which identify key obstacles and give short-term, easily understandable recommendations on how to overcome them. Creating an NBA also educates the members of a country's business community about public policy issues and allows them to present their concerns with a unified voice, which attracts more attention and increases the likelihood that the agenda will be adopted.

National business agenda unifies several BMOs

Figure 1: An Advocacy Strategy for BMOs



Source: Adapted from CIPE (unpublished).

Case Study 2: Lobbying for New Vocational Training Centers in Brazil

The state of Pernambuco in northeast Brazil is the least developed part of the country, with 60 percent of the local urban population living below the poverty line. With about 140,000 jobs, mainly for women, the clothing industry is the most important sector in Pernambuco; it consists mainly of informal and formal SMEs.

The growth of the sector is threatened by a lack of qualified textile technicians (middle management level). Until recently, training courses for these technical managers were unavailable anywhere in the federal state. Today, three new vocational training centers have been established by the parastatal national institution for vocational training SENAI, one in the SENAI-Center CERTTEX in Recife, the main capital of Pernambuco, and two in smaller towns of the region.

In Recife, 60 technicians for the garment industry are trained per year. Each full-time course lasts three years and is financed by SENAI. Participants also receive a scholarship from SEBRAE, a parastatal advisory service for SMEs. The other two vocational training centers offer special courses for the garment industry, which last between 8 and 120 hours each. They are paid by the participants themselves, but partly subsidized by SEBRAE.

The local association of the garment industry (SINDIVEST-PE) successfully lobbied for this innovation. Instead of establishing its own training center, which would have been a heavy financial burden for the small 300-member association, SINDIVEST-PE lobbied vis-à-vis local governments and parastatal institutions to adapt existing training facilities to the needs of local enterprises. Now SINDIVEST-PE is responsible for the supervision of the quality of the training and for the development of new curricula. In order to fulfill its duties, SINDIVEST-PE is a member of the advisory committee of SENAI, the administration and advisory committee of the regional textile project Polo Agreste and the organization for the development of fashion in Pernambuco.

A crucial factor for this successful expansion was the long-term twinning with the training centers of the Bavarian Employers' Associations (bfz) in Germany, which increased SINDIVEST-PE's credibility. Furthermore, the German partners advised SINDIVEST-PE's board and staff on how to improve their lobbying and assisted the new

schools in the training of trainers. The yearly budget of the project funded by the German Ministry for Economic Cooperation and Development (BMZ) amounts to US\$170,000. In addition, the state government of Pernambuco as well as the parastatals - SENAI and SEBRAE - contributed approximately US\$300,000 per year. The project, which started 6 years ago, supported the establishment of the three training centers by providing equipment for computer-aided design (US\$100,000) and by financing three short-term assignments of a German expert technician (US\$10,000). The donation of the equipment proved to be an important stimulus for the Brazilian government to establish and conduct the training centers. As the centers are run by SENAI, which can draw on the resources from a vocational training tax, their sustainability is not at risk.

Lessons learned:

- **Twinning up an organization with an international partner can bring about new ideas and a constituency for change.**
- **The exchange of technical expertise and staff training lies at the heart of these twinning arrangements.**
- **A cooperation between government and BMOs can deliver better results than activities of one party in isolation.**
- **Successful public-private partnership requires the participation of BMOs in the decision-making boards and committees.**

Case study contributed by Martin Wahl, project manager, training centers of Bavarian Employers' Associations

Donors may help BMOs by forging necessary alliances with other BMOs and interest groups and by encouraging the participation of the business community. Usually, a national confederation is the suitable partner for developing an NBA. Possible steps in this process include:

1. *Conventions of key business leaders:* Since they are recognized as a neutral party and have multiple business contacts at their disposal, donors may organize national conferences and high-level meetings.
2. *Focus groups:* Since it is necessary to address specific needs, regional and industry focus group discussions may provide the private sector with a sense of ownership. Donors are in a position to moderate and coordinate the discussion process.
3. *A draft NBA:* The results are synthesized into a draft agenda. At this point, donors can send experts to sharpen arguments and recommendations.
4. *Feedback and revision:* Again, donors can use their business network to help reach a consensus. They are, of course, also requested to make their own comments.
5. *Publication and distribution:* The presentation of the NBA can again be backed up by the organization of high-level conferences and meetings. Marketing support by donors can be very valuable.

An NBA can be regarded as successful when its recommendations are implemented legislatively. However, even if there is no immediate impact on laws and regulations, an NBA influences public opinion in favor of a more business-friendly environment and helps foster closer relations between BMOs and government bodies which may lead to the formation of institutionalized dialogue platforms.

Media training: Shaping public opinion in favor of a BMO's position will greatly increase the success of a policy advocacy campaign. In doing so, the easiest and cheapest way to deliver the BMO's messages to the public is to use existing print and broadcast media resources. However, not all BMOs are able to cooperate efficiently with the media. With the help of manuals, seminars and workshops, donors can train BMOs to improve their public appearance.

*Training
BMOs on
how to
communicate
the message*

Since media coverage can take different forms, there are various means of transmitting the BMO's message to the public that require specific training, including press releases, position papers, fact sheets, prepared speeches, press kits, TV appearances, etc.¹⁵ Training should aim at improving the BMO's capacity to analyze proposed laws and regulations in easily understandable language, to deliver the message in a suitable way, and to follow up efficiently with media contacts. It is advisable to appoint a media relations representative from the board who has good communication skills and experience in dealing with the media.

Donor efforts can be deemed successful when the supported BMO is able to earn the reputation of a "brand name contact" for first-hand business positions among the media. In this case, voluntary media coverage will usually be enough for the BMO's advocacy efforts. Donors may also actively promote their partner's interests by contracting external advertising and marketing specialists. They can also cofinance the

¹⁵ For more details, see Milner (1999), pp. 68-81.

production of media kits and ready-made advocacy material.

Coalitions and grassroots networks: Networking can be a useful way to increase the number of organizations and individuals that support a BMO's stance on one or more issues. Coalitions and grassroots campaigns will enhance the visibility and credibility of advocacy measures. This is especially important if BMOs are too small or too specialized to be accepted by the government as representatives of a majority of businesses. Even larger BMOs will have to look for alliances and broad-based support in a more globalized world. Donors can assist BMOs in building these advocacy coalitions and grassroots networks.

Coalitions and grassroots networks

In many developing countries, the business sector is deeply divided. Donors, being regarded as independent and neutral players, can act as moderators and coordinators between different interest groups. They may:

- Organize formal and informal meetings as well as conferences for BMO representatives
- Share their knowledge about the proponents and opponents of advocacy issues
- Offer contact information on possible alliance partners
- Support the production of background studies and position papers
- Leverage the interests of the coalition vis-à-vis the government

It will not always be a simple task to maintain solidarity and commitment between the coalition members. Alliances including BMOs with a diverse membership base, which are working in other regions or in other industry sectors, are the most stable. Such coalitions may be the first step toward the development of formal apex bodies. Temporary cooperation with rival BMOs also has to be considered, however, because there are important policy issues where all private sector organizations are working toward the same goal.

Case Study 3: Creating A Grassroots Advocacy Program In Malawi

Thanks to successful advocacy efforts initiated with the help of the Center for International Private Enterprise (CIPE), the National Association of Business Women (NABW) in Malawi has been the driving force behind the growing empowerment of the country's women entrepreneurs. In line with a bottom-up, consensus-building approach, NABW first held regional meetings throughout Malawi to learn about the most pressing needs of women entrepreneurs. Meeting attendance exceeded expectations, with some meetings drawing well over a hundred participants. Just as important, they included a large proportion of women from rural areas where the majority of Malawi's women-owned business are located.

NABW has complemented the information it obtained at the grassroots level with detailed background studies of its own. The studies contain not only specific data on the problems businesswomen are confronted with in the most important sectors, but also specific recommendations on the legal and institutional policies which must be changed if women-owned businesses are to prosper.

Armed with these data, NABW has invited key government officials and agencies to participate in its membership meetings where the sectoral development plans and recommendations have been discussed and fine-tuned. An impressive array of policymakers has participated, including officials from various ministries and other relevant government bodies.

Turning government officials into stakeholders in the reforms NABW advocates is paying off handsomely. Several laws and policies that negatively affected Malawi's businesswomen have been changed. Special government extension services are now available to women running agribusinesses, for example, and the Ministry of Finance has increased the funding of several ministries to carry out programs, which benefit women entrepreneurs. A new land law policy has been drafted and is now up for parliamentary review. One of its key provisions would enable women

to obtain property titles, which they could then use as collateral to secure commercial loans.

NABW is keeping close tabs on the reform process. With financing from CIPE, it has launched a watchdog communications service that reports on its own efforts and those of other stakeholders in implementing the sectoral development programs it has drafted. The service consists of periodic newsletters called Business Alerts, which are distributed to NABW's members as well as to all key government officials and agencies, NGOs, and — for good measure — the local media.

Not surprisingly, NABW has gained considerable clout in official circles. The government has included the association's executives in the high-level task force that is studying changes to the country's small- and medium-size enterprises in a major program with the United Nations Development Program. NABW also has representatives on the boards of parastatal organizations, which affect women-owned businesses, and participates in both local and international trade fairs through the Malawi Export Promotion Council.

Lessons learned:

- **Advocacy campaigns are more powerful when initiated from the bottom up.**
- **Background studies are helpful to complement the grassroots-level information.**
- **Government agencies have to be involved as stakeholders in the advocacy process.**
- **The campaign has to be accompanied by newsletters and continuous communication efforts (which can be supported by donors).**
- **Donors can bring in their media expertise and reputation vis-à-vis the government.**

Case study contributed by CIPE Promotion Council

3.2 Development and Management of Services

SMEs, which lack the financial and human capacities of their bigger competitors, need to resort to external service providers to operate their businesses and make them grow. However, since markets for business services are underdeveloped in most developing countries, SMEs do not have access to a sufficient number of services that are reasonably priced and useful for their operations. One reason for the weak development of service markets targeting SMEs may be low effective demand by enterprises and their hesitation to pay for services; this attitude stems from a lack of awareness as well as no or negative experience with existing suppliers. Taking into account that the development and provision costs of many business services are considerable, it is extremely difficult for private service suppliers to work profitably in these markets. Owing to these disadvantages in servicing SMEs, most service providers in developing countries specialize in services for large-scale enterprises. Business services have also typically been restricted to the cities and are not available in the rural areas where many SMEs are located.

Underdeveloped service markets for SMEs

During the last couple of years, a considerable learning process has been initiated concerning the fundamental question donors are faced with, namely how to intervene in markets for business development services (BDS).¹⁶ BDS practitioners now emphasize a more market-driven approach, which favors a commercial provision of BDS at cost-recovering prices. Ideally, intervention by donors should be of an indirect nature: they should create or strengthen so-called facilitators which support the development of BDS markets by providing technical assistance to private service providers.

BDS approach

Do BMOs fit into this new picture, given their often dual character as both providers and facilitators of BDS? Does mixing the roles lead to inefficiencies and a crowding-out of private providers?

Role of BMOs in the BDS context

It can be argued that BMOs have competitive advantages in the provision of certain BDS and that BMOs and commercial service providers complement rather than compete with each other. First, due to the knowledge-based character and relevant network effects of most BDSs, providers with many business contacts and interrelated activities may be more efficient than less interactive, specialized suppliers. Secondly, BMOs offer a portfolio of low-cost, low-frequency and short-duration services, leaving BDS, which require more intensive and long-term interactions with commercial providers. It is not uncommon for BMOs to make use of external suppliers or outsource more complex activities. Thus, the actual level of competition between BMOs and commercial providers is very low.

Complementarity of BMOs and BDS providers

¹⁶ See Committee of Donor Agencies for Small Enterprise Development (2001).

Case Study 4: Developing an International Trade Fair in Bangladesh

In 1993 the Chittagong Chamber of Commerce & Industry (Bangladesh) and the ZDH Partnership Program, which is funded by the German government, ventured to conduct a first technology exposition. It showcased products (most of them consumer goods) of 34 SMEs and attracted 15,000 visitors. The fair grew continually in size and became internationally recognized in the following years. In 1999, the fair comprised 335 exhibition booths and 40 larger pavilions and attracted 650,000 visitors.

While developing in size and outreach, the Chittagong fair changed its orientation from consumer to industrial goods. There has also been growing participation by larger enterprises, but SMEs still outnumber them.

