CHALLENGES AND OPPORTUNITIES FOR GIVING VOICE AND PARTICIPATION TO ENTREPRENEURS IN BUSINESS ENVIRONMENT REFORM

With Case Studies from the International Labour Organisation

David James Lamotte
Matthias Lesego Herr
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EXECUTIVE SUMMERY

This paper supports the proposition that increasing the participation of small enterprises in reforming the business environment is important for two reasons: a) It helps policy makers address the real problems and needs of small enterprises, and b) reforms are more likely to be implemented if those whom they concern are involved in their formulation. Viewed from this point, representative organisations, such as business associations and trade unions, take in an important role as intermediaries between government and small enterprises: On the one hand they represent the interests, needs and aspirations of their members and advocate these vis-à-vis the government and its administrations; on the other hand they are best suited to provide information and advice on new laws and regulations from the government to their members, apart from other business development services they provide. The flow of communication when giving voice to representative organisations therefore goes in two directions – as input to the reform process and as output.

The challenges faced in giving voice and participation to small enterprises in business environment reforms are twofold. Firstly, some of them concern the general democratic framework: Allowing representative organisations to take part in political decision-making processes is a systemic issue, in which government institutions and policy makers at different levels have to rethink their interaction with the people that their reforms are targeting at. Good governance depends on a democratic feedback process – in form of elections and participation of intermediary institutions and organisations. Free media is in this regard essential to ensure that reaction to policy decisions is articulated and redirected as input to further decision-making, and that stakeholders can express their interests and participate already during the process of reform formulation. In other words: the participation of small enterprises in the process of formulating reforms of the business environment, will more likely produce results that are closer to the needs of the stakeholders, and are much more likely to be accepted by them if they have been involved.

The second set of challenges are specifically related to the participation and representation of small enterprises, and are numerous and varying from country to country. In many developing countries, small enterprises are not at all organised into representative groups. This could be due to the fact that they might not perceive the benefits of joining such organisations, or that they do not feel their interests reflected
appropriately in existing organisations, or that the small enterprises themselves are not a homogenous group in itself, or that poor management and technical capacity simply doesn’t allow them to participate. These specific challenges faced by small enterprises can be overcome by a) Organising small enterprises into associations and getting them involved in policy decision-making processes, and b) strengthening private sector representative organisations to reach out and give voice to small enterprises.

The paper provides some practical examples on how the challenges in giving voice and participation to small enterprises in business environment reforms can be overcome. International development agencies can play a vital role in addressing specific challenges of small enterprises as well as challenges regarding the larger democratic framework: In connection with the media they can advocate for deeper democratic reforms including the decentralisation and development of democratic local governance; They can help building up the capacity of government officials to implement and integrate technocratic and participatory decision-making processes; They can support private sector representative organisations to reach out and give voice to small enterprises; They can provide information about innovations and good practices from elsewhere in the world; They can facilitate relationships between different stakeholders.

The purpose of this paper is not to provide an answer on all related questions to participation and representation of small enterprises, but to stimulate a debate on how small enterprises can be given a greater share in the formulation of business environment reforms. Much work still needs to be done on this field.
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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>ADR</td>
<td>Alternative Dispute Resolution</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<tr>
<td>DFID</td>
<td>United Kingdom’s Department for International Development</td>
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<td>ICA</td>
<td>International Cooperative Alliance</td>
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<td>ICFTU</td>
<td>International Confederation of Free Trade Unions</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IOE</td>
<td>International Organisation of Employers</td>
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<td>MIF</td>
<td>Multilateral Investment Fund</td>
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<td>MSE</td>
<td>Micro and Small Enterprise</td>
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<td>MSMEs</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>PRS(P)</td>
<td>Poverty Reduction Strategy (Papers)</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>SBA</td>
<td>Small Business Association</td>
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<td>Sida</td>
<td>Swedish International Development Agency</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<td>SMEDA</td>
<td>Small and Medium Enterprise Development Authority</td>
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<td>SEED</td>
<td>Small Enterprise Development (ILO Department)</td>
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<td>SEMA</td>
<td>Small Enterprise Media in Africa</td>
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<td>SRO</td>
<td>Sub-Regional Office (of the ILO)</td>
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<td>SYNDICOOP</td>
<td>Syndicates and Cooperatives (an ILO Department)</td>
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1 INTRODUCTION

In many developing and transitional countries, the business environment remains unfavourable towards the development of the small enterprise sector. This is despite the crucial social and economic importance of these enterprises, in terms of both employment they provide and their contribution to Gross Domestic Product.

Considering the importance of small enterprises, it is necessary to develop and strengthen institutions, procedures and legal frameworks through which small enterprises and workers can participate in the formulation of business environment reforms. Giving voice and participation to small enterprises can help overcoming the constraints they face in their daily business operations as well as to enable a smoother flow of business procedures. Creating an enabling business environment is an important step towards ensuring conditions in which small enterprises can easier grow and create decent work (Dyring and Goedhuys, 2004). However, it cannot be done without the participation of the main stakeholders.

This short paper argues from both theoretical and practical perspectives that one of the key constraints to the reform of the business environment for small enterprises is the lack of stakeholder participatory efforts in the reform process. The paper concludes by identifying key roles that international development agencies can play in promoting and supporting the adoption of more participatory processes in the reform of the business environment for small enterprises.

2 CHANGING VIEW TOWARD AND THE BENEFITS ATTRIBUTED TO STAKEHOLDER PARTICIPATION IN POLICY REFORM

During the 1980s and 1990s, a commonly held view in the policy reform literature was that societal participation in policy formation undermines reform prospects. It was then argued that, the more interests are involved in the policy process, the less reform will
take place as the various potential losers distort, dilute, or siphon off reform initiatives. (Morrison/Singer 2004: 1-4)

This view gave rise to technocratic approaches to decision making. Technocracy (or the technocratic approach) being defined as the application of technical knowledge, expertise, techniques, and methods to problem solving. Policymaking was increasingly restricted to “technocrats”, or those with highly technical knowledge and expertise whose decisions are unconstrained by political processes. Technocrats tend to work in those executive institutions of government that are the most insulated from public pressure, and therefore the least democratically accountable — such as central banks, and finance and trade ministries.

Strong arguments can be made in favour of a technocratic decision approach. A key argument is that trained staff "experts" are best suited to make complex technical decisions. However, technocratic styles of decision-making have been shown to pose problems for democracies. They distort structures of accountability, making governments more answerable to multilateral agencies and investors than to representative institutions or the public at large. Such styles of policy-making also affect responses to employment and social protection, poverty eradication and conflict management (United Nations Research Institute for Social Development, 2004).

In recent years, there have been increasing calls for democratic decision-making, which is based on the assumption that all who are affected by a given decision have the right to participate in the making of that decision. Participation can be direct in the classical democratic sense, or can be through representatives or advocates.

While the integration of the technocratic and democratic approaches, has posed significant challenges for policy makers, today it is widely accepted that successful and broad based participation in policy reform is strongly linked to creating an enabling political environment with increases in accountability, transparency, openness, and responsiveness to demands from a wider range of societal groups. For example, the Poverty Reduction Strategy (PRS) initiative of the World Bank and International Monetary Fund are meant to be prepared by governments through a participatory process involving civil society and development partners. Similar call for increased participation of stakeholder at both the project and policy levels can be found in the concept of ‘making markets work for the poor’, which have been adopted by a number of multilateral, and bilateral aid agencies (e.g. United Kingdom’s Department for
International Development (DFID), Asian Development Bank (ADB) and Swedish Agency for International Development Cooperation (Sida)).

