BUSINESS ASSOCIATIONS IN DEVELOPING COUNTRIES

Summary:
Cooperation between government and business generally contributes to better policy making and improved economic performance. Business associations can play a key role in facilitating this process, as experience in a growing number of developing countries shows. But there are lessons to be learned on how governments can best promote open and constructive dialogue with business, and avoid unhealthy power struggles. Both governments and aid donors can contribute to strengthening business associations, though care is needed. The wrong kind of support can undermine their independence and do more harm than good.

Business associations are booming
In many developing countries, the business of representing business is thriving. Increasingly, business associations are being invited to participate in official meetings, and are being consulted by government. More firms are becoming members, new associations are being created, and both old and new associations are finding new ways of serving their members. This follows a period of neglect, when government showed little interest in talking with business associations, and firms were reluctant to pay their membership dues.

There are two main reasons for this resurgence. One is that policies of structural adjustment and economic liberalization have brought the private sector back into political favour. The other is that thinking on government-business relations has been influenced by the example of some of the more successful industrial economies, notably Japan and Germany.

In Japan and Germany, cooperation between government and business associations is generally very close - much more so than in the USA or the UK. Japanese and German business associations have been encouraged to get involved in policy making. Sometimes they have also implemented programmes on behalf of government - such as new research and development projects, or quality controls on exports.

Different types, different roles
Business associations are very diverse. They range from large, well-resourced national organizations, to small operations run by a single, unpaid coordinator. The most common categories are:

- Trade associations representing a single sector, organized locally or, more often, nationally;
- Chambers of Commerce representing the private sector within a specific area;
- Umbrella associations that are federations of smaller bodies, organized nationally to deal with government;
- Employers associations, normally organized at the national level.

Business associations are numerous, though precise statistics are rare. In most countries there are many more business associations than trades unions. In Taiwan 239 national level associations were registered in 1991. Uganda currently has 40 national business associations, and Sri Lanka about a hundred.
Cooperation between government and business associations always involves certain tensions. There are no perfect solutions. Experience from around the world does provide, however, some broad lessons on how a constructive relationship can be forged.

Close contacts

Close contact between government and business associations is desirable. But relations need to be open and transparent, otherwise suspicions and misunderstandings can arise.

The worry is that if links are too close this will give too much power to the individuals and associations involved. They could influence government policy unduly, or gain access to valuable confidential information. Going to the opposite extreme also has its dangers. If there are no established links with business associations, a few individuals and companies may gain the ear of government and exercise even more private influence.

So called 'business clubs' are a case in point. A number of countries that have adopted this practice, originating in the United States, whereby the Head of State meets regularly, often over a meal, with a small group of people representing, on an individual basis, large firms and enterprises. The attraction to government is that this provides direct interaction with the most influential decision makers in business, sometimes cutting out business associations entirely.

Such an open marriage of political power and big business can provoke adverse reactions. It gives big business better information about governments' thoughts and intentions, and may put them at an unfair advantage compared to the rest of the private sector.

On balance, formal and open dialogue between government and business associations has proved a better and fairer option. Regular consultation helps build trust between the two sides. Politicians and public servants gain a better understanding of the business point of view, and business is more likely to appreciate what government is attempting to do, and why. The two are then more likely to cooperate in the national interest.

An important test case has been in the planning of structural adjustment programmes, an area where business might be expected to resist reform measures in order to protect their special interests. In fact, experience has been the opposite. In countries as diverse as India, Zimbabwe and Mexico, business associations have worked with government to plan, promote and implement structural adjustment. They helped to decide the timing and sequencing of various trade liberalization measures to give local industry the best chance to adjust, and encouraged individual firms to plan ahead for changing economic conditions, including increasing competition from imports.
Who to consult

In arranging consultation with business associations governments face a dilemma. If they permit any organization to come to them directly claiming to represent business, they will be drowned in a babble of contradictory voices. Different sections of business often have conflicting interests. For example:

- importers want the exchange rate to appreciate to make their goods more attractive to local consumers; exporters want devaluation to increase the value of their foreign sales;
- producers of high quality electric cable are keen for the government to impose and increase minimum safety standards; producers of low quality cable are opposed.

If every firm or association has direct access to government, there is no pressure for business to resolve its own internal differences. It creates overload for government, and makes effective consultation very difficult. This is what happens in many countries much of the time.

At the opposite extreme, if governments declare that they will only deal with a single umbrella association that represents the whole private sector, the situation can be equally problematic. Firms, associations and individuals will compete heavily among themselves to control this body. Those who fail will feel little commitment to the arrangement. And the officials of the umbrella association, once entrenched in position, may feel little pressure to serve and represent their members, and be more concerned to keep in favour with government.

Governments sometimes use such monopolistic arrangements to try to exercise political control over the private sector. The Nigerian Government, for example, introduced in 1988 the notion of the ‘organized private sector’. In order to get business to speak with one voice, it was decided that the President or Vice President would chair regular meetings at which the private sector would be represented only by the three largest business associations. One of them, the Nigerian Association of Chambers of Commerce, Industry and Mines (NACCIMA), was given the status of lead organization. There was, however, a long history of rivalry between business associations, including between NACCIMA and another of the ‘chosen three’, the Manufacturers Association of Nigeria. This attempt to impose a monopolistic order simply did not work.

The solution lies somewhere between these extremes of monopoly and complete openness. Governments can only talk effectively with a limited number of associations. However, they also need to listen to a diversity of voices and to permit a certain degree of rivalry and competition between associations. Competition - the knowledge that member firms have the option of changing to another association - helps to keep associations alert and effective and ensures that they continue to serve their members. It also encourages them to watch each other, and thus limits the possibility of improper or corrupt linkages being established between association officials and public servants.

