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Background Note

How can private sector organisations contribute to economic resilience in fragile and conflict-affected contexts in the Middle East and North Africa?

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Background note for the MENA-OECD Economic Resilience Task Force

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This background note analyses the role of business organisations in policy-making with a particular focus on fragile states and conflict-affected contexts. The note was prepared as analytical material for the Economic Resilience Task Force, which is part of the MENA-OECD Competitiveness Programme.

This note summarises the potentially valuable role of strong business and professional associations in fragile and conflict-affected contexts, including looking at examples from developing countries. It then looks at the challenges that can limit the role of business associations in fragile and conflict-affected countries. The last section looks at some of the factors that can determine the effectiveness of business associations, functions and the role of governments, donors and other stakeholders.

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Table of contents

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Introduction

Business associations can play a central role in strengthening the private sector and building economic resilience in fragile and conflict-affected contexts. Although they have traditionally been viewed as self-interested organisations in pursuit of rents that do not enhance the broader public good, they can play a very positive role.

Local firms and investors in the MENA region face various daily operational and systemic challenges when doing business. Some of the main challenges identified by enterprises include instability, corruption, unreliable electricity supply, barriers to trade, scarcity of appropriately trained workers and a disconnect between firms and formal financing channels (EBRD et al, 2016, p.6). Businesses have found ways to deal with some of these challenges through workarounds and creative alternatives. Nevertheless, they limit the potential of the economy and, therefore, policymakers and business associations need to address these obstacles.

These challenges are exacerbated in fragile and conflict-affected contexts, and not all firms manage to operate in such difficult conditions. As a result, these economies are often dominated by long-established families or government-controlled. Other challenges include a lack of trust between the government and businesses, with the governments sometimes seen as predatory; atomistic entrepreneurs generally reluctant to collaborate; a prevalence of family-owned SMEs; and limited government capacity to design and oversee business regulation.

Yet, the private sector is expected to be the engine of economic growth, especially in less wealthy countries facing significant population growth and labour market challenges. The challenge of creating income opportunities for new labour market entrants will be insurmountable without a radical improvement in the business environment and the attitudes towards business.

Can business associations play a role in strengthening the investment climate in fragile and conflict-affected contexts? A strong investment climate – including the economic conditions, policies, infrastructure, security and workforce – allows the private sector to perform its function as the engine of economic growth. International organisations and governments spend much energy trying to get this right in low-income countries and situations of conflict and fragility. However, a strong investment climate takes time to build. Indeed, traditional and broad-based investment climate support programmes in fragile and conflict-affected contexts have not been very successful (IEG, 2015, pp.127-32). Business associations can play a fundamental role in improving the business climate and supporting inclusive economic growth and resilience in fragile economies.

1. The potential contribution of business associations in building economic resilience in fragile and conflict-affected contexts

Business associations are organisations where individuals and enterprises that compete with each other in the marketplace come together within a symbiotic structure of collective self-help and co-operation that provides mutual benefits. There are different types of business associations and not a single way to classify them (Box 1). They can be public or private, organised along a sector or more broadly, and have different goals. However, generally speaking, they bring together the private sector – or parts of it – to advance an agenda that goes beyond the interest of the single firm.

Box 1. Types of business associations

- *Employers' organisations*: Although they can be public, employers' organisations typically have developed independently and often as a counterpart to trade unions, usually without regard to industry.
- *Trade associations and chambers of commerce or industry*: They represent entities from specific industries and sectors who are usually competitors in business. They are often public and have a closer relationship to the government.
- *Confederations or leagues of associations*: They reunite several business associations by sector or geography to enhance their negotiating power and interact with government at a senior level.
- *Professional associations*: They represent individual practitioners in distinct professions.

Business associations carry out a variety of functions, including lobbying, government relations and high-level public-private dialogue (PPD). Much of the activity of associations is about delivering business services to members, and the revenue from such activities allows them to be independent and self-sustaining.

In developing economies or fragile and conflict-affected contexts, many firms operate in sectors with limited competition, such as extractive industry export sectors and domestic sectors dominated by large well-connected or monopolistic companies. In such an environment, business associations are less likely to fulfil their role in enhancing and providing public goods. In fact, business associations traditionally have had a bad reputation, accused of seeking distributive rents rather than having a productive and public goods purpose (Amin, 2009, p. 261).