Participatory policymaking carries participation beyond the framework of projects and programmes to the arena of policy processes. It implies the empowerment of stakeholders to take part in the whole cycle of the policy process: formulation, implementation, monitoring and evaluation of policy. In practice, however, participation in policymaking can also be at different levels and in different forms (e.g. the continuum of participation used by the World Bank for the poverty reduction strategy (PRS) process). A continuum which addresses these different levels of participation could include the following:

- **Information sharing** (or gathering) is at the passive or shallow end of the participation scale. This may involve disseminating information about an intended program or asking stakeholders to give information that will be used by others to help plan or evaluate a project or other activity. In both cases, communication is one-way rather than interactive.

- **Consultation** refers to people being asked for their opinion to a plan or proposal. It involves a two-way flow of information between the coordinators of the consultation and the public. Typically, those being consulted are not involved in the definition of the problem and the coordinators of the consultation are under no obligation to take account of the feedback.

- **Collaboration** and joint decision-making involves stakeholders being invited to meet a predetermined objective. The initiator/s, identifies the problem or issues to be discussed, and calls a group to collaborate on that topic. Stakeholders do not initiated the collaboration, but they significantly influence on the results.

- **Initialisation** of a demand by stakeholders (through intermediary organisations), calls e.g. for the change of a law and subsequently passes over the initiative to other actors such as policy makers, development agencies or administrations. These actors will then in close collaboration with the stakeholders develop and implement solutions.

- **Empowerment** refers to the transfer of control over decision-making and resources to stakeholders. Stakeholders through their representative
organizations, accept increasing responsibility for developing and implementing actions that are accountable to group members.

The literature ascribes many benefits to increased stakeholder participation in policy reform including the following:

- **Information and ideas on public issues** - Bringing major stakeholders into negotiations over reforms means those governments can gain access to specialized information they possess, enabling better targeting of some reforms.

- **Public support for planning decisions** - Broader based decision-making can improve national "ownership" of difficult reforms. An increased level of stakeholder participation serves to encourage government officials to publicly commit to desirable policies and their implementation. This can help to generate commitment and ownership for reform implementation, and build a basis for accountability.

- **Avoidance of protracted conflicts and costly delays** — Excluding important social groups from the bargaining can lead to the later disruption of reforms. Groups will seek to have their voices heard one way or another. When governments failed to include key stakeholders in reform negotiations, the neglected groups tended to disrupt, often violently, the implementation of those reforms.

- **Reservoir of good will which can carry over to future decisions** — Reforms that are based on compromises from all major stakeholders tend to reinforce feelings of fairness and equity that are important underpinnings of social capital and trust.

- **Sustainability** — A more inclusive approach involving consultation with affected groups affects the sustainability of policies and improves the prospects for their design and implementation.

Thus in summary, increasing the involvement of the stakeholders will lead to better decisions and decisions that are more likely to be implemented.
3 PARTICIPATION AS A KEY CHARACTERISTIC OF DEMOCRATIC DECISION-MAKING AND REFORM

The process of coming to a decision is integrated into a complex mechanism of cause and effect: political outcomes provoke reactions, which again feed (inputs) into the decision-making process.

On the level of society, feedback into the decision-making process is given in form of elections that take place in regular intervals in most countries. The votes of the citizens are an instrument of expressing contentment or discontent with a given policy. Any democratic elected government has to consider this if it wants to be re-elected. Intermediary polls (with no formal consequences) are a way for the government to reassure itself, that it is on the right track. In this view, political competition of parties plays a crucial role in putting the government under pressure to react to the needs and opinions of the people, because it knows, that there is an alternative party, ready to take over power.

Whereas elections (national and local) occur only every three to five years, and polls only indirectly influence the decision-making process, participation on the meso-level is more relevant and connected to actors with varying influential powers. Intermediary organizations that represent the interests of their members try to give these interests a voice within the process of political decision-making. Schematically, this mechanism is shown in Figure 1 (Merkel, 2003).

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Figure 1 Political decision-making process
3.1 Role of key actors

3.1.1 Legislative branch of government

The legislative branch is the principal representative branch of a country’s governing institutions. In democratic countries, it is the forum by which people’s concerns are voiced in the governing of a country. The role of a legislative branch is generally associated with law making, representation, and oversight.

Legislative work is often done in Committees or Commissions, where new laws and regulations are discussed amongst delegates of the parties that are represented in the parliament – not in the plenum itself. Many parties have selected members that cover a certain policy area (e.g. health, foreign affairs, finances etc.) and who are delegated to represent their parties in topic-specialised commissions and meetings. These commissions, especially the members of the larger parties, are subject to intensive lobbying from diverse private sector groups. In decentralised countries with regional parliaments and local city councils, lobbyists will find it easier to articulate the interests of their clients.

There is much discussion as to whether these groups undermine democratic decision-making processes. Especially lobbyists representing larger and influential companies are seen as creating an imbalance in the participation of different groups in the democratic decision-making process. However, there is also agreement that politicians rely on technical input from these groups in the formulation of new laws and regulations, thus making an integrated technocratic and participatory approach necessary.

To overcome the imbalance caused by overrepresentation of large and influential companies, it is important to give voice and participation to small enterprise groupings that represent the majority of economic activities in many developing countries.

3.1.2 Judicial system

Access to justice is essential to establishing an environment in which stakeholders will participate in political decision-making. Citizens need to know that decisions and laws will be enforced and that the administration of justice will be fair. In addition, the justice system needs to provide equal access to the most marginalized in society. A functioning judicial and legal system is therefore an essential part of a complex system of checks-and-balances, in which it controls the executive and legislative branch; it is essential to bind political decision-makers to their decisions and assure that they play according to the rules. The importance of a fair judicial system becomes most obvious when
corruption leads decision makers to favour larger enterprises. Therefore, the system needs to provide equal access to justice for the most marginalized in society.

A recent empirical study, based on a survey of 4,000 enterprises in 54 countries (Beck et al., 2005), shows that a weak legal system poses high constraints especially to small enterprise growth. “The impact of a poor legal system on small firm growth was worse that on larger firms and this difference was statistically significant on the following issues: availability of information on laws and regulations; overall quality and efficiency of the courts; whether the courts are perceived of as fair and impartial; the quickness of the courts in dealing with cases; whether court judgements are consistent; confidence in the legal system to enforce contracts and property rights; and confidence in the legal system to uphold property rights three years ago and currently” (Vandenberg, 2005: 9).

In order to increase the performance of small enterprises, thus supporting the growth of income and employment, it is necessary to also improve the efficiency of the judicial and legal system. Alternative Dispute Resolution (ADR) is one example of how the needs of smaller enterprises, which are unable to assume the costs of lengthy and uncertain legal processes, can be addressed. The Multilateral Investment Fund (MIF) has introduced the use of ADR mechanisms in 18 member countries, generating a regional, ongoing ADR movement. Working in partnership with local business groups, these projects have created a new option for settling commercial disputes, and are contributing to the modernization of the judicial system (http://www.iadb.org/mif).

