
RESOURCE – BUILDING AND MAINTAINING BUSINESS MEMBERSHIP ORGANIZATIONS

Building the Capacity of BMOs: Guiding Principles for Project Managers

Andrei Mikhnev, Senior Private Sector Development Specialist, World Bank/IFC Small and Medium Enterprise Department

This resource is an introduction and executive summary of a longer guide by multiple contributors. The full text can be downloaded here: <http://www.ifc.org/ifcext/sme.nsf/Content/Publications>

Introduction

For the purposes of this publication we use the term “Business Membership Organizations” (BMOs), referring to a variety of organizations in which companies or individual entrepreneurs are members. The term BMOs include business associations, chambers of commerce, federation of business associations, employers’ clubs, private sector forums, etc.

BMOs can be a platform for promoting a better investment climate in developing countries. In order to be a strong and reputable representative of the private sector, vis-à-vis the public sector, BMOs should have the capacity to advocate the interests and concerns of their members; be strong organizations with a proper governance structure; and respond to their members needs by delivering required services and information.

From a donor perspective, BMOs are a channel to reach a large number of enterprises. Based on this premise, the World Bank Group's SME Department has been developing activities over the past few years to build the capacity of BMOs as professional advocates and as demand-driven service providers.

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 regional technical assistance programs (Project Development Facilities – PDFs – and Private Enterprise Partnerships).

A combination of human and financial resources of the IFC and its international partners has provided for a number of successful projects aimed at building the capacity of BMOs. Some of these projects are used in this publication as case studies.

This experience, and similar experience from other projects, provided us with extensive knowledge and lessons learned. There was a need to bring this knowledge together in one publication which would also provide task managers of BMO projects with operational guidelines.

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

1. Guiding principles on how to design, implement, and evaluate a project aimed at building the capacity of BMOs to become a strong and reputable representative of the private sector in reforming the investment climate in the developing countries;
2. A reference to key documents, organizations, and other resources in the field of BMO development;
3. Practical cases, which support the relevant sections of the publication;
4. An analysis of typical issues faced by BMOs in developing countries in terms of internal management, service delivery and advocacy; and practical recommendations to solve these problems, with reference to products and services available to cope with and address these weaknesses.

The structure of this guide roughly follows the project cycle: Part A addresses conceptual issues which have to be clarified before the start of a project. It describes the rationale for BMO development projects and gives a short overview on BMO types and systems.

Part B 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 service provision, advocacy and BMO management.

Part C helps to understand the need for measuring results and also provides specific tools for assessing the impact of the donor interventions using an impact assessment methodology.

Finally, part D summarizes the recommendations given earlier coming up with ten basic rules for successful donor intervention. It also elaborates on the way forward and how capable BMOs can play a more substantial role in spurring policy reforms and improving the business environment through public private dialogue.

Executive Summary

1. Support for small and medium enterprises (SMEs) has to be regarded as an integral 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 government and public institutions on the one hand, and private business on the other – with business membership organizations (BMOs) in between.

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 they are intermediary, networking, and self-regulative bodies. This unique combination of strengths makes them an effective tool to increase the growth of a country's firms.

3. By supporting BMOs, donors can reach higher cost-effectiveness as well as greater outreach and sustainability. BMOs can reach out to a large number of firms. They 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.

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.

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.

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.

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.

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.

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.

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.

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 offer only 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.

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.

13. A BMO's service portfolio will be influenced by its capabilities and experiences, the competition and demand in service markets, the necessary financial and personnel resources, and the potential short and long-term benefits. The chosen area and method of service provision will also influence the scope of donor intervention.

14. In introducing new services and reorienting existing ones, 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.

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.

16. The most important ways for BMOs to influence the policy-making process are by using dialogue platforms, direct advocacy, grassroots campaigns, public relations, and lawsuits. Since policymaking is a complex, multilevel process, these activities have to be used in combination to have a significant impact.

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.

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.

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.

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.

21. Donors worldwide are concerned with developing systems of impact assessment which not only provide funding and supervising agencies with information on project results but also convince field staff that monitoring impact is necessary and generates useful information. Impact assessment deals with gathering and analyzing information to ascertain and measure the impact caused by the project.

22. Public Private Partnerships (PPPs) have emerged as one of the most powerful vehicles to conduct dialogue between the public and the private sector with the ultimate goal of fostering policy reforms to improve the business environment in developing countries. There are many ways to create a Public Private Partnership, and the most effective way of creating it will depend on the social, political and economic context of the particular country. This public-private dialogue can take many forms. One of the most common forms used is to engage with an existing BMO in order to pursue the implementation of policy reforms through fostering public-private dialogue.

Presented by:

Andrei Mikhnev, Senior Private Sector Development Specialist, World Bank/IFC Small and Medium Enterprise Department

Andrei Mikhnev is Senior Private Sector Development Specialist in the joint Bank/IFC Small and Medium Enterprise Department. He is currently leading the department's Business Enabling Environment activities. He has been working on a number of projects aimed at improving the business environment for SMEs in the different regions of the world – mostly in Latin America and Sub-Saharan Africa. These projects particularly focus on implementing reforms aimed at improving regulations for doing business. Andrei is also developing a number of practical guides on how to implement reforms in business registration, municipal, business procedures, and business licensing.

Prior to joining the SME department Andrei worked in the Private and Financial Sector Department in ECA region, where as project officer he developed and led projects aimed at private sector development. Specifically, the projects were aimed at privatization, enterprise restructuring, and introducing solutions to advance the private sector in the broader use of knowledge and innovations.