The first exhibitions were not generating sufficient income to pay for all costs, so the Chittagong Chamber and the ZDH program had to cover the balance. When the fairs grew in size, they became profitable. By 1999, they already netted an income of over 12 million Taka (now about US\$200,000). ZDH phased out its financial contributions when the fairs had passed their infant stage but kept in contact with the Chittagong Chamber for occasional advice on the fairs and other programs.

The fair organization capabilities of the Chittagong Chamber grew through "learning by doing" coupled with the advice that the ZDH Program provided. In the beginning, the board of the Chamber played a pivotal role in organizing the expositions. However, the professionalism of the Chamber's staff in organizing exhibitions grew together with the expansion of the Chittagong fair; a number of fair tasks were outsourced.

From the beginning, the ZDH Program pushed for a fair that was income-generating (inter alia

by reducing its financial contributions), a concept the partner Chamber had to get used to. Charging cost-covering fees is often delayed ("we will charge later"), as the emphasis is on service and not on income generation. The need to cover at least the costs of activities (and not to subsidize them from other sources) is often only gradually accepted.

The yearly budget of the ZDH program for BMO support activities in Bangladesh was US\$ 60,000 (excluding the cost of a regional long-term advisor and a local resident representative). With this budget the program cooperated with six local chambers and business associations. Cooperation with Chittagong Chamber went on for 8 years, from 1991 to 1998. The ZDH program provided strategic advice in planning the trade fair. The seed money given as grant for covering part of the trade fair cost amounted to US\$5,000 excluding all overheads. This financial contribution was reduced in the following years.

Lessons learned:

- **Start with a small to medium-size measure and grow with the partner.**
- **Make sure that it is the partner running the activity, not you (do not lecture; advise!).**
- **Share the financial risks, push for income generation and gradually withdraw financial contributions in line with income growth (from the activity).**
- **If the assisted partner agrees, use him as a resource and as a networking center for others to learn.**

Case study contributed by Heiko G. Waesch, regional coordinator, ZDH Partnership Program (www.zdh-connect.com.sg)

In the case of BMOs, a strict separation of BDS facilitation and provision would mean wasting substantial synergy effects. Using the income from the provision of membership services, BMOs can cross-subsidize advocacy efforts which are a public good. Based on the brand name and nature of BMOs as independent private sector organizations, SMEs may prefer BMOs to commercial providers with uncertain qualities. It may be argued that the promotion of BMOs as providers and facilitators can be justified as part of a larger concept of BDS market development, if a more flexible and systemic approach is adopted.

BMOs in the area of service delivery

In the case of developing countries, most BMOs only offer a limited range of low-level services. Apart from advocacy, they organize business meetings and seminars, publish newsletters and leaflets on pressing issues, and give advice and information on export markets, tax and legal matters, etc. The typical problems of the average BMO in developing countries include:

Typical problems of BMOs in the area of service delivery

- Lack of financial and manpower resources to upgrade and diversify the service portfolio
- Lack of systematic needs assessment and market analysis
- No strategic planning (ad-hoc introduction of new services)
- No adequate cost analysis and controlling
- Lack of qualified and dedicated staff and trainers
- Lack of top-management support
- No systematic monitoring and evaluation of existing services

Especially in cases where donor funds have been available, some BMOs have rushed into multiple areas of service provision, e.g., running SME training centers, overstretching their actual capacities. Considering the low awareness and willingness to pay for business services in most developing countries, such a rapid expansion beyond BMO core functions has not been financially sustainable in many cases. Thus, a more gradual expansion of services – one that considers the existing resources and capabilities– seems advisable.

BMOs around the world have developed a large number of different membership services (see table below). These services comprise a wide range of activities. Business services are delivered directly to member companies, which pay for them with their annual contributions and/or individual fees. Conventionally, financial services and advocacy measures are not considered business services. Membership services can be classified into (i) trade and market development, (ii) training, (iii) advice and consulting, (iv) information and networking, (v) office facilities and infrastructure services, and (vi) delegated government functions.

Classification of services

- **Trade and market development:** This group of services is concerned with matching prospective buyers and sellers. BMOs have an important advantage when arranging these collective activities because they can utilize their network of domestic and international contacts. They can also build on their “brand name capital” as recognized and independent actors. BMOs are involved in these activities as both event providers and facilitators.

Trade and market development

- **Training:** Another group of services relates to the upgrading of the know-how and skills of business owners as well as their staff. Most entrepreneurs in developing countries establish and expand their business on the basis of their informal market know-how and ad-hoc decisions. In the same way, apprentices and staff members are normally trained on the job. Despite remarkable achievements, SMEs need to enhance their knowledge base in more formal ways for long-term success in global markets. BMOs – especially industry-specific associations – are in a position to pool and deliver training and know-how. Their competitive advantage lies in the field of vocational training and the provision of specific business-related skills. BMOs may also develop training curricula and standards for their members. *Training*
- **Advice and consultancy:** Similar to group training, consultancy and advice measures are intended to upgrade the know-how of enterprises. But since they cover very specific business problems and projects, they are offered to individual firms. The need for consultancy often arises out of short-term economic pressures and trends, such as WTO accession, new industry standards, a reformulation of tax laws, etc. BMOs mostly specialize in low-cost, low-frequency and short-term services, which complement the activities of private providers. In this sense, they are the “one-stop shop” for SMEs’ questions that can be used as a kind of insurance against infrequently occurring problems.¹⁷ *Advice and consultancy*
- **Information and networking:** These services concern the creation of relations between people and the facilitation of a continuous information flow among them. Press releases, the BMOs’ Web site, meetings, conferences and committees are the forum where networking activities and communication takes place. BMOs are ideal places for networking since they act as hubs between government, other institutions, member and nonmember companies as well as international contacts. BMOs are therefore in a unique position to collect, analyze and channel news and contacts to their membership. *Information and networking*
- **Office facilities and infrastructure services:** The institutional and physical infrastructure in many developing countries is still underdeveloped. SMEs in particular have problems with accessing information and telecommunications infrastructure, transport facilities, storage facilities and secretarial services. Especially when many members need the same kind of infrastructure support and there is no adequate private sector provider, BMOs may step in and deliver the service. In this case, BMOs profit from the pooling of resources. *Office facilities and infrastructure services*
- **Delegated government functions:** In many countries, service provision for SMEs is the task of special government agencies. Donors should assist BMOs in emphasizing that these services can be delivered more efficiently by private sector organizations, which are controlled by their members. Examples of possible functions to be delegated to BMOs include registering businesses, organizing and supervising vocational training, issuing certificates of origin, running courts of commercial arbitration, etc.¹⁸ In doing so, the delegation of functions can also be seen as a step toward a privatization of BDS services. *Delegated government functions*

¹⁷

Bennett (1996), p. 675.

¹⁸

ZDH-Technonet Asia (1995), p. 19.

Before such delegation can take place, there must be a minimum level of mutual trust and confidence between government and BMOs. In order to deal with government functions, the concerned BMO has to possess the necessary organizational strength and capacity. Because of their full coverage of the businesses of a certain region (similar to public bodies) and their multisectoral characteristics, chambers are usually more suited to take over delegated functions from government than are business associations. The disadvantages of such a public-private partnership may be stronger government influence and the danger that BMOs may become inflexible, bureaucratic bodies.

Table 4: Types of Services Delivered by BMOs	
Services	Examples
Trade and market development	<ul style="list-style-type: none"> • Organizing product exhibitions and trade fairs • Information on prospective (export) markets • Buyer-seller meetings and subcontracting exchanges • Trade delegations • Facilitating market research • Marketing of samples and showrooms • Matchmaking
Training	<ul style="list-style-type: none"> • Management training • Technical training • Vocational training centers for staff members and Apprentices • Seminars and group consultancy • Development of training manuals • Training curricula and standards • Organizing legal aspects of staff training
Advice and consultancy	<ul style="list-style-type: none"> • Exchange visits and business tours • Best practice benchmarking among members • Individual counseling and mentoring • Legal services • Financial and taxation advice • Help with accountancy and bookkeeping • Quality standards and ISO 9000 • New technologies and environmental aspects
Information and networking	<ul style="list-style-type: none"> • Regular business meetings • Industry clubs and committees • Web site and Internet-based business contacts • Newsletters and publications • Membership directory and database • Conferences and high-level meetings • Annual report

Office facilities and infrastructure services	<ul style="list-style-type: none"> • Secretarial services • Computer services • Telecommunications • Internet access • Developing and managing industrial estates • Running testing facilities • Storage and port services
Delegated government functions	<ul style="list-style-type: none"> • Business registration • Issuing certificates of origin • Registration of samples • Organization of vocational training schools • Holding examinations and professional licensing • Export quota allocation • Running courts of arbitration

Source: Own chart based on McVay and Miehlsbradt (2001), p. 2.

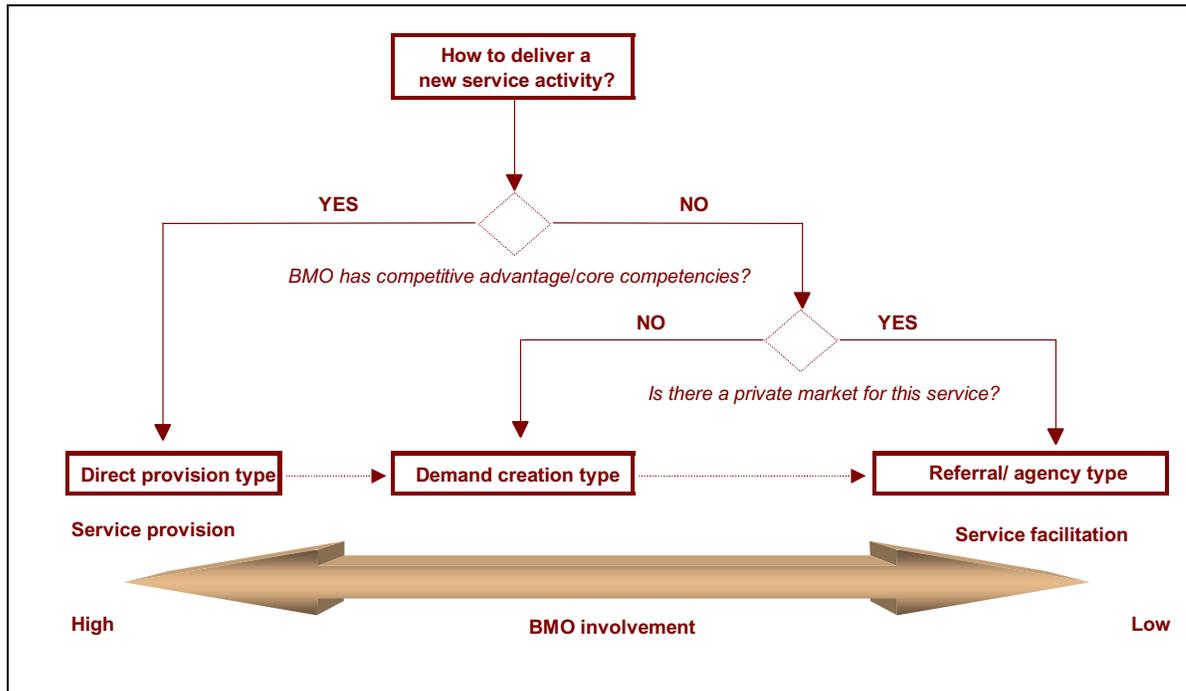
The range of possible services is much greater than the outlined catalogue, and not each of the services suggested above is suited to every situation. Different socio-economic environments and different stages of organizational development lead to different problems and require different services. BMOs will perform best if they adapt their service portfolio closely to the specific needs of their members, thus helping them to improve their competitiveness and productivity.

BMOs possess several ways of delivering these tangible services to members as well as nonmembers. There are some services, which can and have to be provided directly by internal staff members because they are closely related to the core competencies of the organization. In case the projected activity is only partially related to the BMO's existing capacities, the BMO should adopt a more facilitating role: it can choose to outsource the work to other, more experienced suppliers, e.g. private consultants, training institutions, banks (referral/agency services), or – in case there is no market for the service yet – it can only stimulate the use of business services among their members (demand creation services; signposting). Depending on the individual circumstances, a BMO may naturally choose to use different delivery mechanisms for its various services both at the same time and on a case-by-case basis.

Different ways of delivery

For example, it is possible that a BMO in country A has an outstanding know-how in organizing trade fairs and exhibitions, but for a BMO in country B without that knowledge it is more advisable to subcontract the organization of such an event. It may also happen that a former directly provided consultancy service will be outsourced because there is an innovative new private provider in the field. There is therefore no one-for-all optimal solution for a specific group of services but a continuum of delivery modes with varying degrees of involvement by BMOs (see figure 2).