### 3.1.3 Executive branch of government

The executive is the branch of a government charged with implementing, or executing, the law and running the day-to-day affairs of the government or state and consists of the cabinet (with the head of the government) and the administrations. It is important to note that in decentralised countries political decisions are not only made on the national level, but are transferred according to the principle of subsidiarity down to the lowest-possible political level. Many issues can best be dealt within the local and regional context because decision makers there have the best understanding about the problems and needs of the people with whom they work on a daily basis. These institutions are the foundations of the state’s capacity to govern, formulate, and implement polices and programmes. Effectively functioning public sector institutions are essential to lead the process of policy-making and implementation.
Governance mechanisms, processes, and institutions affect the possibilities and ways of engaging in participatory decision-making. Participatory decision-making requires both the active engagement of the stakeholders and a receptive state. Highly centralist and top-down types of governance may make it more difficult to facilitate participation in policy making, whereas decentralised countries offer numerous entry-points for participation and might therefore produce results in form of laws and regulations that are more tailored to the specific (local) circumstances.

What has been said for the legislative branch concerning the influence of lobby groups, can be repeated to a great deal for the executive branch as well: Administrations depend on the technical input from specialised groups if they want to implement laws and regulations that have passed legislative procedures. Whereas interest groups can help designing new laws and regulations in the legislative branch, they can also help in their application together with the executive branch. In decentralised states, they can provide useful information on how to implement new regulations in the local context.

### 3.1.4 Intermediary organizations

Intermediary or representative organizations play two crucial roles. Firstly, they advocate for the interests of their members and secondly they are important in transmitting new laws and regulations back to their members. Thus, they increase the likelihood that reforms will take account of specialized information that these organizations and their members possess, and that the reforms are more likely to be adopted and sustained. This two-way communication loop is shown schematically, in Figure 2.

![Figure 2 Intermediary organizations as transmission belts in two-directions](image)

With regard to economic activities, such intermediary organisations would take on the form of representative organisations such as national employers’ organisations, chambers of commerce, industry-specific interest based organisations, small business associations, women’s’ business associations and even government established organisations such as e.g. the Small and Medium Enterprise Development Authority (SMEDA) in Pakistan (Box 6). These organisations not only represent the interests of their members towards national decision-making bodies (thus providing technical knowledge to political decision-makers as important input), but also provide a range of services for their members (e.g. consultation on tax and sector-specific laws and...
regulations, marketing, networking, training etc.). Both dimensions, advocacy and service delivery, become important in the context of business environment reforms: economic representative organisations can help politicians to formulate new laws and regulations that are close to the needs of the target group, and can at the same time be a vehicle to transport and implement these reforms on a local and daily basis.

The two-way communication loop can be imagined taking place on different governance levels: from the national (parliament, legislative and executive commissions, administrations, courts) to provincial and even local levels (Municipalities, courts). Many larger representative organisations even reach out to the international level as the example of Ireland also shows (Box 1). Depending on the degree of decentralisation, a decentralised state would offer intermediary organisations more entry points than a centralised state would do. In some developing countries, this two-way communication loop is often not well functioning and since it is a central characteristic of participatory decision-making, it is a severe weakness within the overall democratic system (Merkel, 2003) and adversely affects the likelihood of effective democratic decision-making.

**Box 1: Advocacy of and service provision to SMEs in Ireland**

In Ireland, small enterprises can join either the Small Firms Association (SFA) or the main employer body the Irish Business and Employers' Confederation (IBEC) – of which SFA is a part.

The SFA offers a high-quality, low-subscription service built around helping the entrepreneurs to help themselves in observing industrial law and employee management best practice. The SFA gives information and assistance to employers but stops short of providing expert personnel to represent them before a tribunal.

IBEC goes on to the next stage and provides experts to represent its members before various industrial relations institutions. IBEC is licensed to represent its members before the Employment Appeals Tribunal and represents them in the Labour Court. It also has a personalized human resource advice service: each member has access to a nominated staff person (or back-up person in the case of urgent advice), who can provide extensive “hand-holding” during a crisis, or longer-term advice to improve management procedures within the workplace. IBEC membership carries with it a higher subscription to reflect the cost of providing this service.

The Irish Business and Employers' Confederation (IBEC) had already positioned itself as representing not only employers but also all business interests when it was formed in 1992 as an amalgamation of two earlier bodies. It has achieved representation on 19 significant policy bodies including the Business Law Council, the Competition Policy Council, the Business Strategy Group, the Environment Policy Committee, the Energy Policy Committee, and the Telecommunications Users Group. It is also represented on 70 national and 44 European and international bodies.

It sees its most successful work as the social partnership agreements, which are major macroeconomic policy agreements that bind the government, unions and employers for periods of three years. The aims of the 2003-05 agreements are to build, maintain and share economic development and prosperity in a fair and inclusive society. There are five seats on the employers' delegation, which works on the social partnership agreements; one is for the Small Firms Association (SFA), two are for IBEC, one is for the Chambers of Commerce and one is for the construction industry.

The SFA, which operates autonomously from IBEC (though supported by it), has a high profile media role and lobbies government bodies on the needs of small enterprises. One of its useful tools is “Backbencher” a frequent information sheet for members of the National Assembly. It summarizes current SME issues in one clearly laid out page and achieves the purpose of educating the legislature so it is better prepared to assess the implications of legislation and policy on SMEs.
IBEC maintains a successful and continuous strategy of presenting itself and its issues to the media. All of IBEC's Executive Board i.e. the Director-General and the seven directors meet regularly with journalists. IBEC also has a press and publications unit with three staff and a consultant. In some situations (emergencies such as threatened strike action) means IBEC has to be ready with a thought-out and researched view to present to the media, for example recently over the issue of minimum wages in which the SFA also publicly backed IBEC.

Source: ILO, 2004: 2 and 7

3.1.5 Mass-media
Apart from the public sector, the legislative and judicial powers, mass media is often seen as the “fourth power” in modern democratic societies. Within the democratic system of checks and balances, mass media takes in an important position as (i) control instrument for political decisions, (ii) as input factor to political decisions, and (iii) as a platform for diverse groups to articulate themselves. They function as a vehicle that carries reactions to political decisions (outputs) back as inputs into the decision-making process. This underlines the importance of newspapers, magazines, TV-channels, radios and Internet in the political feedback cycle, as illustrated in Figure 1. Thus, the independence of media and the quality of mass-media institutions is generally seen as an important prerequisite for participatory democracy.

3.2 Trend towards decentralization
Across the world, there has been a growing trend towards decentralization and the development of democratic local governance. The prime motivations behind these reforms vary. Some countries are seeking to disperse power among smaller governmental units. Others are reducing the size of the central government as part of a transition to a more efficient market economy. Many others seek to increase public involvement and accountability in government decision-making.

Even where democratic development is not a central consideration, by bringing government closer to citizens, decentralization allows people to participate more effectively in local affairs. Local leaders can be held increasingly accountable for decisions that affect citizens. Thus, decentralization offers new opportunities for wider stakeholder participation in decision-making at the local level. It can contribute to the improvement of governance in the areas of transparency, responsiveness to citizens, openness, accountability and flow of information (Manor, 2002).