More positive experiences show that business associations have played a positive role in the implementation industrial policies. For example, the Turkish Clothing Manufacturers' Association (TGSD) was created to provide leverage for smaller firms in quota distribution (Doner and Schneider, 2000, p.266). TGSD not only managed the quota system but also policed the distribution of these rents and linked quota privileges to performance. The Korean Federation of Textile Industries (KOFOTI) linked quota operations to its management of a Fund for Textile Industry Modernisation. Other cases such as Bangladesh show how business associations have emerged as effective self-interested industrial groups (Sen, 2015, p.24; Pritchett et al, 2017, pp. 96-128).

Experiences from Mauritius, Zambia and Zimbabwe show that productive state-business relations often emerged where business associations were strong and representative, and had nurtured linkages with the government over time (Brautigam et al., 2002). In Zambia, business associations' members saw productivity increases of around 40%, with lobbying of government as the most sought-after business association function (Qureshi and te Velde, 2007). In Zambia, Ethiopia and South Africa, where business association membership is relatively strong, "lobbying government and information on government regulations are on average the two most important services provided by business associations" (Sen and te Velde, 2008, pp.10-11). Other examples from Sub-Saharan Africa demonstrate the potential that business associations have in contributing to economic policies and building economic resilience (Box 2).

Box 2. Examples of effective business associations

There are many examples of effective business association activities from Sub-Saharan Africa. Some good practices can be drawn from the following countries:

- *Mauritius*: Mauritian business associations can serve as powerful role models. The Mauritius Chamber of Commerce and Industry (MCCI), for example, is highly professional, self-funding and offers many services tailored to the challenges facing different business sectors.*

- *Kenya*: The Kenya Private Sector Alliance (KEPSA) is a proactive confederation of business associations fully engaged in high-level PPD with the government. KEPSA is now working on the third iteration of the National Business Agenda (NBA), which focuses on reforms that benefit a large number of companies such as nuisance taxes. It also offers a wide range of services targeted at business-membership organisations, large companies, SMEs and start-ups.**

- *Somalia*: A "national dialogue" approach is currently being replicated in Somalia, having emerged as part of the National Development Plan consultation in 2016. In addition, the International Labour Organisation is actively promoting an inclusive approach to business association development focussed on women entrepreneurs. In the Somalian ICT sector, the Somali ICT Development Association (SICTDA) is a non-governmental, non-profit association aiming to promote ICT applications in all aspects of life to accelerate development. The sector is currently highly unregulated and SICTDA, working with the International Telecommunications Union (ITU), is helping to design a regulatory regime that can oversee the sector and SICTDA members. ***

* For an overview of all services offered, see: www.mcci.org/en/membership/why-join-the-mcci/
** See KEPSA Blog, March 2018 on NBA III: https://kepsa.or.ke/kepsa-members-converge-to-validate-the-third-national-business-agenda-nba-iii/. Victor Owuor (Owuor, 2015) has used his experience of Kenya to inform advice to Somalia through Shuraako, a programme of the One Earth Future Foundation. See www.shuraako.org and www.oneaarthfuture.org
*** See https://somaliampf.net/files/Somalia_Public_Private_Dialogue.pdf. See also Owuor (2015); https://www.ilo.org/addisababa/countries-covered/somalia/WCMS_229817/lang--en/index.htm; https://www.itu.int/en/ITU-D/LDCs/Documents/2017/Country%20Profiles/Country%20Profile_Somalia.pdf

In some countries, for example Rwanda and Zambia to different degrees, the government implements pro-business private sector development policies without involving business associations. This is not necessarily positive nor sustainable in the long term (Brautigam et al, 2002; Taylor, 2012). Governments need to recognise the value of business associations and engage in a dialogue with them. In Singapore, a combination of government encouragement and proactive leadership laid the foundations of strong business associations and PPD.[1] Overall, business associations can contribute to economic development and to achieving the Sustainable Development Goals (Box 3).

[1] See for example: http://eresources.nlb.gov.sg/history/events/c14b26b8-0085-45fa-8da4-92630915aad2

Box 3. Development impact of business associations on the Sustainable Development Goals (SDGs)

The activities of inclusive business associations can contribute to the achievement of the Sustainable Development Goals (SDGs). Four areas of contribution stand out:

SDG 5: Gender Equality: Women-owned businesses are often discriminated against in legislation and women invariably value mutual support and mentoring as they seek to expand their business. Business associations allow both of these avenues to be addressed and give a stage to strong female leadership.

SDG 8: Decent Work and Economic Growth: Business associations can improve the opportunities for new entrepreneurs and businesses, offering the skills and services to create additional income and remove the barriers to participating in the economy.