Figure 2: Decision Tree– How to Deliver a Service Activity



Source: Idea based on a contribution of Jim Tomecko (GTZ team leader of Private Sector Promotion Project, Nepal).

The BMOs' decision of *how* to provide *which* services will be influenced by the following factors:¹⁹

- The BMOs' capability and experience in the field (including synergies with existing services)
- The existence and competitiveness of other suppliers of the respective business services (private providers, other NGOs, government agencies)
- The demand of the BMO's membership
- The resources required to develop the service (finance, personnel, skills)
- The potential short and long-term benefits for the BMO (more income through fees, reputation)

Factors determining whether to enter a market

Especially during the euphoric start-up phase, many BMOs are in danger of losing direction by trying to introduce too many new services at the same time. It is therefore better to first concentrate on two or three activities, based on the criteria mentioned. The following decision-making grid may be used to focus a BMO's service strategy (see table 5). The more a decision-making factor applies to the new service under consideration, the higher the number of points awarded. Again, certain adjustments may be necessary for BMOs and donors so that the conditions of a particular country and the competitive situation of the respective BMO are taken into account.

Tool for selecting beneficial services

¹⁹ Gibson and Havers (1994), p. 25.

Table 5: Decision-Making Grid for the Selection of Services					
Decision-Making Factors	Weighing (example)	A	B	C	D
Service can be fully introduced with available staff resources	5%	3	2	1	1
Service has short-term (one-six months) income-generating potential	20%	1	2	2	3
Service has long-term (12 months or more) income-generating potential	15%	2	3	3	3
Synergy effects with existing income-generating potential	10%	2	3	1	1
Low-intensity competition in market for new service (no competition with members)	15%	2	1	2	3
Service is highly useful to members	20%	1	2	1	3
No need to build up additional know-how	5%	2	3	2	2
No additional capital expenditures necessary	10%	1	1	1	2
Total	100%	1.55	2.05	1.7	2.55
Ranking		4	2	3	1

Note: (1: low; 2: medium; 3: high relevance)

Source: Schumacher (1999), p.14.

Case Study 5: Establishment of a Business Development Unit in Vietnam

The establishment of a Business Development Unit was an element of the twinning arrangement between the Hanoi Business Association (HBA), Vietnam, and the Confederation of Danish Industries (DI) commencing in 2002.

The unit was introduced with the objective of increasing the number of specialized services that the association can provide and to generate additional income. By setting up a Business Development Unit as profit center, the association's revenue base is improved through both service fees and more members.

DI assisted HBA in the following activities:

- Training in business services
- Preparation of a strategy for the unit
- Formalization of the approach for business support services
- Identification of projects
- Assistance to companies

HBA provided staff time, office space and infrastructure, while the Danish International Development Agency (Danida) made a contribution to basic office infrastructure, and DI provided training activities. The Business Development Unit will receive training from DI throughout the project period.

Establishing a Business Development Unit within HBA resulted in a 8 percent increase in profit ratio within the first year, and the ratio is expected to increase to 18 percent in 2003, which would be very satisfactory. The services provided have also been a contributing factor to the increase of members from 96 to 177 during 2002.

Besides delivering services, the Business Development Unit has assisted the HBA secretariat in preparing policy papers, drafting legal documents and advising on changes in business regulations. Through the Business Development Unit, HBA has been able to advise members on a wider range of issues, thereby becoming more attractive to members and potential members.

The yearly budget of the twinning program between DI and HBA is US\$200,000 (including all overhead costs).

The project duration is 2 years. About 10 percent of the total project cost is spent for establishing and developing the business development unit. The most important instrument used in setting up the unit were short-term experts of DI who trained and coached the local staff of the unit.

Lessons learned:

- **Members will pay for business development services, so a Business Development Unit can generate additional income.**
- **An efficient Business Development Unit can attract new members and will have a positive impact on other BMO activities.**
- **While donors contribute mainly their technical expertise, the BMO should bring in underused physical resources (e.g., office space, local staff).**

Case study contributed by Confederation of Danish Industries

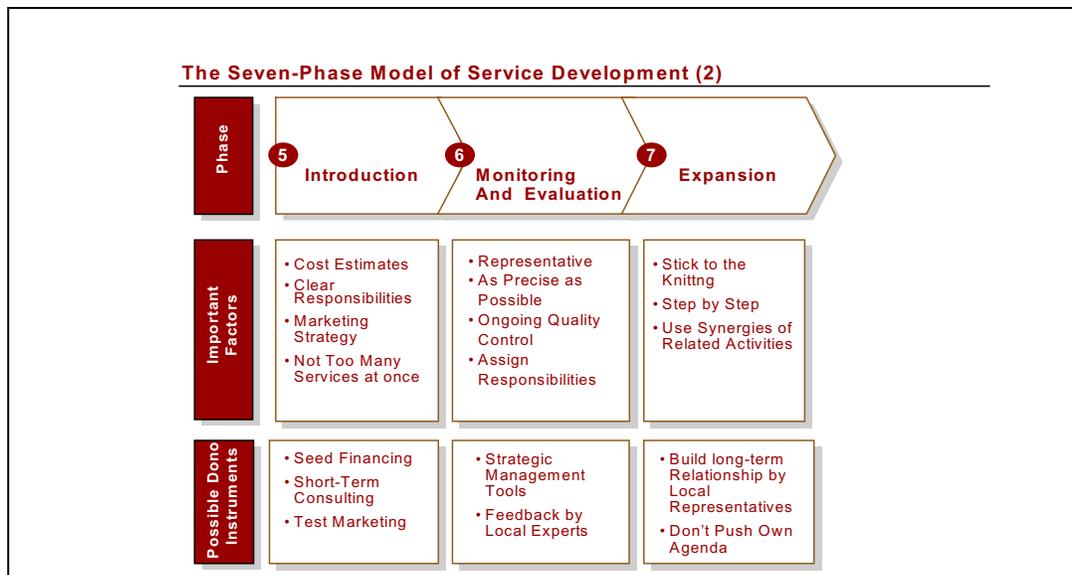
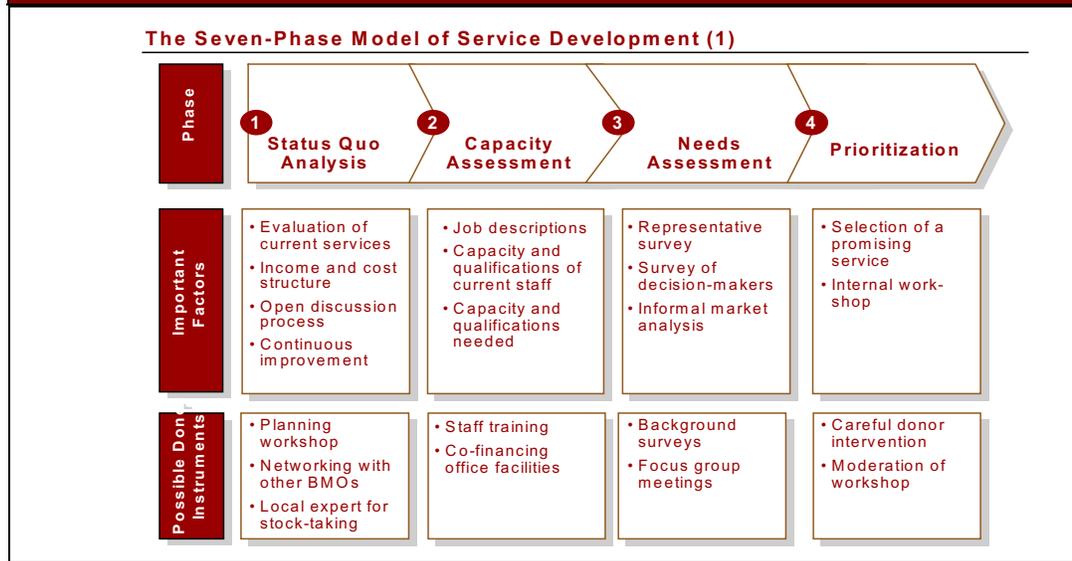
The chosen area and method of service provision will also influence the scope for donor intervention. To strengthen the capacity of BMOs and facilitate effective business services, a comprehensive approach that takes into account the pre- and post-delivery phase of a service transaction is also needed. The introduction of new services and the re-orientation of existing ones may be described as a sequence of seven steps, which constitute a phase model of service development (see figure 3).

*Phases of
service
development*

1. **Status quo analysis:** Before introducing a new service, but also to check the performance of current services, BMOs should keep a record of their activities. If the price, income and costs of each event or activity are listed systematically, BMOs can determine the absolute profitability and structure of their service portfolio. With the help of this information they are in a position to compare their competitiveness with that of other providers. Therefore, an analysis of the status quo serves as an input not only for discussing a new service activity but also for improving the management and quality of existing services. Donors may assist a BMO's self-analysis by conducting planning workshops with office holders and staff members. Another way to improve the stock-taking process is to bring in local short-term experts in accounting and management practices. A donor can also support the benchmarking efforts of his partner BMO by spreading best practices of other BMOs, e.g., by sponsoring study visits or case study manuals.

*Status-quo
analysis*

Figure 3: Phase Model of Service Development



Source: Own chart adapted from Schumacher (1999), pp. 19-20.

2. Capacity assessment: After a thorough analysis of existing services, careful consideration must be given to the technical and human resource requirements needed for delivering a new or modified service. Members always have a long “list of wishes” that cannot easily be brought in line with the BMO’s resources. Therefore, a realistic, selective approach is essential for a successful implementation of services. Critical questions arise about the availability of unused staff capacity, the need to hire more staff or the skills and qualifications necessary to introduce a new or modified activity. The most practicable way of analyzing staff capacities is through job descriptions. These descriptions show possible personnel

Capacity assessment

shortages or overlaps and help in the decision of which position is best suited to deal with the envisioned service. Donors can support BMOs in this phase by helping them explore underused resources and improve the skills of staff members. This may be achieved by sending in short-term experts to identify slack capacities and train staff members. Co-financing of critical office facilities and equipment may complement these instruments and can release additional personnel resources.

- 3. Needs assessment:** It is important to provide BMOs with reliable information on markets and SMEs, which are potential clients. Feedback from members and other companies can be gathered by more informal means during events and enterprise visits (similar to rapid market appraisal techniques) or in a formal way by various representative surveys among members and nonmembers. Focus group discussions with relevant decision-makers will complement these instruments and provide for additional information on demand and markets.

*Needs
assessment*

Survey and market research efforts are quite expensive and will often be unprofitable in the short run due to their public good character. Therefore, donors may help their partners by commissioning background surveys on various issues. For example, they can sponsor a survey asking nonmember companies about their opinion on the services of BMOs and which activities they would like to see from private sector organizations. An analysis of a specific service market may also help a BMO design their services in a more demand-oriented manner. Apart from improving services, the results of these surveys may also be used for advocacy purposes.

- 4. Prioritization:** A comparison of the financial and personnel status quo with the demand-side analysis now allows for a decision on how to expand the existing range of services. It is not only a promising service, which has to be selected, but also the best way of delivery (using the decision-making grid depicted in table 5). It is a good practice to conduct a one-day internal workshop attended by selected office holders and staff members to discuss service priorities. Since the decision on which service to choose has to be taken by the BMO alone, donors only have to play a minor role during this phase. They may, however, send local representatives to moderate the internal workshop and, if necessary, provide for additional information on selection.

Prioritization

- 5. Introduction:** The introductory phase can be regarded as the most critical phase of the implementation of a new or modified service because BMOs have to acquire expertise in how to deliver good results in slow fashion. Serious obstacles that commonly arise during this phase include incomplete and/or unsystematic cost accounting (especially neglecting marketing and overhead costs), a lack of clearly assigned responsibilities, and proactive marketing.

Introduction

Technical assistance by donors helps BMOs through this introductory phase when a service is not yet established. Different instruments may be suitable during this phase: the most important are the use of short-term consultants for alleviating start-up problems, and the production of guidebooks and manuals in order to spread international best practices. Donors may also assist BMOs in marketing new and innovative services, which need time to be accepted by the often risk-averse SME owners. For example, they can induce BMOs to produce SME radio programs, develop training material, co-finance trial periods, etc.