Central to the question of decentralisation is the division between setting laws and regulations (often at the national level) and administering them (often at the local level). Thus, local groups often need national representation to affect the content of laws but
can fight themselves for how they are implemented. This is discussed a short paper on Kyrgyzstan by Paul Vandenberg (2005b).

Decentralization is by no means always a positive experience. The process also carries a number of challenges for example, when it can produce territorial inequality as wealthy localities push further ahead of low-income areas, or when newly empowered local officials over zealously adopt new local polices and regulations. Most of these challenges need to be addressed through development of national policy and regulatory frameworks and targeted capacity building support for local government institutions and their staff.

4 IMPLICATIONS FOR THE PROMOTION OF AN ENABLING BUSINESS ENVIRONMENT FOR SMALL ENTERPRISES

Theoretically, increasingly the involvement of small-enterprises in decision-making processes concerned with reform of the enabling environment in which they operate, will lead to better decisions, and decisions that are more likely to be implemented. Recognising that the lack of stakeholder participatory efforts is one of the major bottlenecks and constraints to the reform of the business environment for small enterprises, there is increasing acknowledgement of the need to adopt participatory approaches to policy reform. For example, the International Labour Organization’s (ILO)2 Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No.189), the Promotion of Cooperatives Recommendation, 2002 No. 193) and the International Labour Conference resolution on Decent Work and the Informal Economy (2002), all highlight the need to involve workers and employers of small enterprises in all aspects of the policy reform process.

The challenge is to turn the theory into practice. The following section draws a number of implications from the theory and combines this with lessons derived from ILO’s field experiences in giving voice and participation to small enterprises. All of which is with the purpose of sharing information on practices in promoting participation in efforts to reform the business environment, and identifying key challenges for governments, donor agencies and the private sector.

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2 The International Labour Organization (ILO) is the UN specialized agency, which seeks the promotion of social justice and internationally recognized human and labour rights. The ILO tripartite structure makes the ILO unique among world organizations in that employers' and workers' organizations have an equal voice with governments in shaping its policies and programmes.
4.1 Key challenges

Some of the central challenges involved in adopting participatory reform processes to the business environment for small enterprises include the following:

- Need for deepening broader democratic reform and in particular the decentralization of governance;
- Need for building the capacity of policy makers involved in reform of the business environment for small business to implement and integrate technocratic and participatory approaches;
- Need for organizing small enterprises into associations and getting them involved in policy decision making processes; and
- Need to strengthen private sector representative organizations to reach out and give voice to small enterprises.

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<tr>
<th>Box 2: ILO Study on employers’ organisations and the promotion of Small and Medium Enterprises in seven countries</th>
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<tr>
<td>An ILO study from 2004 has chosen seven countries in order to gather examples and current practices in terms of involvement by employers’ organizations in SME promotion as a basis for developing a set of guidelines for how this can be achieved effectively, particularly in the context of developing and transitional countries.</td>
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<td>The countries chosen for the study were: Philippines and Singapore for Asia; Ghana, Senegal and Mauritania for Africa; Ireland and Croatia for Europe.</td>
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<td>Recognising the fact that employers’ organizations not only represent the interests of their members (advocacy), the study sets out to also analyse services that employers’ organizations provide to their members such as promoting industrial relations, conducting business surveys, providing information, training and advice/counselling, enhancing networking and helping to access credits. The report gives examples from the seven countries for all services and advocacy that employers’ organizations provide in these countries.</td>
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<tr>
<td>Based on examples and current practices, the study identifies internal and external conditions that are crucial if employers’ organizations that want to play an important role in the development of SMEs in their country:</td>
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<tr>
<td>▪ Internal factors: strategy, structure of management, structure of representations, financing, leadership and communication</td>
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<td>▪ External factors: partnerships in business development services, partnerships in advocacy and representation</td>
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<tr>
<td>The report concludes with 10 steps that are important for employers’ organizations to take in building capacity to service and represent SMEs successfully:</td>
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<tr>
<td>1. Assess the profiles and needs of SMEs in the national context;</td>
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<td>2. Adopt SME support both as a specific objective and a cross cutting theme in the employers’ organization’s mission and work;</td>
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<td>3. Assess available SME development programmes, providers and donors;</td>
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<td>4. Survey the national institutions that have a stake in SME development and that can either assist or impede the employers' organization in its outreach;</td>
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<td>5. Develop a detailed strategy;</td>
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<td>6. Communicate the strategy;</td>
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<td>7. Develop a staffing plan;</td>
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8. Structure SME membership;
9. Develop a business plan to determine the viability of the strategy; and
10. Understand the national context in which the employers' organization and SMEs find themselves and assess the programmes that other employers' organizations offer worldwide as to their potential and feasibility.

Source: ILO Working Paper, 2004

4.1.1 Deepening broader democratic reform

Reform of the policy and regulatory environment for small business is integrally linked and in some cases dependent on wider democratic reform initiatives. For example, the reform of the electoral systems (national and local levels), judicial systems, and the decentralization of government services all significantly affect small businesses.

Broad reform of the mass media also is important to ensure that small enterprise owners and workers stay informed and government institutions are held accountable for their priorities and actions. As shown in Box 3, the mass media has a crucial role to play in not only providing information but as a platform for instigating debate and promoting reform.

**Box 3: The Small Enterprise Media in Africa (SEMA) project**

The SEMA project is financed by the Swedish Agency for International Development Cooperation (Sida) to establish sustainable and effective information, advocacy and advisory services for MSEs through the mass media in Uganda. The project works with commercial radio broadcasters by providing them with technical support and advice to develop their own radio programming focused on the small business sector. A recent evaluation of the project noted that “Levels of outreach appear high and sustained with an estimated current 7m “dedicated, interested or casual” listeners and approximately airtime worth US$ 0.5m devoted to MSE issues annually. The bulk of audiences are in rural and peri-urban areas.

In addition to being a transmitter of information, the radio stations provided a platform through which MSEs and business representatives can have a voice in policy change, debates and formulation and participate effectively in local and national democracy. Examples of which include:

- Providing a platform for representatives of the 20,000 motorcycle taxi operators in Kampala to address new local council legislation that created triple taxation and forced purchase of safety equipment from one supplier. Radio programmes exposed the issues that resulted in central government intervening to revoke the tax tender, remove the monopoly on purchasing safety equipment and stopping the additional taxation on the motorcycle taxi industry nationwide.

- Exposing problems faced by fishermen operating near Entebbe airport on Lake Victoria due to the presidential protection unit banning movement on the lake for at least 4 days before the arrival and departure of the presidential jet. Radio programmes were the key media that highlighted the issue and resulted in the ban being reduced to one day.

- Exposing the problems faced by thousands of market traders due to poor sanitation and infrastructure in markets across the country. Various radio programmes have covered these issues and new toilets, improved sewerage, improved refuse facilities and new market structures have been installed and built in at least 7 major markets.

- Providing a voice for local businesspeople to expose poor payment practices of corporate buyers to their buyers. Radio programmes have directly resulted in 5000 pyrethrum and 3,000 tobacco farmers and traders being paid for their goods and corporate buyers making payment procedures public.

Source: Project Evaluation, 2005
The growing tendency towards the decentralization and the development of democratic local governance is also important for small enterprises and in particular informal enterprises, as many local level policies and regulations significantly affect their operations. For example, trading permits, access and places to trade, local taxation, are some of the matters that local governments commonly regulate and which have significant impact on the small enterprise sector.