SDG 9: Industry, Innovation and Infrastructure: Business associations give a voice to the needs of smaller entities that, otherwise, go unheard; they help build sectors and value chains and propagate new ideas and solutions.

SDG 10: Reduced Inequalities: Lobbying and capacity building activities of business associations can help reduce inequalities through a more level playing field and new income opportunities for excluded groups.

2. What can limit the positive role of business associations in fragile and conflict-affected contexts?

The involvement of business associations in public-private dialogue in developing countries, and even more so in fragile and conflict-affected contexts, is not exempt from challenges. To start with, some factors can hinder the creation itself of business associations (Owuor, 2015, p.10) including:

- *Lack of trust amongst stakeholders – amongst firms and between the private sector and government*. This trust has to be built; donors and NGOs can act as honest brokers.
- *Lack of a business association's mentality.* Aid dependence often does not help, since there is a "feeding frenzy" rather than a focus on constructive business associations' activities.
- *Achievement of sustainability*. This depends on passing a threshold of membership that believes it benefits from the association's demand-driven programmes and services, as well as advocacy activities with the government.
- *Establishing a new democratic, horizontal management style*. Contrasting with the vertical style of management in command-and-control regimes.

Another type of obstacle relates to how much interest a business association may have in dedicating its resources to taking an active role in policy-making, because these sorts of activities do not generate the service-side revenues that are needed for the association to be independent and sustainable. In their absence, support from donors is often needed to sustain the functioning of the business association.

Perhaps the biggest challenge is the structure of a country's private sector and the predominance of different types of firms. Generally speaking, firms in fragile and conflict-affected contexts face no or little competition and have few incentives to be part of a business association, let alone to lobby the government for policies that level the playing field (Box 4). The private sector in many fragile and conflict-affected contexts is dominated by large, well-connected companies that oppose the inclusion of other associations – especially those representing SMEs – in the dialogue process.

Box 4. Types of firms and interest in business associations

The incentives of businesses to participate in PPD processes can be partly explained by their nature (Pritchett, 2017, pp.21-2). "Rentiers" and "Powerbrokers", which face limited competition, have limited interest in being part of business associations as far as their own businesses are concerned, but may be interested in the expansion of the larger economy (Table 1).

Table 1. Categorisation of private sector in MENA

	Minimal competition (small number of large, powerful firms; regulatory rents)	**Market competition** (potential multiplicity of firms)
Export-oriented	**Rentiers** e.g. extractive exporters	**Magicians** e.g. manufacturing and service exporters (incl. tourism)
Domestic market	**Powerbrokers** e.g. legislative monopolies, large well-connected firms, government service markets	**Workhorses** e.g. domestic market sectors with many small or micro businesses: traders, retailers, famers; domestic ICT and small service sectors

Source: Adapted from Pritchett and Werker (2012, p.53) and Pritchett et al (2017, pp.21-2).

"Magician" firms, meanwhile, compete in global markets and must create a market from nothing. They can derive significant benefits from government support to negotiate and open export markets, create a national brand, set internationally recognised product standards, set up a conducive and collaborative business environment, and so forth. Business associations helped "magician" firms in Asian manufacturing sectors prosper.

"Workhorse" firms are generally small or micro businesses operating in domestic markets. Business associations can be invaluable for these firms in a world where deals are the norm, where rules and regulations are opaque, and where the "missing middle" needs for a fertile seedbed for new businesses. Business associations can lobby for changes to rules and regulations that impede their growth, access to knowledge and skills that can help them grow, and certify their skills and products in domestic and foreign markets.

Business sectors across the MENA region are dominated by incumbent business elites and, as a result of long-established state-business relations, resist the entry of smaller, newer firms (World Bank, 2009, pp.187-91). Many business associations are either government-controlled or dominated by large prominent firms that favour the status quo over more broadly beneficial growth-oriented reforms. The "new" private sector of recent entrants and smaller firms is not well organised to advocate for change and, in some countries, there are restrictions on establishment. A survey in 2007 found that the main policy agendas of many MENA business associations focused on obtaining incentives and subsidies for their members, with a considerably narrower priority than those expressed by the majority of enterprises (World Bank, 2009, p.189, Table 8.2).