A workable compromise arrangement will normally operate at two levels. Individual government agencies will interact with a few associations dealing with their subject - for example, the Department of Shipping might liaise with the National Association of Shipping Agents, the Freight Forwarders Association and the Maritime Transport Association. When government needs to consult with business in general, an effective device is to organize a regular forum in which a limited number of larger and more authoritative associations have a place.

Such an arrangement provides the separate associations with a strong incentive to try to resolve their differences among themselves before they meet with government. If they fail to do so, their collective voice will be less effective. To ensure fairness, the question of which associations should have a seat in this kind of forum should be reviewed periodically. Governments need to bear in mind that larger companies normally have more influence on
business associations than do small companies. Governments should therefore encourage associations to recruit and effectively represent smaller companies. If there are some associations that only represent small business, this is a good way of encouraging other associations to pay attention to this constituency.

The role of politicians

Any effective dialogue between business and government requires political support. For the process to be taken seriously, senior members of government need to preside over important meetings - the Industry Minister might chair sessions of an Advisory Council on Industry, for example, and the Finance Minister chair top level meetings of a National Business Forum. But these are the exception. In general, it is better if most of the dialogue is conducted with public servants rather than politicians.

One reason is that most of the issues raised by business are relatively technical, and require the attention to detail that politicians cannot normally provide. Another is that effective government-business interaction requires developing long term relationships of familiarity and trust between individuals representing both sides. Politicians frequently change posts, while public servants tend to be more permanent.

Serving their membership better

As well as negotiating with government, business associations can provide a wide variety of services to their members, frequently on a commercial basis:

- organizing seminars, exhibitions and trade fairs;
- providing information and library services;
- adjudicating on contracts, and arranging specialized legal advice and representation;
- certifying documentation and product quality;
- providing secretariat services for smaller associations unable to afford their own staff.

In the current climate of economic liberalization, opportunities to develop such services are greater than ever before in many countries. For business associations, this has a number of attractions. It permits them to employ more qualified professional staff. It enhances their general credibility with government and potential members. And it provides them with a relatively secure source of income, and thereby greater independence.

Maintaining a degree of independence is important. Direct government subsidy to business associations undermines this, and should be avoided. But government can play a positive role by transferring potentially commercial services from the public to the private sector. Trade fairs, for example, need not be organized by a government department. The contract to manage them can be offered on tender to business associations. Governments can encourage aid donors to do the same thing in relation to the management of projects, such as small enterprise development programmes.

Bringing trades unions in

The case for consulting with organized business applies equally to organized labour. Trades unions are on the defensive worldwide. They have lost membership and political influence, and are still widely viewed as obstacles to economic reform. In many developing countries, it is only public service trades unions that retain much influence. Many trades unions also feel besieged, and treating them as hostile opponents will encourage them to behave accordingly.

Some countries have taken a more positive approach to trades unions. In Germany, for example, trades unions have a statutory seat on the supervisory boards that oversee the affairs of large companies. They have generally behaved responsibly, and contributed to increased productivity. In Australia, trades unions cooperated closely with
government at national level in the 1980s to introduce market-oriented economic reforms. And in Sri Lanka, a new Workers' Charter has been introduced with the backing of the Employers' Federation. This requires employers to recognize any trades union that represents a significant proportion of the company's workforce.

Many developing countries have learned that, if consulted and given responsibility, business can cooperate in economic reform, even where this involves some short term sacrifices. Trades unions are likely to respond in the same way - as the example of South Africa shows (see Box).

What can aid donors do?
Some aid donors have been giving direct financial and other support to business associations. This is justified on a limited scale and for a limited period of time. But it can also be counter-productive.

Effective business associations are able to obtain resources from their members. If members are unwilling to pay, this is strong evidence that the association is not meeting members' needs. So there is no real case for permanent subsidies. High levels of aid only divert business associations into unproductive competition with each other to win donor support, and some business associations may be established with this as their primary aim. Certainly, donors risk doing more harm than good if they attempt to pump in large amounts of aid.

Aid donors can, however, give positive support to business associations, especially by assisting them to develop the technical competence needed to help their members become competitive in international markets. Taking the leather industry as an example, providing training and technical assistance in the technology of leather tanning, or the international marketing of leather goods, would be two options. Such support is best if it is given for a fixed period of time on the understanding that, if felt valuable, the association will fund its continuation. And it is good practice if support can be awarded in an open, competitive way. In the leather industry case, donors may be able to identify two associations potentially able to implement a training scheme - say, a Leather Industry Association and a general Manufacturers Association - and award the contract to the most promising.

Government, business and labour in South Africa: a new model of cooperation
New forms of cooperation between government, business and labour have been pioneered in South Africa since the election of the new Government of National Unity in April 1994. These centre around the National Economic Development and Labour Council (NEDLAC), which provides a forum for top level consultation between the government, business and organized labour.

The 18 largest business associations in South Africa are represented in NEDLAC. But business associations have also organized themselves into a separate forum called Business South Africa. This enables them to bargain and coordinate among themselves before entering into negotiations with government and organized labour.

So far, NEDLAC has proved very effective. From it a new Labour Relations Act has already emerged. This establishes a series of negotiation fora and procedures, at national, industry and plant level. These deal separately with the key issues of wage bargaining, and economic restructuring to meet the increased competition faced by local industry because of economic liberalization.

Further reading

Messner, D., 1993, 'Shaping industrial competitiveness in Chile. the case of the Chilean wood processing industry', in K. Essner et al. (eds.), *International Competitiveness in Latin America and East Asia*, London: Frank Cass