Thus deepening broader democratic reform is vital to the small business sector. This is not to imply that democratic reform initiatives alone are sufficient but rather that they underpin or lay the foundation for the reform of the policy and regulatory environment. Consequently, it is common to see private sector representative organizations lobbying for reforms that would appear to be outside of their traditional mandate.

4.1.2 Building the capacity of policy makers to implement and integrate technocratic and democratic approaches

Technical approaches to analysing and improving the policy and regulatory environment in which small enterprises operate are clearly important. For example, studies to assess such matters as (a) the number and nature of small enterprises, (b) the number and quality of employment they provide, (c) the time and cost to register a small firm, (d) comparative factors that affect the competitiveness of sub-sectors of enterprises, and (e) perceptions of small enterprise owners of their business environment clearly provide valuable information.

However, both the theory and practice shows that such analysis alone is not sufficient to ensure that practical measures are taken to remove the constraints facing small enterprises. Rather information arising from such studies needs to be used as an input into participatory decision-making process that converts this information into actionable decisions for change. A policy dialogue process, which includes the participation of key government actors and other stakeholders, serves to validate the information and encourage officials to commit publicly to desirable policies and their implementation. This can help to generate commitment and ownership for reform implementation, and build a basis for accountability.

**Box 4: Upgrading the Central Java Wood Furniture Industry in Indonesia**

Wood furniture production in Central Java has a long history and is a major economic sector. Today there are more than 30 furniture clusters in the province and timber furniture is the largest export from Central Java, representing about 35% (in 2002) of the total value of exports from the province and directly employing over 2 million women and men.

There is increasing evidence however that the wood furniture industry in Central Java is in distress.
Many businesses have witnessed their sales decline and foreign business owners are leaving in search of more profitable opportunities elsewhere. The International Labour Organization (ILO) worked with local stakeholders to better understand the main challenges facing the industry. In particular the ILO supported a survey of a selected group of global buyers regarding their perception of the wood furniture produced in Central Java. This information concerned the comparative strengths and weaknesses of Central Java furniture compared to similar products from other countries.

The work of the ILO in this industry has focused on the following activities:

- Conducting background research on: (1) global trends in trade flows in the wood furniture industry and the implications this raises for SME furniture producers in developing countries; (2) a survey of production, employment and sales among SMEs in the major furniture-producing clusters in Central Java; (3) a review of the main issues and challenges in the Indonesian forestry sector; and (4) a survey of a selected group of global buyers regarding their perception of the wood furniture produced in Central Java;
- Studying and presenting these main findings to enterprises, workers, government and other concerned stakeholders about the current structure of the industry and the pressures for change; and
- Facilitating concerned stakeholders to begin to jointly consider the elements of a Socially Responsible Industry Upgrading Strategy that (a) helps local employers strengthen their competitiveness; and (b) minimizes the adverse impacts any restructuring they undertake will have on the workers, community and environment.

Source: Ewaseshko, 2005

The above example of Upgrading the Central Java Wood Furniture Industry in Indonesia (Box 2) highlights the important roles that a development agency can play in (a) being a facilitator of relations between stakeholders and (b) provider of international comparative information.

A significant challenge in adopting participatory process is that many of the stakeholders may view the time and money costs of participation as being too high compared with the benefits to be derived. Information, consultation, planning, and management activities must be designed to respond to this challenge.

Another challenge that arises from the trends towards decentralization is the growing need to strengthen local government institutions and their staff. For many of these officials it is the first time that they have been involved in setting local policy and regulations and there is an observed tendency towards non-participatory, hierarchical management structure of these newly empowered government agencies. In such cases, priority needs to be given to institutional change within the main implementing agency, rather than promoting primary stakeholder participation.

**Box 5: Provincial Business Climates in Vietnam**

The “how to” create a more favourable business climate is increasingly put on the agenda by national policy makers in Vietnam. The rapid growth of the economy and a growing private sector contribution to GDP is leading to private sector reform, albeit slowly. At the same time provincial governments compete to offer the most favourable conditions to attract investments, some of which do lead to the creation of jobs, but more often so with goods being exported and capital leaving the province. Local governments remain largely unaware of the importance of small enterprises for local economic growth and employment creation and of the importance of rooting foreign investments in the local economy to achieve equitable growth. Whereas national policies thus are becoming more supportive of small
enterprises, the challenge to bridge the gap between national-level decrees and local-level implementation remains.

Based on earlier assessments in of the impact of national policies and laws on investment and employment decision in small enterprises in Vietnam, the Vietnam Chamber of Commerce and Industry (VCCI) and the ILO supported three provincial governments to find a way to create more favourable business climates starting from year 2002. Public “SME Policy Days” set the agenda for the role of small enterprises with international best practices being presented. These policy days were followed by simple business climate surveys looking at a range of constraints to enterprise growth ranging from e.g. public perceptions of small enterprise, the way (state owned) media presented the private sector, access to finance and business development services and procedures for business registration. The results were presented to the public and provided an opportunity for the public and private sector to engage in a dialogue and discuss constraints and thus needed reforms.

Government officials were next trained in the VCCI-ILO developed policy training course “Creating a Favourable Environment for Small Enterprise Development that will Contribute to Economic Growth and Poverty Reduction” essentially learning about i) the role of small enterprises in local economies, ii) the roles of government and the private sector, and iii) the elements of an enabling environment. These initiatives were followed with interventions in short-term priority areas of BDS, support to business associations and identification of public-private-partnership (PPP) opportunities. These initiatives raised significant interest from national and provincial policy makers and VCCI and the ILO are now supporting six provincial governments to create more enabling environments for local economic development rooted in small enterprise development.

Source: unpublished report by Jens Dyring Christensen, 2005

The above example of improving the provincial business climate in Vietnam (Box 5) highlights (a) the importance of integrating technical approaches, (b) the challenges and opportunities posed by decentralization and the need for technical assistance to build local capacities, and (c) the role that international development agencies can play as capacity builder and facilitator in promoting participatory reform processes in partnership with intermediary organisations.

Building capacity of government also involves creating a more “even playing field” for enterprises either by streamlining the policy environment or over a specific period even adopting preferential policies for small enterprises. This would also include looking at existing laws and policies that govern private sector development and eradicate those that are no longer facilitating private sector growth (also with regard to employment).

An ILO/SEED comparative study in seven countries outlines the results such a revision can lead to. Pakistan is a particularly good case in point, since a good number of outdated laws were eradicated as result of a collaborative project between ILO and the Small and Medium Enterprise Development Agency (SMEDA). Subsequently SMEDA, which is actually a government established think tank and advocator for the SME sector, was successful in lobbying the government and secure significant ADB funding for further reform of the sector (Box 6).
Box 6: Small and Medium Enterprise Development Authority (SMEDA) in Pakistan

Until the late 1990s, Pakistan had no central system, which could coordinate its various SME development initiatives. This lack of integration resulted in haphazard SME development in the country and achieved no significant results at a macro level. Realizing the need for a coordination mechanism, the government established the Small and Medium Enterprise Development Authority (SMEDA) in October 1998 as an autonomous organization at the federal level.