- 6. Monitoring and evaluation:** BMOs usually spend far too little time in ongoing supervision and the follow-up of activities. However, systematic monitoring and evaluation are essential to improve the quality and efficiency of services. In this context, the selection of suitable indicators for monitoring purposes is of great importance. Possible instruments for monitoring and evaluation are the distribution of standardized questionnaires to users and participants after a service has been delivered, the appointment of a responsible quality control officer, direct interviews with selected users, or the hiring of external consultants (only for very important services). Relevant information that improves a BMO's demand-side analysis and cross-marketing efforts can then be gathered.

*Monitoring
and
evaluation*

Because evaluation is often “forgotten” during day-to-day operations, donors may perform two important functions in this phase: they should raise the awareness for systematic follow-up measures and give their feedback concerning the BMO's performance. Short-term experts combining local with international best practice knowledge are usually well suited for these tasks. Better evaluation efforts go hand-in-hand with the donors' emphasis on strategic planning and performance measurement. Through recurrent workshops with their partners, innovative tools and strategies on these issues can be shared.

- 7. Expansion:** The range of services should be expanded only after all of the previously discussed steps have been carefully carried out. Members tend to prefer a well-focused BMO offering selected high-quality services over organizations performing a “mixed bag” of low quality activities. For smaller BMOs, it is therefore advisable to start by focusing on only two or three different services. To be active in very diverse activities may reduce risks by diversification. However, it is usually more advisable to stick to the knitting and introduce related services step by step. For example, a BMO may start with simple export information services, upgrade to a full-scale international supplier exchange and finally organize a related export trade fair. It may also be important to develop the referral capacity of BMOs, while the range of true services stays limited.

Expansion

Donors often take the initiative to start off more activities. The high cost of developing a certain product or service has induced some cross-marketing efforts. However, donors should ensure that they are not carried away by the urge to sell their standard product portfolio, but rather are open to new solutions.

Since individual steps differ in several aspects regarding their implementation and related critical success factors, donors may choose different instruments for intervention during each phase. While it used to be standard practice for donors to concentrate efforts during the introductory and delivery phase of services, interventions in other phases have gained importance in recent years. It has to be understood that good results in service provision cannot be expected without sound management practices in preparing and evaluating services.

3.3 BMO Management

The previous sections have outlined the importance of BMOs as instruments to aggregate, coordinate and represent the interests of small businesses as well as to organize self-help efforts. Thus far, however, BMO structures in many developing countries are of very limited use for SME development. On the one hand, numerous organizations are willing to act as chambers, federations or business associations, but they are also wasting resources by competing with each other and are too weak and unstable to represent SMEs effectively. The established larger BMOs, on the other hand, are often dominated by large-scale enterprises because they are easier to organize and bring in more economic power and political influence.²⁰

Background

Against this background, BMOs have to develop their organizational strength and management capacities to become more effective and ensure their long-term prospects. Better organized BMOs are more focused, enjoy greater membership participation and improve their public recognition and acceptance. They are able to fulfill their responsibilities for the whole – small and large – business community and can therefore be regarded as genuine representatives of the private sector.

Importance of BMO management efficiency

Bad management practices and organizational weaknesses will be reflected by the following typical problems of BMOs in developing countries:

Typical problems of BMO management

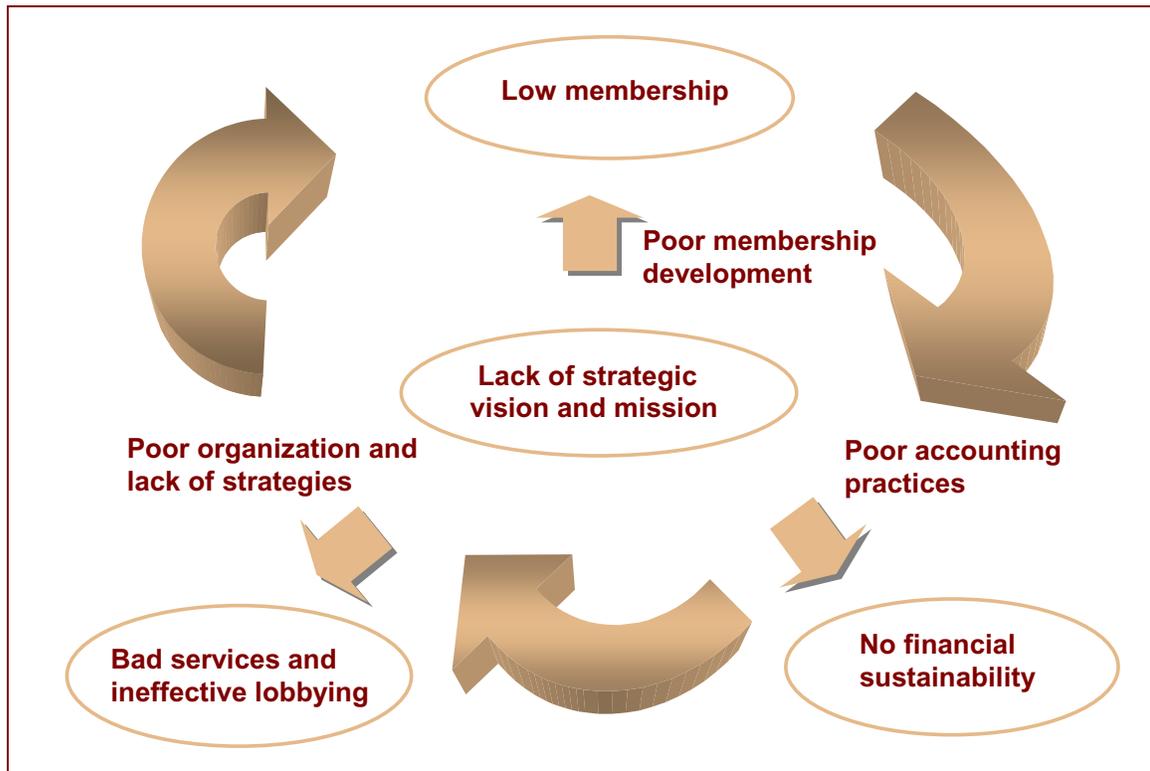
- Low membership
- Poor leadership (lack of mission statement and strategic planning)
- Lack of administrative skills
- No clear-cut division of tasks between honorary representatives and secretarial staff
- Negligible influence on government policy
- Weak communication and public relations
- Unattractive services
- Inadequate funds and income generation

²⁰ ZDH/Technonet Asia (1995), pp. 14-15.

It is important to realize that these problems should not be seen in isolation: by reinforcing each other, they cause a vicious circle of poor BMO management (see figure 4). The central problem of many BMOs lies in the lack of knowledge of what they should do now (mission) and what they want to become in the future (vision). In the absence of a meaningful mission and vision, BMOs will attract only a few members. Thus they often have to cope with insufficient financial resources, which in turn limits the scope for good services and advocacy. Without attractive benefits of membership, however, companies will abstain from joining the BMO or decide to quit. Therefore, efforts to strengthen a BMO's management capacity have to be given consideration in the course of every donor intervention, even when the primary objective of the promotional activity is to enhance service delivery and/or policy advocacy.

Strengthening BMO management is a precondition for improving service delivery or advocacy

Figure 4: Vicious Circle of Poor BMO Management



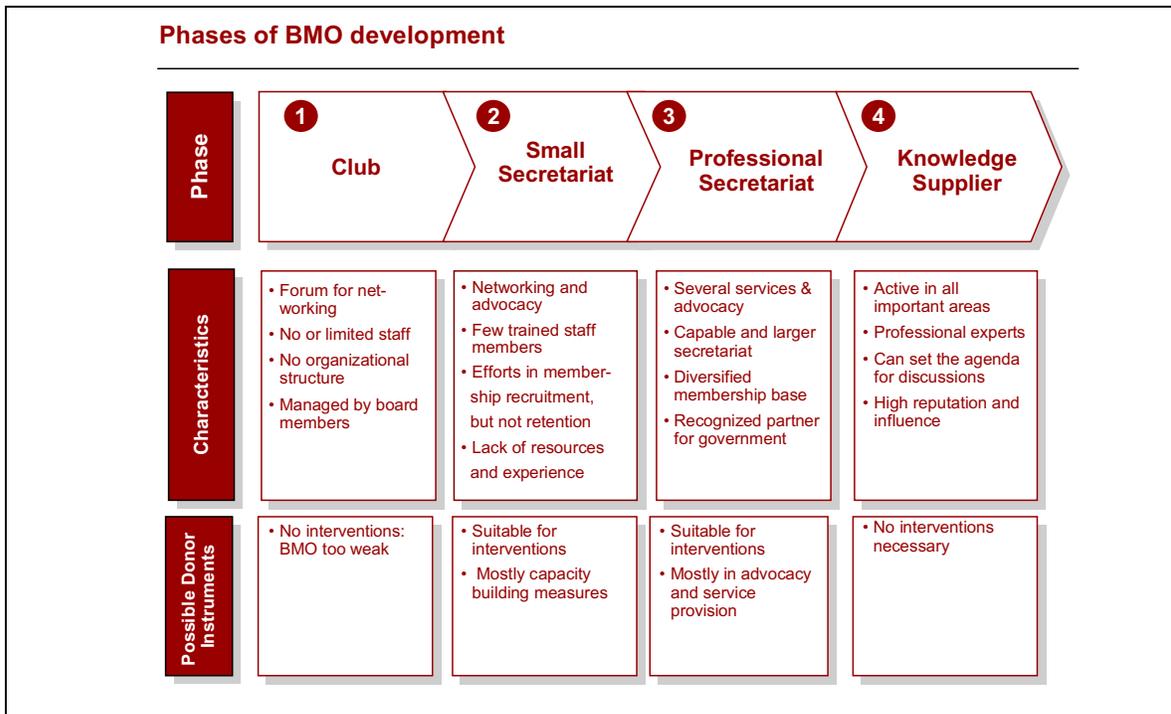
Capacity building is a gradual process. Therefore, BMO management capabilities will also develop incrementally. Donors have to consider the different phases of organizational development when designing suitable interventions (figure 5). While organizations in the first phase of their development are often trapped in the vicious circle of poor management practices, BMOs in phases two and three are suitable for donor support. The phases are not always distinct, however, and BMOs may often exhibit traits from two different phases.

Phases of BMO development

Five key issues of BMO management will be analyzed in greater detail: (i) finance; (ii) membership development; (iii) strategic planning; (iv) internal organization; and (v) communications. Furthermore, the discussion will be complemented by common strategies and areas for donor intervention. *Key issues*

1. **Finance:** Quite a few BMOs keep no accounts of an acceptable professional standard and have assigned the supervision of financial procedures to untrained persons, thus resembling the situation of many SMEs in developing countries. However, members as well as other contributors (government, donors) want to know what the BMO is doing with their money. Therefore, transparent accounting (within reason) is not optional but a moral and often legal requirement.²¹

Figure 5: Phases of BMO Development



Source: Scheme developed by the Confederation of Danish Industries.

Many BMOs have to operate in a fragile financial environment: particularly in conditions of voluntary membership, membership dues have to be set at a modest level to avoid deterring prospective members and facilitate their collection. Public subsidies are threatening a BMO's independence and may undermine its efficiency. Grants by donors and members are made on a case-by-case basis and are therefore not a sustainable source of finance. BMOs, whose members predominantly consist of SMEs, will always suffer from greater financial difficulties than organizations with bigger, wealthier members.

²¹ See, for example, CIPE (1998).

In such conditions, donors should help BMOs reform their financial management practices as a prerequisite for all other capacity-building measures. The primary objectives of reform measures include the diversification of income, the provision of a steady cash-flow and the ability to build reserves for periods of financial strain. The most common areas of donor intervention are:

Possible donor interventions for upgrading financial management

- **Accounting practices:** BMO staff members are trained to deliver basic financial statements (balance sheets, income statements, cash flow) in an understandable, accurate and timely manner. The use of external financial accountants for more complex issues and audits is encouraged.²²
- **Membership fee administration:** Partner BMOs receive help in adjusting their fee schedule (categories, graduation by size of membership, flat or fluctuating rate) and in how to improve the tracking and collection of dues, e.g., by facilitating workshops and staff exchanges, but also by supporting the introduction or improvement of a membership database.
- **Income-generating services:** The promotion of new services for members should always be used to diversify the income base of the BMO. Twinning arrangements and workshops help BMOs to learn about the step-by-step implementation of new services and how to charge them adequately (see also section B.2.1). However, donors should keep in mind the possibility of crowding out existing commercial providers.²³

²² Milner (1999), pp. 42-49.

²³ Schumacher (1999).

Case Study 6: Workshops for BMO Capacity Building

The ZDH Program, a German development aid project, has conducted many BMO-management workshops with chambers and associations in many Asian countries (Bangladesh, China, India, Indonesia, Nepal, Philippines, Vietnam).