Nevertheless, some MENA countries have developed broad, strong and active business associations that play a key role in policy-making. For instance, employers organisations in Morocco and Tunisia play a more important role in economic policymaking and are often integrated in formal Public Private Dialogue mechanisms and in public economic institutions. For instance, in Tunisia, the *Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat* (UTICA), played a critical role in the recent economic, political and social transition, for which it received Nobel Prize award in 2015. The CGEM is also highly influential in economic policymaking, representing the private sector in the House of Councillors and sits on the board of key socio-economic institutions including government agencies, state-owned enterprises and universities.

3. A framework to develop effective business associations

Business associations develop "when the collective needs of their members outweigh competitive conditions". In other words, they will only arise and remain sustainable if there are net benefits from membership. There are different types of functions that business associations typically serve. A set of factors determines whether a business association is effective or not. Additionally, governments and donors can play a role in the creation or strengthening of business associations.

Functions

Two main functions of business associations are of particular importance to smaller firms, whether export-oriented or operating in the domestic-market. First, there is the **"government-business relations"** function, also referred to as the "logic of influence" (Owuor, 2015), which is a two-way relationship with several dimensions. Business associations can:

- Lobby governments for reforms benefitting members, in particular regulatory reforms that level the playing field.
- Help governments prioritise and design reforms that will strengthen the private sector and help generate equitable economic growth.
- Deliver information from governments to members, explaining, for example, the details and advantages of new rules.

Business associations' role in directing reforms to strengthen the private sector is especially important in contexts of fragility and conflict – where the government is often weak and faces multiple competing demands, pitting the business environment low on the list of priorities.

Second, there is the **"member services"** function. The "logic of services" is about what individual benefits members can receive from their associations (Owuor, 2015, p.2). These also include "market complementing" activities (Doner and Schneider, 2000, pp.162-3) to make up for imperfect and costly information, low public investment in training, and so on. Some examples of member services include:

- legal advice, training and capacity building
- industry promotion, such as trade missions

- market information
- training and capacity building
- coordination amongst members
- dispute settlement.

Preconditions

Effective business associations tend to be non-governmental initiatives led by firms. They are organised on market principles and they are self-funded and self-governed (Owuor, 2015, p.3).

Since strong business associations should strive to be self-funded and offer value for money to their members, services need to be provided alongside the government-relations function. The government-relations function, for example, faces the free-rider challenge, and waxes and wanes in its perceived value (periods of quiet between major legislative breakthroughs). Services, meanwhile, are very specific benefits that a member can see and give value for money on a daily basis.

Key necessary conditions for businesses associations to emerge and be effective in their activities are:

- *Capacity*: They need institutional strength to be effective, embody high member density, and provide valuable services and administrative efficiency to organise and gather/access information.
- *External push forces or threats*: This may be the economic vulnerability of firms (to external competition), or conversely the need or opportunity to access external markets. Moreover, it may be the need to collectively resist or respond to state enforcement (Doner and Schneider, 2000, pp.162-3).
- *Provide value*: Business associations must grow to offer services that are valuable to their members. As they build these services, support from donor organisations, NGOs and other sources may be important, while avoiding "aid dependency".
- *Support from government*: Governments must be supportive of the effort and grasp the value of an inclusive business association landscape. Again, donors and NGOs can play an important role here.

The role of governments, donors and other stakeholders

Governments need to take ownership of the public-private dialogue (PPD) process and the involvement of the full range of private sector interests. Involving SMEs in the process is particularly critical for broad-based economic growth and the creation of income opportunities and jobs.

Donor organisations can play a critical supportive role in all areas, but must take care to avoid promoting "aid dependency" and the dangers of unsustainable business associations. In particular, donors can share good practice on high-level PPD.[2] They can also support structural capacity building of business associations' functions and the development of member services. These could involve building the capacity to address business management and technical advisory needs identified by members. Professional qualification related services, where associations have an incentive to gravitate

[2] The World Bank manages the www.publicprivatedialogue.org programme that has now been monitoring and supporting high-level PPD worldwide for a decade.

immediately to international standards, could be supported effectively. Professional accountancy standards are a good example.

4. Conclusion

Business associations can play central role in the emerging business ecosystem of fragile and conflict-affected contexts. It is critical that they are inclusive of SMEs and underrepresented groups, such as women-owned firms and young entrepreneurs. In addition, it is crucial that governments engage in PPD processes in a comprehensive way. Alongside a valuable government relations role of business associations, they must build a strong membership base and offer services that are demand-driven and make the organisation sustainable over the medium term.

The recommendations offered in this note provide some basic guidance on how to build strong, effective, and sustainable business associations that will contribute to the economic resilience of their countries.

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