From inception, SMEDA adopted a sectoral SME development approach, selecting a few priority sectors based on SME presence. In-depth research was conducted and comprehensive development plans were formulated after identifying impediments in the regulatory environment, and taking into consideration other important aspects including finance, marketing, technology and human resource development.

In its first two years of operation, SMEDA successfully formulated sector strategies but more coverage and enhanced reach were required. SMEDA benchmarked the organizational structure and activities of similar SME international development agencies to restructure its role from a macro-level sector-specific SME development agency to a micro level SME facilitator. The new structure aims at developing SMEDA as an effective interface between SMEs and government. In an undocumented economy such as Pakistan, this can only be achieved through establishing linkages with industry and trade associations. These provide an ideal platform to identify collective problems faced by the SMEs and to design solutions at the cluster level. SMEDA's development strategy will now be lead by a needs assessment study of SMEs, based on interaction with industry and trade associations.

SMEDA – ILO Cooperation

The scarcity of literature on the behaviour of micro, small and medium-sized firms with regard to the regulatory framework spurred SMEDA's collaboration with the International Labour Organization on the project “Creating a Policy Environment Conducive to Employment Growth within Micro, Small and Medium Enterprises”.

Objectives

- To increase understanding of how the national policy, legal and regulatory environment affect the generation and quality of employment in micro, small and medium enterprises;
- To ascertain the existing range of information (at both national and international levels) on employment within MSMEs, particularly job quality, gender and age;
- To identify future research priorities in this field; and
- To disseminate the findings of this research that will evoke practical responses to promoting new and better jobs in the micro and small enterprise (MSE) sector.

Source: ILO, 2002: 78

4.1.3 Strengthening and organising representative groups for small enterprises

Although small enterprises dominate the private sector in most developing countries, their contribution to employment and growth is often constrained by an unfavourable business environment. Many small entrepreneurs see informality as a way of avoiding confrontation with restrictive laws and regulations that use up resources, that small enterprises do not have. An unfavourable business environment also has strong incentives for poor management and technical capacity and poses difficulties in accessing business relevant information.

To address these issues, small enterprises need to insert themselves effectively into the policy process. Private sector actors have to identify their interests, and to organise
themselves to both make demands on government and to supply their own proposed solutions (Brinkerhoff et al., 2000). For small enterprises two challenges need to be overcome as follows:

- Firstly, large numbers of small enterprises are not members of local or national business organizations. In some cases, this is the result of cultural attitudes that do not favour membership in such organizations. In other cases, small enterprises, particularly micro enterprises, do not perceive the benefits that could be derived from membership. Finally, the smaller enterprises might not feel at ease, or cannot financially afford, associating with much larger enterprises that are members of employers’ organisations.

- Secondly, the more influential private sector intermediary organizations tend to be orientated towards the larger enterprises in terms of both their advocacy efforts and the service they provide. Such organizations may argue that while small enterprises are not their members, they do know a lot about the needs of small enterprises and therefore can advocate on their behalf. However, their creditability as a representative of small enterprise can be easily disputed, and they cannot provide the feedback loop function of transmitting new laws and regulations back to their members, which is one of the two critical roles of an intermediary or representative organization (see Section 3.1.4).

All of which results in small enterprises and their organizations being under-represented in national and local representative and advocacy organisations and when this happens, their concerns are left out of key policy debates and many of their needs and aspirations are not met. The challenge is to build processes and institutions that are truly representative and have the capacity to advocate on behalf of the workers within and owners of small enterprises. This involves a) strengthening and organising small enterprises into associations, and b) also strengthening private sector representative organizations to reach out and give voice to small enterprises.

**Organizing small enterprises into associations and groups**

Within the process of decentralisation, the organisation of small enterprises into associations and the empowerment of these associations to get involved in local, regional and national decision-making processes, takes in an important role. Small business associations (SBAs) are important grassroots organisations that not only
provide certain services (e.g. training, consultancy, networking, marketing etc.) to their members, but also are able to speak on behalf of the small enterprises they represent. Due to their daily work with small entrepreneurs, these local organisations know best about the problems and the needs of their members. It is therefore necessary to strengthen existing SBAs and where they are not yet existent, help to organise small enterprises into representative groups.

Existing SBAs are often found to be incipient and thus relatively weak. Services are also not well developed. Management, administrative and ownership arrangements are informal. Where revenues are being earned from services, the absence of systems and procedures eventually leads to enormous internal problems and possible break-up of otherwise-promising groups (as was found in the case of Cambodia and Mongolia, in: Informal Economy, August 2005: 6). These problems are part of an explanation, why small enterprises do not perceive the benefits of being members in such associations.

Small business organisations often lack the voice to be heard in (national) decision-making processes for several reasons: they are too small, too much fragmented into several regional/local groups; they lack the resources and information to effectively organise themselves and advocate for the interests of their members; they are not perceived as being important actors on the policy level. More reasons are most likely. In essence, the two dimensions of intermediary organisations, advocacy and service delivery (3.1.4.), are underdeveloped in these organisations and clearly need strengthening. A current ILO project in Peru (Box 7) shows how SBAs can be brought together and given a louder voice in the political decision-making process.

**Box 7: Giving small business associations a voice in national Policy – the case of Peru**

In 1997, the Peruvian Vice-Ministry of Industry convened a round table of institutions related to SME development. Eighteen representative public institutions, SME associations and international cooperation sharing in common objectives related to BDS development for SMEs in a second-tier level (facilitators instead of direct providers) began to gather on a voluntary basis- every month to exchange programme information, technical issues in BDS and joint activities. This process has evolved after 8 years into a self-financed institutional set-up that now has a Coordination Committee of 20 institutions and 6 Commissions with 40 more institutions participating on their debates (see www.mesapyme.com).

The SME round table has been most influential at the policy level, dedicating itself since 2000 to draft a law for SME development. In 2002, the Executive branch through the Ministry of Labour decided to endorse the draft and presented it to Congress, which after thorough debate modified somewhat the proposal and passed in July the Law for Promotion and Formalization of Small Enterprises, supported also by political groups close to some organizations sitting at the round table (see for background Juan Chacaltana, Public Policy and Employment in SME in Peru, SEED Paper 56, 2003, at http://www.ilo.org/dyn/empent/docs/F353210293/WP56-2003.pdf).

More important, the 2002 SME Law created a structure called National Commission for SME Development (CODEMYPE) as an official consultative council on SME issues within the Ministry of
Labour and Employment, where the General Direction for SME Development (created simultaneously with the passing of the Law) serves as the Secretariat. This body is composed half by public SME promoting institutions (such as PROMPYME, the specialized agency on SME services, and a few others) and half by SME associations and organizations. The National Commission leads a network of 20 Regional Commissions for SME Development, with a similar -but regional- structure, whose main task is to prepare regional plans and finally to table an Annual Plan for SME development. The launching of the first National SME Plan, drafted from down to top, will be held in November 2005, with ILO SRO Lima as one of the main partners. It is worth noting that, as an official body, the CODEMYPE network enjoys public budget support.

In Latin America, some countries have organized already SME national committees, such as El Salvador (1996), Colombia (1998) and Ecuador (2004), but they have been created by Governments in a technocratic attempt to give the public sector an edge on the SME policy framework. In others, such as Bolivia, a national SME committee also has the characteristics of voluntary participation and public-private composition as in Peru, and it even covers the micro finance institutions. In regard to national SME plans, the only country with an established record in this direction is Colombia, whose Planning Office has tabled since 1984 until 1996 National Plans for Micro enterprise, although without participation of SME associations in the design and evaluation stages.