The workshops were undertaken for individual and for groups of BMOs. The latter were often organized with national BMOs. Depending on the topics, participants were elected BMO officers or staff, but often a combination since implementation of the learning of these workshops requires leadership backing and staff work. At times, non-partner BMOs have been invited to increase the outreach of the program and to facilitate the transfer of knowledge from more to less advanced BMOs.

The topics of the workshops were chosen on the basis of need with the individual BMO (e.g., training services, membership development, strategic planning) or for group events on the basis of a brief survey which asked the BMOs to make priority choices on proposed topics. In most cases the workshops had more than one topic.

Resource persons were drawn from more advanced BMOs or other relevant organizations from the respective country as well as a few from abroad. ZDH Program staff were another resource base.

The duration of the workshops was typically only one or two days, since it proved difficult to keep elected officers present for a longer period of time.

Major program elements of the workshops were: inputs by resource speakers; experience sharing sessions (how is this activity done by different BMOs?); and group working periods, at which plans were made about how to

implement specific future activities by the participating BMOs.

During the workshops, manuals that the ZDH Program had published on various aspects of BMO work were used to provide practical guidance and advice. In a number of countries, the ZDH Program supported the translation of these manuals into the local language so that their use were facilitated. The ZDH Program also supported the publication of manuals by partner BMOs in various countries, which could focus more on the specifics of the individual countries than could the more generic ZDH manuals.

The yearly budget of the ZDH program for the cooperation with BMOs in several Asian countries amounted to US\$300,000 per year (excluding all overheads as well as the cost of the regional coordinator). The cost of one workshop was between US\$1,000 and 2,000 covering honoraria and travel cost for local resource people and a contribution for co-funding the venue.

Lessons learned:

- **Select a good mix of participants (elected officers and staff, experienced and less experienced BMO representatives).**
- **Keep presentation inputs brief and restrict number of participants (15 –20) to allow for active participation.**
- **Avoid program overloading; focus on priority topics (and organize extra workshops if the demand is high).**
- **Equip participants with reference material (e.g., forms, manuals) and include planning sessions for next steps so that implementation for the discussed measures is facilitated.**

Case study contributed by ZDH Partnership Program

2. **Membership development:** The recruitment of new members and the retention of existing ones are of fundamental importance for all BMOs. However, membership development may be given low priority because (i) leadership is satisfied with the present status quo, (ii) the BMO acts more as a social club for a few big members, (iii) small groups are politicizing the work of the organization, or (iv) the membership base in a certain region is limited. Nevertheless, an attractive membership framework is important for BMO development.²⁴

Membership development is a must for any BMO

Membership development covers marketing efforts for new members (corporate identity, public relations) as well as the administration of existing members (membership database, structure and payment of dues). It is not enough to attract additional members every year if a comparable number of enterprises drops from the BMO's membership list. Many BMOs have difficulty dealing with such a "revolving" membership structure. To achieve a significant increase in membership, the central secretariat should therefore develop a precise strategy for the recruitment *and* the retention of members. Instruments for membership development which can be supported by donors include:²⁵

Possible donor interventions to support membership development

- *Recruitment:* Marketing and awareness campaigns need to be conducted on a regular basis. Donors can offer manuals and training measures for new marketing instruments, e.g., member-to-member self-recruitment systems. With the help of consultants and experts BMOs can also be encouraged to make consistent use of branding techniques and logos, e.g., by issuing membership certificates.
- *Retention:* Existing members need to be cared for intensively in order to give them a sense of ownership and allow for their participation. Technical assistance from donors will often be required to initiate membership satisfaction surveys that evaluate the BMO's performance. The organization of a hotline for complaints and inquiries is another instrument for enhancing members' confidence.
- *Administration:* Membership administration will be much easier with a comprehensive and up-to-date list of members. Donors can develop electronic general-purpose database systems tailored to the specific needs of a particular organization. Such an electronic information system can also be used to upgrade other BMO services, e.g., by developing an electronic matchmaking tool. Finally, BMOs should think about appointing a specialized membership officer. Donors can help their partners find a suitable person and train the officer.

²⁴ See, for example, Ernstthal and Jefferson (1988).

²⁵ See also Schumacher (1997).

- 3. Strategic planning:** Just like other public or private organizations, BMOs have found that planning instruments are a valuable tool for their development. With the help of strategic planning, a consensus about the organizational priorities can be reached among the stakeholders of a BMO. This helps to keep activities focused and reduces transition problems from one set of leaders to the next.²⁶ The most common tools for strategic planning are the BMO's vision (general ambitions), mission (more detailed objectives), work plans, and budget statements. Strategic planning does not have to be regarded as a highly technical exercise for bigger BMOs but can also be introduced step by step. Experience has shown that successful planners use realistic assumptions, monitor their leaders' impact, and make sure that leaders commit themselves to the strategic planning elaborated by BMOs.²⁷

*Strategic
planning*

Strategic planning is particularly important for newly created BMOs, which are continuously expanding their functions and their staff. The short-term objective of strategic planning is an efficient coordination of resources inside the BMO. However, as a long-term objective, it will also help to build a consensus about the key priorities to keep the BMO focused and directed among the BMO's stakeholders. Donors may support planning efforts in the following areas:²⁸

*How donors
can support
planning efforts*

- *Membership survey:* Planning needs accurate background information about the performance of the BMO and the demands of its members. Donors may commission surveys to deliver the necessary information.
- *Strategy workshop:* Based on the results of the membership survey, a planning workshop can be organized in which leading board and staff members participate and develop a consensus on the BMO's vision, mission statement, and long-term priorities. Donor representatives may act as counselors during these workshops.
- *Preparation of a business plan:* The business plan outlines future activities (in a specified manner), a time frame, budget and training requirements. Short-term experts can help BMOs to draft better business plans.

²⁶ Milner (1999), p. 83.

²⁷ See, for example, Ernstthal and Jefferson (1988).

²⁸ Milner (1999), pp. 82-98.

Case Study 7: Successful Transformation from a Public Authority to a Market-Driven Service Provider

In the course of only ten years, the Latvian Chamber of Commerce and Industry (LTRP) transformed from a state-controlled authority with less than 200 member enterprises to a modern market-oriented service provider with nearly 900 members.

In 1990, most of its members were large state-owned enterprises. Today, the majority of its membership is made up of private small and medium-scale enterprises of all branches of the economy. The LTRP established seven regional offices and became one of the few business organizations with a functioning regional network in the country. It became more respected by the government, was consulted in the legislation process and acted in advisory committees as the representative of the interests of the private economy.

Financing and the necessity to generate income were not an issue in Soviet times. Today, the LTRP does not receive any subsidies from the government. Chamber membership is voluntary. Income from membership fees is not guaranteed and covers about 22 percent of the chamber's budget. About 14 percent is contributed by the issuing of certificates of origin. The LTRP made big efforts to build up attractive services and established its own training center. Nowadays, LTRP is thus able to generate approximately 64 percent of the chamber income from services (information services, foreign trade documents, consulting on business promotion, trade missions, fair participation, publications, training courses in office work, IT, quality management, marketing, etc.).

The precondition for successful change was the development of the chamber into a member-driven organization. Long-term twinning with a German chamber facilitated the reform process. Most important were the introduction of a voluntary board elected from among the members, a clear division of tasks between the board and the staff, and delegation of the day-to-day management to the professionals.

The preparation of job descriptions, staff training by German experts, and internships in Germany were important instruments to qualify the staff for the new tasks.

Furthermore, member committees were introduced as a completely new instrument for elaborating the chamber's position on important economic issues. The committees not only led to closer membership involvement, they also helped to recruit volunteers and made sure that the chamber's position truly reflected the use members made of it.

The yearly cost of the project amounted to US\$10,000 excluding overheads. The project went on for 8 years (1993 to 2001). The most important tools used in assisting the Latvian chamber were short-term expert assignments recruited from the German chambers of commerce network, co-funding for the establishment of new branch offices and training facilities, study visits for Latvian chamber staff to Germany and the United Kingdom, and training for elected officers and staff of the chamber.

Lessons learned:

- **Financial sustainability and independence lie at the heart of the transformation process.**
- **Twinning arrangements are long-term activities, because capacity building requires patience and time.**
- **Voluntary membership participation as office bearers or committee members is crucial.**
- **It may be more effective to transform an already existing BMO than to establish a new organization.**

Case study contributed by SEQUA

- 4. Internal organization:** A well-structured work flow and division of responsibilities between office holders and staff members (as laid down in the bylaws and job descriptions) are crucial for the efficiency and success of BMOs. If the secretariat is strong and well organized, it may become the main vehicle to deliver outputs and relieve voluntary representatives from day-to-day activities. But there are many BMOs whose internal structures are not very clear-cut, whose boards do not delegate responsibilities to staff members and where the style of work differs significantly between the BMO's stakeholders. Therefore, a suitable CEO with strong leadership skills, an attractive work environment for staff members and an efficient internal communication are necessary ingredients of a well-functioning BMO.

Internal organization

Donors may support BMOs in their efforts to assign clear tasks and responsibilities – especially with regard to a separation of the roles of the secretariat and board – and to improve the work of the staff members by implementing effective administrative systems and forming strategic partnerships with external service providers.²⁹

Donor instruments for improving the internal organization

- *Secretariat organization:* Job descriptions and more detailed work plans need to be prepared to structure operations. Experts from “sister” BMOs (or external experts) may assist the certification of the internal processes of an organization (e.g., ISO 9000) to achieve and maintain a higher quality standard.
- *Administrative systems:* In case the BMO faces bottlenecks regarding qualified staff or equipment, donors can help in the recruitment of qualified professionals and co-finance more modern equipment, e.g., workstations or internet services.
- *Strategic partnerships:* To keep a BMO's activities focused, it will be inevitable to make use of external partners in case of very specific or complex issues. These can be commercial service providers, other BMOs, universities, etc. Donors should share their information on these strategic partners with BMOs and facilitate contacts and meetings between them.

- 5. Communication:** Communication with the public is quite often a low priority for BMOs. Apart from the lack of relevant skills and resources, there may still be quite a few representatives who think that communication is a natural byproduct of other activities. Well-designed communication programs let people know about the mission and achievements of a BMO and will help it reach its potential as well as gain reputation. Communication efforts may take various forms but are most commonly delivered by public relations activities, sponsoring, media events, advertising or meetings. For BMOs in developing countries, newsletters, annual reports and Web sites are the most frequently used modes of communication with the public; the mass media (radio, TV, newspapers) are a lesser used instrument. The messages of the BMO should be delivered competently to stand out from the plethora of other messages released every day.

Communication

²⁹ See Tan (2000).

Generally, a donor can help to develop an overall communication concept and improve the information process, both internally within the membership and externally toward the public.³⁰ More specifically,

Possible donor interventions for improving communication

- *Communication concept:* It can help BMOs to create a comprehensive public relations and information strategy. This includes a decision on the basic information to be delivered, the selection of the right communication channels as well as the formulation of targeted and easily understandable messages. PR consultants may help at this stage.
- *Internal communication:* Newsletters and annual reports are effective tools to communicate regularly with members (and nonmembers). Donors can train BMOs in publishing interesting information regularly. When delivered in a cost-efficient and successful way, BMOs may generate some money with the help of these services, e.g., by advertising.
- *External communication:* The means here include both printed and electronic information material, which specialists can assist in developing. For example, a donor can provide financial and technical support to set up a Web site or to develop press kits and presentation material. However, the donor should ensure that the concerned BMO has sufficient resources and qualifications to maintain the quality of the information material or electronic presentation.

Donor intervention in the field of BMO management is always a sensitive issue, because it may interfere with the partner's autonomy and self-reliance. Participatory planning and co-funding are good practices to ensure that the recipient has a genuine interest in the intervention. It is also important that support measures are chosen in accordance with the wishes of the BMO's constituency – the members. These aspects reinforce the significance of a careful partner choice.

³⁰ Milner (1999), pp. 51-67; Wong Chin Yeow (2000).

Case Study 8: Introducing an Administrative Database for BMOs in Ghana

A simple but essential tool for day-to-day management of a business association is an efficient and user-friendly membership database and clear guidelines and responsibilities for updating the database. The Confederation of Danish Industries (DI) has developed a generic membership database that can be tailored to the specific needs of various organizations.