Source: unpublished report by Mario Tueros, 2005

In many developing countries, small enterprises have no representative organisations at all. Small enterprises are found to operate only on the basis of informal linkages with other small enterprises. They have no representative organisation that would speak for their interests and provide them with services and useful information needed to e.g. access new markets, implement new technology or product designs. The ILO has recently come up with a management guide for SBAs, aiming at helping to develop organisations and strengthening services and advocacy (Box 6).

**Box 6: Management guide for Small Business Associations**

This guide is designed to assist trainers in designing and delivering a workshop on management for the leaders and managers of small business associations. Following the training, trainees will be better equipped to strengthen the management, representativeness, advocacy and service provision of their respective associations.

The management guide consists of a resource guide and a trainer's manual. The resource guide provides information on the principles and practices of small business associations. This includes the ILO's Fundamental Principle of Freedom of Association, examples of successful associations, suggestions for best practice and a list of useful information sources. The training manual takes the trainer through a process necessary to develop a training strategy and approach. The trainers' manual consists of 16 modules to be delivered by the trainer. The manual stresses that these modules do not have to be provided in their entirety, nor do they need to be provided in the order in which they appear in the manual. In short, the trainer should adapt the contents and suggestions to her training needs and those of her particular audience.

Considerable thought has been given to both the needs of the trainer developing a workshop and the needs of the workshop participants. The trainers' manual provides both a step-by-step approach to setting up the workshop and designing its activities but it also provides detailed and practical information for the content of the sessions. Furthermore, the trainer's manual provides a number of mini-tools or summaries of tools that can be used by trainees in strengthening their own SBAs. In total, there are 36 of these mini-tools or tool descriptions. Thus, the manual provides a real wealth of practical techniques.

The manual has been developed by the ILO and used in a number of its projects in Asia, Africa and Latin America. Recently it has been used successfully by the Viet Nam Chamber of Commerce and Industry and is being used in the ILO's Ghana Decent Work Pilot Program.
When small enterprises are organised into associations, initial challenges have to be overcome: cultural attitudes that do not favour membership in such organisations, benefits deriving from a membership that are not perceived and financial constraints in joining associations that primarily serve larger enterprises. Informality often is another problem that development agencies have to face, when helping to organise small enterprises. It is therefore not only important to improve the performance of small enterprise organisations but also to raise awareness amongst workers and entrepreneurs within the sector towards benefits of joining existing representative organisations and/or create new ones.

The ILO has gathered significant experience in organising small enterprises especially within the informal sector, as the two examples in Moradabad (India) and West Africa illustrate (Boxes 7 and 8).

**Box 7: Organising workers in the informal brassware sector in Moradabad, India**

Hind Mazdoor Sabha (HMS), a central trade union affiliate of the International Confederation of Free Trade Unions (ICFTU), has taken the lead in carrying out activities amongst the informal workers in Moradabad. In 2003, under the ILO's Programme on Enterprise Development and Productivity Improvement (PEDPI), HMS started its work of raising awareness and organising informal workers in Moradabad brassware. HMS initially became a part of the awareness campaign programme facilitated by the ILO and organized by the local Government (District Industries Centre) in a predominantly brassware locality in Moradabad. This programme was implemented in collaboration with the departments of Labour, Industries and Pollution, and also fire brigade, banks, insurance companies, NGOs, “karkhanedaars” (workshop owners), employers’ organizations, a local training institute and other civil society organizations.

Activities initiated by the HMS for the workers led to mutual trust and bonding between the workers and community – HMS empathized, mediated, resolved conflicts, represented the problems of workers at the district/state levels, which led to an increase in the membership (with an annual membership fee of Rs. 20) of HMS. HMS has also been trying to include women workers, as only 10% of its members are women.

The activities undertaken by HMS in cooperation with the ILO include the following:

- Weekly awareness/sensitisation programmes on advantages of organisation and collective action and dissemination of relevant information
- Supporting the formation of Self-Help Groups
- Training entrepreneurs in cooperation with the Syndicate Institute for Rural Entrepreneurship Development (SIRD)
- Linking employers, workers, NGOs, academia and others to bring informal and formal workforce on the same platform
- Securing employment by linking up with exporters
- Formalising the social dialogue into a consortium with a common facilities centre
- Offering health related services
- Training HMS cadre workers on extension of social protection

The district administration has played a vital role in giving voice to workers and entrepreneurs of the informal sector in Moradabad: The “District Industry Centre Awareness Campaign Committee” has taken over the mandate to conduct and carry-forward the awareness/social mobilisation...
campaigns/programmes, initiated by the ILO, amongst the general public. Once a month, a planning meeting is convened by the DIC, with relevant stakeholders and ILO to identify the issues to be taken up for the conduct of an awareness meeting. Issues/problems identified at these meetings are then fed into other meetings (as some stakeholders are present at both the meetings such as workers and employers' organizations, NGOs, government officials etc.).

The organization of workers has played a role in activating the government machinery at the local and regional levels. Most government departments are keen to react/respond to the demands of workers and are keen to see that ILO continues to play its facilitating and capacity building roles.

Source: unpublished Report by ILO SRO New Delhi, 2005

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**Box 8: Policy Ambassadors in West Africa**

The “Policy and Voice” project, an important component of the ILO’s Jobs for Africa initiative, concentrates on improving the ‘policy’ environment for micro- and small enterprises and on strengthening the ‘voice’ of representative MSE organizations. The countries involved are Benin, Burkina Faso, Gambia, Mali, Mauritania, Niger, Senegal and Guinea. ‘Policy and Voice’ is an innovative combination of two separate programmes:

- PACTE, which focused on association-building and bringing together a range of private and public stakeholders, and
- AEMPE, which was working to strengthen the policy environment. Combining approaches is often a useful way of generating real impact.

The overall programme is providing technical assistance to reform laws and policies to promote micro- and small enterprises and to strengthen the capacity of local, national and sub-regional institutions.

Within the “Policy and Voice for MSE” regional programme, ILO has worked on the concept of the “policy ambassadors” in order to make the national partners the first ones responsible for initiating the policy and regulatory reforms. This work has resulted in a series of tested methodologies and draft tools to improve the environment for MSE and strengthen associations. It was based on a three-pronged strategy:

- Knowledge management and dissemination of information on MSEs;
- Policy reforms and strengthening policy making capabilities;
- Small business capacity building.

On the one hand, it aimed at providing technical assistance in reforming laws and policies to promote MSE and to strengthen national networks capacities to formulate, implement and monitor strategies for MSE promotion, which are coherent with the country’s macroeconomic policies. On the other hand, it planned to strengthen small business associations’ capacities to better represent their members and provide them with adequate economic and social services.