Before the Association of Ghana Industries (AGI) improved their handling of membership, over half of the members failed to pay up their annual subscription fees. The introduction of a membership database provided the administrative basis for increasing the number of members paying their subscription fee from 43 percent to 95 percent over a three-year period, raising the annual membership fee revenue by 128 percent.

The database was developed by DI with assistance of an AGI membership officer. DI provided manpower, know-how, hardware and software to the project. During a two-week stay in Ghana, DI experts developed and programmed the database interface. Through train-the-trainer method, users were educated and AGI staff became familiar with the use and advantages of an administrative database. Documentation and manuals were made in order to secure conservation of the knowledge in AGI.

The database has been customized for AGI, and it now enables the association to keep up-to-date records of all members at all times.

This way, it is possible to distinguish paying from nonpaying members, make strategic planning for acquisition and retention, and streamline administrative procedures and costs.

The administrative database was set up as a minor part of the Twinning Arrangement between AGI and DI. The corporation took place from 1999 to 2002 and was funded by the Danish International Development Agency (Danida).

The database has also been implemented in a number of other DI partner associations.

The total annual cost of this project amounted to US\$200,000. The cost of developing the database including the training provided for the local staff was US\$14,500.

Lessons learned:

- **BMOs can improve their administrative performance with the help of innovative software tools.**
- **These tools have to be tailored to the specific needs of the BMO, but they have a high potential for cross-marketing efforts by donors.**
- **Careful documentation and training are necessary to ensure that knowledge is transferred to the BMO.**

Case study contributed by the Confederation of Danish Industries

4. How to Monitor BMO Projects: Proposing Performance Indicators

Performance indicators are of special importance as they document the consensus of donors and partner BMOs on what objectives should be targeted. The definition of proper performance indicators gauging the progress of BMO development is difficult because of scaling problems and externalities. Many of the indicators presented below are therefore only proxies for BMO performance. As better options are not available, some indicators only verify the realization of certain activities and do not fulfill all basic requirements of proper indicators.³¹

Background

The table presented below provides a list of indicators frequently used for monitoring the performance of BMOs and can be used for the following objectives:

Uses of indicators

- Collecting baseline information when assessing BMOs at the beginning of projects
- Tracking the progress of project activities assisting BMOs, and allowing a thorough evaluation of projects
- Enabling partner BMOs to benchmark themselves against other BMOs, independent from any further project support.

It is recommended that the performance indicators be used once a year. The table of indicators follows the three main areas of donor intervention as described above. When using the table of indicators one should keep into consideration that the most important indicator for BMO development is any measure related to increasing membership; an increase in the number of member enterprises is the best proxy for a strong advocacy role and for the good quality of services provided to members. Furthermore, the best indicators are those, which cover qualitative aspects. It is better to demand a high percentage of positive clients' evaluations when organizing a training seminar, for instance, than to only ask for the number of participants that attended the seminar.

Increase in membership is most important indicator

³¹ Objectively verifiable indicators give information on quantity (how much?), quality (how good?), time (when?), and place (where?).

Table 6: Performance Indicators for Monitoring BMOs³²	
1. Service Delivery	<p>General</p> <ul style="list-style-type: none"> - Increase in number of clients / participants - Increase in revenues from service fees - Service fees are introduced (Yes/No) - Increase in range of services - % of evaluations by clients are positive - % of cost recovery - Costs per unit delivered compared to other providers
	<p>Training courses/workshops/seminars</p> <ul style="list-style-type: none"> - Number of training courses conducted - Number of participants trained - % of cost recovery
	<p>Information services</p> <ul style="list-style-type: none"> - Number of written requests for information from members - Number of written requests fulfilled - Estimate of the number of oral requests for information from members - Number of oral requests fulfilled - Internet connection (Yes/No) - Membership directory (less than two years old) (Yes/No) - Existence of a regular newsletter (not including circulars) Yes/No - Frequency of newsletter (how many times per year) - Number of publications - % of cost recovery on publications - Number of specific or general information/awareness raising events
	<p>Trade facilitation (trade delegations, business-to-business meetings, fairs and exhibitions)</p> <ul style="list-style-type: none"> - Number of events - Number of Exhibitors - Number of Visitors - Total budget for events - Total profit on events - Profit/ budget x 100 - % contribution of income from events to total income of BMO

³² This table contains valuable contributions by Jim Tomecko, GTZ team leader of Private Sector Promotion Project, Nepal.

	<p>Advisory services</p> <ul style="list-style-type: none"> - Number of requests received - Number of consultancies given to clients - % of cost recovery
2. Advocacy	<ul style="list-style-type: none"> - Number of issues advocated - Number of position papers / draft legislations presented to government authorities - Number of public hearings in which BMOs participated - Number of press clippings - Number of interviews given to media - Number of successful outcomes of advocacy issues - Scope of delegated functions - Number of successful project proposals submitted to national or international donors
3. BMO Management	<p>Representativeness</p> <ul style="list-style-type: none"> - Increase in number of members - Increase in number of members from SME sector / private sector - Increase in renewal of memberships or increase in number of members paying their contributions on time - Increase in % of members as part of all enterprises of the region/sector covered by BMO - % of satisfied members (based on inquiry)
	<p>Financial sustainability</p> <ul style="list-style-type: none"> - Increase in revenues from services and membership dues - Decrease in dependence on public subsidies / individual sponsors - Annual plan of expenditures / revenues exist - Balanced annual budget - Proper accounting system installed
	<p>Legitimacy</p> <ul style="list-style-type: none"> - Regular democratic board elections take place - Committees meet at least (how often?) a year - Regular enquiries on members' views
	<p>Capacity building / personnel</p> <ul style="list-style-type: none"> - Visible dissemination of mission statement - Written annual plan - Increase in number of capacity-building workshops organized by BMO - Increase in number of staff members taking part in capacity building events organized by others - Increase in number of qualified professional staff employed - Increase in % of professionals with job descriptions - Decrease in fluctuation

5. Ten Rules for Donor Intervention

1. Objectives in program design: Importance of an integrated approach

Integrated approach

The most important areas of donor intervention aimed at BMOs are: **development and management of selected services, advocacy, BMO management, and development of a proper framework for BMO development** (see Part B, chapter 2). Donors tend to focus on immediate results in the areas of advocacy and services, as opposed to institution and capacity-building measures. This is not only understandable but sometimes even recommendable in order to obtain quick results. Nevertheless, the overall institutional capacity of an organization plays a crucial role in achieving sustainable long-term results. It is therefore important to simultaneously provide **support for BMOs related to all areas**. Integrating support measures in all of these areas will boost a project's impact. The emphasis on each area will depend on present BMO performance and demonstrated demand.

2. Participatory approach and demand orientation

Partner and demand orientation

For a project to succeed, the supported BMO needs to be actively involved in the planning and implementation phases in order to ensure that the project responds to the relevant problems or issues. BMOs need to be the drivers of the change and development process. Truly partner and demand oriented programs will ensure BMO ownership, relevance of services and advocacy efforts, and sustainability of the activities. Participation allows both donors and their partners to generate new ideas on how to enhance the role and impact of the BMO. Donor interventions need to be flexible in order to continuously adapt the changing BMO needs.

3. Long-term view

Long-term view

Successful BMO projects require a certain amount of institution-building support. Such institution building takes time because it needs to take into account a BMO's vision, mission and strategies, its planning and organization, its board composition and staff capacity, and its membership and financial development. Thus, there should be a clear commitment on the side of the donor and the beneficiary to engage in a long-term cooperation. Depending on the starting point, a period of 5 to 10 years is not uncommon for successful institution-building projects. However, long-term commitment needs to evolve and should only come after a pilot phase (see below). Long-term cooperation should be sustained only if the environment remains positive (see below, selection of partners).

4. Striving for financial sustainability

*Financial
Sustainability*

Without a sound financial basis, a BMO cannot survive. High dependency on grants makes it vulnerable and undermines its position as an independent organization.

Donors should:

- request partners to co-fund **all** activities (cost sharing is also an important element of participation and increases ownership; see point 2)
- adjust funding to the beneficiaries' absorptive capacity. The degree of financial support may vary according to objectives and partners. As a general rule, financial assistance to BMOs should not exceed 20 to 30 percent of the beneficiaries' annual budget³³ and 30 to 50 percent with regard to co-financing the start-up phase of new activities.
- expand services and activities gradually and according to the BMO's growing overall income generating capacity (the BMO does not need to deliver each individual service at full cost-recovering prices; cost-subsidization of services may be a good way to keep a relevant service which does not generate a lot of income).
- encourage the beneficiaries to establish clear and transparent accounting systems and develop efficient financial monitoring tools.
- choose the kind of support for BMOs, which can less easily be diverted to the benefit of individuals. Thus, training, counseling, information and advice are generally considered preferable to loans, vehicles and office equipment.
- gradually reduce their support for BMO activities within a clear time frame to facilitate donor withdrawal, enhance an income-generating focus and the sustainability of activities (see next section).

5. Pilot or orientation phase

Pilot phase

Experience shows that an initial orientation phase (six to nine months) can be very beneficial. During this phase, the donor and the beneficiaries can learn about each other, share ideas, concepts and objectives, and gradually define a common strategy. A longer pilot phase (up to twelve months) can be helpful in order to test strategies or activities, particularly when donors need to select a partner among a number of potential beneficiaries.

³³ Levitsky (1993), pp. 28-30.

6. Selection of partners

Partner selection

- (a) Shared interests, e.g., SME development, are a prerequisite for successful cooperation. BMOs and donors have their own agenda, however, and donors should therefore be open about their objectives and strategies. There are not many BMOs in developing and transition countries that donors will consider ideal. It is necessary to thoroughly study the vision of the BMOs and their expectations regarding future cooperation. If interests are shared only in some aspects or functions, it may still be possible and useful to undertake joint activities in some areas, or to support a subcommittee or a special department of the BMO.
- (b) Donors will easily be attracted to BMOs with higher institutional capacity (which may result in some donor competition for better BMOs). Donors need to **establish minimum standards and clear criteria** for BMO selection: e.g., availability of a secretarial office and sufficient staff, the structure of the membership base, the level of acceptance of the BMO by the local government, the degree of autonomy from government influence, the commitment of its officers, its internal democratic procedures, and openness toward new members.
- (c) Many interventions by donors (and also by governments) to establish new BMOs have failed. Too many developing and transition countries have BMOs (and SME Promotion Agencies) created by donors that will never achieve a reasonable level of sustainability. Experience indicates that it is **better to help existing BMOs** to grow, develop new services and products, change orientation, and become more democratic and equally representative of all members.

7. Number of partners

Number of partners

Donors can support **one or a few BMOs** through intensive assistance, **several BMOs** through extensive assistance, or both.

There are pros and cons associated with each strategy. On the one hand, based on the advantages of following an integrated approach as explained above, limiting the number of partners can lead to greater efficiency and sustainability.

On the other hand, a larger number of partners can facilitate better networking opportunities as well as better sharing of information and best practices. In some countries, there have been good results in promoting partnerships between stronger and weaker BMOs, since that leads to a delegation of development cooperation tasks to the partners themselves. A multiple partner structure is also less vulnerable to external disruptions (e.g., election of a less supportive board) and may enhance competition among partners.

Another option is to have an open and flexible structure of revolving partners in which some BMOs can leave (depending on whether they have achieved certain standards or not) and others can join. In this case, keeping ex-partners linked is recommended, e.g., for visiting programs and staff exchange or for using them as best practice models.

8. Twinning arrangements

*Twining
arrangements*

Twining arrangements between more developed and less developed BMOs represent an alternative to the conventional way of project implementation where donors themselves or consultants provide the technical advice to the beneficiary BMO. In this case, the donor delegates the implementation of an intervention to a similar but more developed BMO.

Although BMO staff members may lack specific competences related to international development projects that professional consultants have— e.g., project management, language, pedagogical or intercultural skills, twinning arrangements offer several advantages. The **direct cooperation of equal partners** helps to create mutual understanding and acceptance. It leads to a **practical know-how transfer** as the staff members of developed BMOs have first-hand knowledge of the problems that commonly affect SMEs and BMO management, and they can therefore apply successful strategies based on their experience. Additionally, developed BMOs can offer specialists to lesser developed ones. The cooperation may also serve as a platform to establish direct business contacts. Experience proves that cooperation between twinning partners can go beyond the project's scope and often continues after the project ends.

Another interesting benefit for donors is that cooperation with BMOs in developed countries can help to raise awareness in those countries about the importance and impact of development projects. Based on their network of private businesses, civil society groups and government officials, BMOs in developed countries can reach and convince important stakeholders, who might otherwise be skeptical, about the importance of spending scarce public resources on development cooperation.

9. Clear exit strategy

Exit strategy

In order to establish a consistent framework for BMO partnership projects, it is important to **identify precise project targets and a time frame**. Many partnership programs fail to identify precise targets (and indicators), leading to a lack of a clear exit strategy.

Annual cooperation plans can be a good tool for reaching agreement with the partner on specific targets and indicators. An exit strategy may include four elements:

1. A description of the project targets
2. Criteria to measure (indicate) success and a time frame
3. Rules/standards for the project implementation which are crucial for the donor
4. Contingency measures, which will be enacted when the project targets are reached, or if the requirements have not been met by the BMO.

10. Avoidance of market distortions

Market distortions

The design of BMO support interventions should include an **explicit assessment of possible risks**. For example, donors should avoid supporting rent-seeking behavior and BMOs that represent only exclusive groups of companies. They should also avoid getting unintentionally involved in party politics, e.g., by supporting BMOs dominated by one particular political, social, or ethnic party.

Donors should be careful **not to create market distortions** by establishing long-term subsidized services. Supply-driven donor assistance can create incentives for BMOs to become resource rather than member-driven, and every intervention holds the danger of crowding out already existing commercial providers. With the financial and technical assistance of donors, promoted BMOs may offer more sophisticated services at comparable or even lower prices. Thus, nonpromoted private providers of the same services may be forced to exit the market. As a result, basic level services in functioning markets are displaced by subsidized services, which are less sustainable and may even induce negative effects (e.g., creating a dependency culture).

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Abbreviations

AGI	Association of Ghana Industries
BA	Business Associations
BDS	Business Development Services
BFZ	Bavarian Employer's Association
BMO	Business Membership Organization
BMZ	Federal German Ministry for Economic Cooperation and Development
CaCEC	Chamber for Foreign Trade of Córdoba (Argentina)
CAS	Country Assistance Strategy
CCCI	Chittagong Chamber of Commerce and Industry (Bangladesh)
CEJ	Employers Association of Jalisco (Mexico)
CEO	Chief Executive Officer
CERTTEX	SENAI Training Center in Recife (Brazil)
CIPE	Center of International Private Enterprise
CME	Canadian Manufacturers and Exporters
DI	Confederation of Danish Industries
FAQ	Frequently Asked Questions
HBA	Hanoi Business Association
IFC	International Finance Corporation
LTRP	Latvian Chamber of Commerce and Industry
MSE	Micro and Small Enterprises
NABW	National Association of Business Women (Malawi)
NBA	National Business Agenda
NGO	Nongovernmental Organization
PDF	Project Development Facilities
PRSP	Poverty Reduction Strategy Paper
SEBRAE	Small Business Administration (Brazil)
SENAI	National Industrial Training Service (Brazil)
SEQUA	Foundation for Economic Development and Vocational Training (Germany)
SINDIVEST-PE	Association of the Textile Industry in Pernambuco (Brazil)
SME	Small and Medium Enterprise
WG	Working Group
WTO	World Trade Organization
ZDH	German Confederation of Small Business and Skilled Crafts

Appendix A: Checklist for BMO Analysis

Checklist for Partner Evaluation (1)			
1. BMO Profile			
Name of organization			
Year of foundation			
Who are the initiators?			
Are there similar BMOs/competitors?	<input type="checkbox"/> ()		
Registered under which law?			
Is there a written statute or by-law?	<input type="checkbox"/>		
Are the by-laws used and updated?	<input type="checkbox"/>		
Are there any special government privileges?	<input type="checkbox"/> ()		
Are there government-appointed representatives?	<input type="checkbox"/> ()		
2. Organizational Status			
Affiliations with other BMOs/organizations?	<input type="checkbox"/> ()		
What geographical areas/sectors are covered?			
Are there regional substructures/chapters?	<input type="checkbox"/> ()		
Organizational chart/function structure?	<input type="checkbox"/> ()		
Standing committees?	<input type="checkbox"/> ()		
Is there an SME committee?			
Who is the leader?			
Who is responsible for day-to-day operations?	<input type="checkbox"/> staff	<input type="checkbox"/> office bearers	
Are there any written job descriptions?	<input type="checkbox"/>		
Are there general meetings?	<input type="checkbox"/> annually	<input type="checkbox"/> ad-hoc	
Are there regular elections? (how often?)	<input type="checkbox"/> ()		
Which officers are elected/appointed?			
• Chairman/President	<input type="checkbox"/> elected	<input type="checkbox"/> appointed	
•	<input type="checkbox"/> elected	<input type="checkbox"/> appointed	
Who is entitled to vote?			
Who can be elected?			
How many members participate in elections?			
Term of office?	<input type="checkbox"/> one year	<input type="checkbox"/> two years	<input type="checkbox"/> ()
Re-election possible? (term limits)	<input type="checkbox"/>		
Are there any written job descriptions?	<input type="checkbox"/>		
3. Leadership			
Chairman/president a respected businessman?	<input type="checkbox"/>		
Honorary or paid office bearers?	<input type="checkbox"/> honorary	<input type="checkbox"/> paid	
Average time spent for BMO?			
Chairman's vision for development of BMO?			
Chairman interested in SME?	<input type="checkbox"/>		
Is there a written mission statement/vision?	<input type="checkbox"/>		
What are the primary objectives?			
Activities in line with the mission statement?	<input type="checkbox"/>		
Is there a strategic plan?	<input type="checkbox"/>		
Is there a business/work plan?	<input type="checkbox"/>		
Systematic follow-up and revision of plans?	<input type="checkbox"/>		
Is there a specific SME promotion strategy?	<input type="checkbox"/> ()		
4. Staff			
Number of paid staff?	<input type="checkbox"/> full time:	<input type="checkbox"/> part-time:	
Qualification?:	<input type="checkbox"/> senior:	<input type="checkbox"/> support:	
Tasks assigned to staff?			
Is an organizational chart available?	<input type="checkbox"/>		
How is the staff turnover?	<input type="checkbox"/> low	<input type="checkbox"/> high	
Systematic personnel development plans?	<input type="checkbox"/>		
Salary and benefits (compared to other BMOs)?	<input type="checkbox"/> higher	<input type="checkbox"/> same	<input type="checkbox"/> lower
CEO experienced and well-trained ?	<input type="checkbox"/> ()		
Internal meetings (board and staff members)?	<input type="checkbox"/> (how often:)		

Checklist for Partner Evaluation (2)				
5. Office Infrastructure				
Permanent office?	<input type="checkbox"/> none	<input type="checkbox"/> rented	<input type="checkbox"/> own premises	
Rooms/office space available:				
Office equipment:				
• Typewriters	<input type="checkbox"/> ()		
• Work stations/Computers	<input type="checkbox"/> ()		
• Local area network/Intranet	<input type="checkbox"/> ()		
• Internet and e-mail	<input type="checkbox"/> ()		
• Website	<input type="checkbox"/> ()		
• Conference room	<input type="checkbox"/> ()		
•	<input type="checkbox"/> ()		
Other properties?	<input type="checkbox"/> ()		
6. Membership				
Number of paying members?				
Membership development? (5-year trend)	<input type="checkbox"/> up	<input type="checkbox"/> unchanged	<input type="checkbox"/> down	
Mandatory or voluntary membership?	<input type="checkbox"/> voluntary		<input type="checkbox"/> mandatory	
Membership categories?	<input type="checkbox"/> ()			
Membership fees?	<input type="checkbox"/> admission fee	<input type="checkbox"/> annual fee	<input type="checkbox"/> other fees	
Are fees differentiated by member category?	<input type="checkbox"/> ()			
% of non-paying members				
Concentration on specific sectors/industries?	<input type="checkbox"/> ()			
Concentration on certain regions/areas?	<input type="checkbox"/> ()			
% of SME membership				
% of coverage of target companies				
Membership recruitment/retention strategy?	<input type="checkbox"/> ()			
Membership administration officer?	<input type="checkbox"/> ()			
Membership database?	<input type="checkbox"/>			
Is the database updated regularly?	<input type="checkbox"/> ()			
7. Services				
Trade and market development:				
<input type="checkbox"/> Trade fairs and exhibitions	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Business delegations	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Matchmaking services	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/>		no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
Training:				
<input type="checkbox"/> Seminars and workshops	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Management training	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Technical training	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/>		no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
Advice and consultancy:				
<input type="checkbox"/> Help desk for entrepreneurs	topics:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Consultancy	topics:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Exchange visits and business tours	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Certification and standard setting	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/>	:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
Information and networking				
<input type="checkbox"/> Newsletters	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Annual report	updated?	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Membership directory	updated?	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Business meetings	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Conferences	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Website	updated?:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/>	how often:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free

Checklist for Partner Evaluation (3)				
Office facilities and infrastructure services				
<input type="checkbox"/> Office services	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> IT and Internet access services	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Industrial estate		no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Testing lab	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/>		no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
Delegated government functions				
<input type="checkbox"/> Business registration	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Certificates of Origin	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/> Arbitration services	which:	no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
<input type="checkbox"/>		no. of users:	<input type="checkbox"/> paid	<input type="checkbox"/> free
Are services generating income?	<input type="checkbox"/> ()			
Same fees for members and non-members?	<input type="checkbox"/> ()			
Sufficient cost-accounting procedures?	<input type="checkbox"/> ()			
Staff assigned for individual services?	<input type="checkbox"/> ()			
Are services marketed actively?	<input type="checkbox"/> ()			
Preceding demand analysis practiced?	<input type="checkbox"/>			
Follow-up and evaluation practiced?	<input type="checkbox"/>			
8. Financial Situation				
Is there a trained accountant?	<input type="checkbox"/>			
Are sound accounting procedures in place?	<input type="checkbox"/>			
Frequency of budget follow-up?	<input type="checkbox"/> monthly	<input type="checkbox"/> quarterly	<input type="checkbox"/> annually	
Cash or accrual accounting?	<input type="checkbox"/> cash	<input type="checkbox"/> accrual		
% of income covered by:				
membership fees	%			
service fees	%			
voluntary grants	%			
government subsidies	%			
donor subsidies	%			
Other	%			
% of expenditure:				
staff payments	%			
administrative overhead	%			
service delivery	%			
Other	%			
Overall financial situation	<input type="checkbox"/> bad	<input type="checkbox"/> average	<input type="checkbox"/> good	
9. Advocacy and External Relations				
BMO founded at government instigation?	<input type="checkbox"/>			
Does government appoint delegates to BMO?	<input type="checkbox"/> ()			
Cooperation with government:	<input type="checkbox"/> good	<input type="checkbox"/> average	<input type="checkbox"/> bad	
Is the BMO supervised by public bodies?	<input type="checkbox"/> ()			
Advocacy efforts:				
• joint advisory boards/committees	<input type="checkbox"/> ()			
• regular consultations	<input type="checkbox"/> ()			
• correspondence	<input type="checkbox"/> ()			
• conferences and seminars	<input type="checkbox"/> ()			
• informal contacts	<input type="checkbox"/> ()			
• use of media	<input type="checkbox"/> ()			
• others	<input type="checkbox"/> ()			
Contacts with other BMOs?	<input type="checkbox"/> ()			
Cooperation with donors?	<input type="checkbox"/> ()			
Financial assistance by donors?	<input type="checkbox"/> ()			

Appendix B: Evaluation Form

(Your opinion and feedback are important for us. All information you give us will be treated confidentially.)

Please send back to:

<Name of Chamber/Business Association>

<Street>

<City>

<Telephone/Fax>

I. General Information

1. Name:

2. Address:

3. Phone/Fax: Email:.....

4. Contact Person: Position:.....

.

II. Basic Data on Enterprise

1. Legal Status:

.....

2. Year of establishment:(YYYY)

3. Sphere of Activities: Production Services Trade

Subsector:.....

4. Main products/services: 1).....

2).....

3).....

5. Number of employees:

6. Foreign Trade: Exports: Volume in <year>:.....<US\$ or local currency>

Export country	Product	Share of exports
.....%
.....%
.....%

Imports: Volume in <year>:.....<US\$ or local currency>

Country of origin	Product	Share of imports
.....%
.....%
.....%

III. Overall Performance of <Name of BMO>

(Please rate by ticking the appropriate box (1: not important/satisfied; 10 very important/satisfied))

1. What have been the main reasons for your enterprise to join <Name BMO>?
.....
2. Have your expectations been met?
 Yes No, because:
3. Please rate the overall performance of <Name of BMO> in policy advocacy:

Not satisfied	1	2	3	4	5	6	7	8	9	10	Very satisfied
	<input type="checkbox"/>										
4. Please rate the overall performance of <Name of BMO> in providing services

Not satisfied	1	2	3	4	5	6	7	8	9	10	Very satisfied
	<input type="checkbox"/>										

IV. Policy Advocacy/Interest Representation

(Please rate by ticking the appropriate box (1: not important/satisfied; 10 very important/satisfied))

1. What are the most relevant policy issues for your enterprise?
.....
2. Outlined below are some initiatives of <Name of BMO> in policy advocacy. How effective has <Name of BMO> been concerning the following activities?

	Not effective	1	2	3	4	5	6	7	8	9	10	Very effective
<Advocacy measure 1>		<input type="checkbox"/>										
<Advocacy measure 2>		<input type="checkbox"/>										
<Advocacy measure 3>		<input type="checkbox"/>										
3. What other policy initiatives would you like to see from <Name of BMO>?
.....
4. How do you rate the performance of <Name of BMO> in policy advocacy for the last year? Has improved Unchanged Has deteriorated

V. Services/Events

(Please rate by ticking the appropriate box (1: not important/satisfied; 10 very important/satisfied))

1. In which services or events organized by <Name of BMO> have you participated during the last year?
.....
2. <Chambers/Business Associations> can support their members in various ways. How important are the following activities for your enterprise?

	Not important	1	2	3	4	5	6	7	8	9	10	Very important
Business news		<input type="checkbox"/>										
Legal advice		<input type="checkbox"/>										
Administrative advice		<input type="checkbox"/>										

Technical advice	<input type="checkbox"/>									
Training	<input type="checkbox"/>									
Trade fairs/exhibitions	<input type="checkbox"/>									
Meetings/social events	<input type="checkbox"/>									
International contacts	<input type="checkbox"/>									
.....	<input type="checkbox"/>									

3. Outlined below are some services or events organized by <Name of BMO>. How satisfied are you with the performance of <Name of BMO> concerning the following activities?

	Not effective	1	2	3	4	5	6	7	8	9	10	Very effective
<Service/event 1>		<input type="checkbox"/>										
<Service/event 2>		<input type="checkbox"/>										
<Service/event 3>		<input type="checkbox"/>										
<Service/event 4>		<input type="checkbox"/>										
<Service/event 5>		<input type="checkbox"/>										

4. What other policy initiatives would you like to see from <Name of BMO>?

.....

5. Rate the performance of <Name of BMO> in organizing business services and events for the last year:

Has improved
 Unchanged
 Has deteriorated

Comments:.....

Date: .../.../.....

Annotated Bibliography

General

Bennett, Robert J.: Can Transaction Cost Economics Explain Voluntary Chambers of Commerce?, in: *Journal of Institutional and Theoretical Economics*, 1996, Vol. 152 No. 4, pp. 654-680.

This article stresses transaction costs as a good explanatory factor of the service delivery and interest representation of British chambers of commerce. Representation is found to be the key function with high transaction costs but low capacity to raise revenue.

Gibson, Alan and Mark Havers: *The Role of Small Business Membership Organizations (SBMOs) in Small Enterprise Development*, Durham 1994.

This report presents the findings of a research project about the role of small business membership organizations in small enterprise development. The main aim was to identify ways in which SBMOs can further develop themselves and how donor and other agencies can assist them.

Hallberg, Kristin: *A Market-oriented Strategy for Small and Medium-Scale Enterprises*, IFC Discussion Paper No. 40, Washington D.C. 2000.

This paper investigates the economic rationale for intervention in support of small- and medium-scale enterprises, on both theoretical and empirical grounds. It argues that the justification for SME intervention lies in market and institutional failures which bias the size distribution of firms, rather than in any inherent economic benefits provided by small firms. The role of the state is mainly to provide an enabling business environment that opens access to markets and reduces policy-induced biases against small firms.

Levitsky, Jacob: *Private Sector Support for Small Enterprises – Some Conclusions*, International Small Business Series No. 16, Goettingen 1993.

This contribution is primarily concerned with two related issues: the broad outline of the potential roles of government, commercial service providers and private sector membership organizations in providing services to SMEs, on the one hand, and the discussion of a number of important questions regarding the organizational structure of private sector institutions on the other.

Little, Ian M. D., D. Mazumdar and J. M. Page: *Small Manufacturing Enterprises, A Comparative Analysis of India and Other Economies*, New York, Oxford 1987.

In this classic book on SME development, the authors take a closer look on the relationship between firm size and economic performance in developing countries. Based on case studies of three industries in India, they try to explain changes in size and structure by differences in factor proportions and substitution, technical efficiency, and entrepreneurship.

Meier, Ralf and Markus Pilgrim: *Policy-induced Constraints on Small Enterprise Development in Asian Developing Countries*, in: *Small Enterprise Development*, 1994, Vol. 5, No.2, pp. 32-38.

This article examines the macroeconomic policy framework in developing countries and how it may work against SMEs. The article identifies critical areas of discrimination in

some Asian countries and gives recommendations for the improvement of SME promotion policies.

Müller-Falcke, Dietrich: Confederations of Chambers – Functions, Foundations and Organizational Structures, Singapore 1998.

The author analyzes how confederations of chambers may be organized. Examining in detail the situation in six developed and developing countries, he gives recommendations for the development or reorganization of confederations of chambers.

Pilgrim, Markus and Ralf Meier: A Primer on the Organization and Role of Chamber Systems, Washington D.C. 1995.

The objective of this primer is to give an introduction to different chamber systems, both from developed and developing countries, including a comparative analysis of the structure, status, and range of activities of chambers in selected countries.

ZDH Technonet Asia: The Role of Chambers and Associations in Small Business Promotion – Arguments for Private Sector Representatives, Vol. 1: Textbook, 2nd edition, Goettingen 1995.

This paper gives an overview of the issue of SME promotion and the growing involvement of private sector organizations in it. It demonstrates the importance of small businesses in economic development, evaluates patterns of promotion programs, and clarifies the role that chambers and associations can play in implementing a more effective promotion policy.

Service Delivery

Committee of Donor Agencies for Small Enterprise Development: Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, Washington D.C. 2001.

This working paper provides the findings and work to date of the Working Group on Business Development Services, which was formed by the Committee of Donor Agencies for Small Enterprise Development at its Annual Meeting in Budapest in June 1995.

International Trade Center UNCTAD/GATT: Developing Country Chambers of Commerce, Organization and Services, Geneva 1994.

This study on the organization and services of chambers of commerce and other business organizations in selected developing countries covers countries' organization profile, structure, relations at national and international levels, services offered, and changing policy.

— **International Chamber of Commerce; ZDH Technonet Asia: Chambers of Commerce, Services to Small and Medium-sized Enterprises, Technical Paper, Geneva 1996.**

The study takes a closer look at the role of chambers of commerce in the provision of services for SMEs. It describes different services related to the domestic sector and foreign trade. It also provides recommendations for the introduction of such services.

McVay, Mary and Alexandra Overy Miehlsbradt: Developing Commercial Markets for BDS: Can This Give the Scale and Impact We Need?, Background

Reader, Business Development Services, Second Annual Seminar, Turin, 10-14 September 2001.

This reader gives an overview of the concept of developing service markets for SMEs. Apart from an explanation of the new concept, it includes tools for practitioners, case studies and best practices. Lessons learned and a review of current debates are also presented.

Schumacher, Torsten: *Manual on Income-Generating Services of Chambers and Trade Associations*, 1999.

This practical and practice-oriented manual covers the development of income-generating services by chambers and associations during the start-up phase, particularly in developing countries and the reform states of Central and Eastern Europe.

Wong Chin Yeow: *Manual on Developing and Operating an Information Service for Chambers and Trade Associations*, Singapore 1998.

This manual is intended for officials and staff of chambers and trade associations who are planning to set up a Business Information Center (BIC). It is designed as a step-by-step guide, with special emphasis on how to turn the BIC into a self-financing entity and the need to market the services of the BIC aggressively.

— *Manual on Developing a Training Centre within a Chamber or Trade Association*, Singapore 1997.

This publication is designed to help the staff of chamber training centers develop a systematic approach to training based on the chamber training cycle.

— *Manual on Setting up a Business Matching Service within a Chamber or Trade Association*, Singapore 2000.

This manual seeks to provide know-how on how to operate an effective business matching service. Drawing on the experiences of a number of chambers in the Asia-Pacific region, the manual is a practical step-by-step guide with numerous real-life examples.

Advocacy

Doner, Richard F. and Ben Ross Schneider: *Business Associations and Economic Development: Why Some Associations Contribute More Than Others*, in: *Business and Politics*, Vol. 2 (2000), No. 3, pp. 261-288.

This article examines empirical research on business associations with a broad range of efficiency-enhancing activities in various developing countries. Strong associations, which address crucial development issues, are found to be well organized and staffed. Finally, institutional strength and performance are linked to a number of internal and external factors.

Gray, Thomas A.: *Private Business Organizations and the Legislative Process*, GEMINI Working Paper No. 40, Washington D.C. 1993.

This paper asks how small and medium enterprises in the United States organize themselves to protect their interest before the federal government. The paper concludes that there is no standard form of organization, because a variety of organizations appear to be effective representatives in different parts of the United States and

in different industries.

Moore, Mick and Ladi Hamalai: Economic Liberalization, Political Pluralism and Business Associations in Developing Countries, in: *World Development*, 1993, Vol. 21, No. 1, pp. 1895-1912.

Trends toward economic liberalization and political pluralism in developing countries seem to presage a more active and economic role for business associations. In this context, the article examines the practice of interest representation in developing countries, describing chances and problems alike. The more effective associations are those that are not primarily dependent on membership fees.

Strohmeyer, Roland: Public-Private Partnership in SSI Promotion: An Assessment of the Roles of Chambers and Trade Associations in Different Countries, *International Small Business Series No. 26*, Goettingen 2000.

In many developing countries, cooperative efforts between the government and the private sector are becoming more and more common. The services of business associations for SMEs can be regarded as an important example of public-private partnership. Analyzing the situation in seven different countries, the author identifies the underlying factors, which determine the different role of chambers and business associations in such SME promotion partnerships.

BMO Management

Boleat, Mark: *Good Practice in Trade Association Governance*, London 2001.

This publication seeks to draw together relevant literature on the governance of trade associations as well as the author's own experience, as chief executive of five trade associations and subsequently as a consultant. The book is written from the perspective of a medium-size or large association, but is largely applicable to associations of any size.

Center for International Private Enterprise (CIPE): *Financial Management Handbook*, Washington D.C. 1998.

This handbook on financial management is directed to those responsible for the financial affairs of a nonprofit organization. It is intended to be a source of information on the fundamentals of accounting, budgeting, control of finances, and the preparation of financial reports.

Center for International Private Enterprise (CIPE): *The Virtual Business Association* (www.cipe.org).

The Virtual Business Association is an interactive tool on CIPE's Web site offering a self-diagnostic survey as well as best ideas, sample documents, and resources of five virtual offices of an association (chief staff officer, financial manager, communication manager, membership manager, public policy advocate) The information provided by the Virtual Business Association is free of charge.

Department of Trade and Industry (DTI): *The "Best Practice Guide" for the Model Trade Association*, London 1996.

The Model Trade Association has been developed by DTI in consultation with a wide range of representative bodies in industry and commerce. It sets out the key characteristics that a modern best practice trade association should display and the services it should provide.

Ernstthal, Henry and Vivian Jefferson (eds.): Principles of Association Management. A Professional Handbook, American Society of Association Executives, Washington, D.C. 1988.

This volume familiarizes the reader with the basics of association management based on professional standards. It focuses on financial and membership development.

Center for International Private Enterprise (CIPE): Business Associations for the 21st Century, A Blueprint for the Future, 2nd Edition, Washington, D.C. 1999.

This book is intended to aid executives and voluntary leaders of employers' or trade associations, professional societies, and chambers of commerce who seek to improve their own management effectiveness and design action programs to build stronger organizations.

Schumacher, Torsten: Attracting New Members/Membership Administration, 1997.

Through concrete recommendation, this publication is intended to supplement and expand the basic knowledge of the general principles of membership administration and the various strategies for the attraction of new members to chambers and business associations.

Tan Lan Eng, Judy: Manual on Organizing and Managing Chambers of Commerce and Industry, 2000.

The aim of this manual is to provide chamber staff and active board members with a practical compendium to be used for all chamber operations. It provides insight into the administrative machinery of chambers and the problems that occur in running a chamber, and offers and recommendations on how to solve them.

Notes

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