Source: ILO, 2003: 53; unpublished report by André Bogui, 2005

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**Strengthening private sector representative organizations to reach out and give voice to small enterprises**

Giving voice and participation of small business entrepreneurs often means linking up their respective organisations to larger private sector organisations that already have a stand and a certain amount of influence on the policy level. The case of Ireland, which has been illustrated in Box 1, is a good example. However, linking-up SBAs to larger organisations is by no means the only way of how these organizations can reach out and give voice to small enterprises. It also requires two broad and complementary strategies, namely:
The private sector representative organization could initiate awareness raising campaigns among owners of small enterprises on the benefits of associating with established representative organisations and/or forming new ones; and

The private sector representative organization could review their membership rules and criteria with a view to facilitating membership by small enterprises and small business associations.

When considering the extent to which small enterprise owners are represented by private sector advocacy organizations, it is also important to recognize the diversity within the sector. In particular, the situation of women entrepreneurs needs to be considered. Experience shows that participatory processes do not automatically include women. Attention to gender differences and inequalities is required if participatory development initiatives are to involve women as well as men.

In addition to improving, the representivity of small enterprises in effective private sector intermediary organizations there is often the need to strengthen these organizations’ advocacy and technical capacities. The trend towards decentralization also poses significant challenges for the private sector representative organizations. These organizations are finding that they need to decentralize their operations and increasingly they are becoming confederations or umbrella organization of local and sector associations.

### Box 9: Reaching Out to SMEs: An electronic toolkit for Employers’ Organizations

Recognizing the need to strengthen the capacity of employers’ organizations (EOs) to better represent and serve small and medium enterprises, the International Labour Organization (ILO) and the International Organization of Employers (IOE) have developed an electronic tool-kit to foster the inclusion of the interests and concerns of SMEs into all aspects of the operations and activities of EOs. The toolkit is designed for the managers, directors and staff of EOs (and other business associations) that want to fully represent employers – all employers – in their respective countries.

The toolkit is organized around four phases or areas of activity that the EO should consider when developing its outreach to SMEs. The initial preparatory phase advises the staff of the organization how to present the case for SME outreach to the Board of Directors. The three other phases relate to the main activities of the organization: representation, advocacy and service provision. For each phase, the toolkit contains:

- **Mini-guides** — These mini-guides are easy to read and are not designed to tell you how to strengthen your overall operations, but they do suggest the main areas to concentrate on when you plan actions related to SMEs. The mini-guides provide links to the other elements of the kit.

- **Tool summaries** — The summaries provide a two-page synopsis of over 20 tools, most of them developed by the ILO, that can help an EO attract and support SME members. These ‘tools’ are guides, manuals and other aids that can assist EO to, for example, analyse the policy environment for small enterprises, plan a recruitment strategy or offer training that improves productivity through better employee relations.

- **Self-assessment tools** — The kit also contains three interactive self-assessment tools (one
Through an interactive set of multiple-choice questions about SMEs, the EOs receives a short report assessing their performance and offering suggestions for improvement.

- Case studies — The kit contains more than a dozen short case studies outlining what has been tried and achieved by employers’ organizations in various parts of the world.

The ILO, in cooperation with the IOE, is committed to supporting the use of this toolkit in an effort to improve the performance and representivity of EOs throughout the world. Workshops with staff from EOs around the world are currently being conducted through the ILO International Training Centre (ITC). Furthermore, the use of toolkit will be integrated into new technical cooperation project. The toolkit comes in two forms: the internet version (http://learning.itcilo.org/sme/) and a CD version. The two are currently the same, although the internet version will be updated and expanded in the future. The toolkit is available in English, French and Spanish with more languages to follow.

When it comes to reaching out their membership to small enterprises, private sector organisations are often confronted with the problem of informality. Informality poses a challenge to organisations that are legally registered and in which membership is based on regular fees and formal procedures. In order to represent the interests of its members and also to provide them with certain paid services, an organisation has to rely on the legal integrity of its members, i.e. being sure that they keep to laws and the organisational rules. It is thus this devide between formality and informality which makes it difficult for existing organisations to extend their membership towards small enterprises.

Another challenge is the fact that many small enterprises operating in the informal sector do not comply with the traditional categories of “employers” and “workers”. Many workers are self-employed, being entrepreneurs at the same time. It is therefore a difficult question whether to organise them under trade unions or rather under business associations. An ILO programme (Box 10) has sought to overcome these difficulties by organising informal workers into cooperatives and linking these up to trade unions. It also provides a good example of how gender issues were integrated into such a project.

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**Box 10: SYNDICOOP: organising and giving voice to informal economy workers in East Africa**

SYNDICOOP is an ILO programme which is designed and implemented in partnership with the International Confederation of Free Trade Unions (ICFTU) and International Cooperative Alliance (ICA) and aims at strengthening the capacities of national trade unions and cooperatives to work together to organize workers in the informal economy and improve their working conditions.

Participating trade union and cooperative organisations are benefiting from this strategic alliance with strengthened organisations, enhanced services for existing members and a unified voice in important social dialogue processes such as the development of Poverty Reduction Strategies.

SYNDICOOP brings trade union and cooperative organisations together at all levels; local, national, sub-regional and interregional levels:

- **Local level**: TUs & co-ops work with informal economy groups by organizing, improving working conditions and creating decent jobs.
Experiences in East Africa

Within a collaborative project between ILO, ICTFU and ICA in Kenya, Rwanda, Tanzania and Uganda, the objective is to strengthen trade union and cooperative capacity to organize unprotected informal economy workers and reduce poverty through creating decent jobs and improving their working and living conditions. Sustainable partnerships are established between national trade union and cooperative organizations in each country to train their officials and introduce innovative and alternative approaches to systematically work with the informal economy groups to organize them in cooperatives and trade unions. Within the project

- trade unions and cooperatives have established joint working committees to continue organizing workers in the informal economy
- several informal economy groups have been registered as cooperatives
- trade unions established linkage with informal economy groups to discuss their participation in Trade Unions as members.
- the project's revolving loan fund has assisted many informal economy groups, particularly women, in improving their working conditions and income
- several groups have been sensitised on gender equality and linkage established between gender focal points of trade unions and cooperatives
- trade union and cooperative trainers (extension workers) have been trained on organization techniques and approaches to continuously assist workers in the informal economy in organizing themselves in trade unions and cooperatives.

Efforts have been made to link the informal economy with the national PRSPs: National Project Steering Committees have been expanded to include the PRSP focal points in the Ministries of Planning and Finance in order to include the informal economy into the PRSP process. A regional workshop was organized on the informal economy and PRSP (40 participants attended, 18 women) to discuss and finalize the project strategy on how to link the informal economy with the national PRSP processes. [...] The project has been understood and associated with poverty reduction strategies through linking with the PRSP process. It is giving an opportunity to informal economy workers to acquire business skills for SMEs; organize unprotected informal economy workers in self-help groups and cooperatives.

Source: SYNDICOOP, 2005a, SYNDICOOP, 2005b

The problem of informality and the difficulty to distinguish workers from employers, shows that the issue of organizing small enterprises into representative organizations is not only a matter of the private sector and development organizations that might support them in their efforts, but it should just the same be a concern of all the other key actors mentioned in section 3.1. As long as the regulatory framework is unfavourable towards small enterprises, larger business associations will remain reluctant to reach out and give voice to small enterprises. This clearly is a demand for reforms initiated by decision-makers in the executive, legislative and judicial branches. However, as long as small enterprises are not able to articulate their interests, this
demand will hardly be met (as the feedback cycle suggests, figure 1). Development agencies can help to overcome initial difficulties, as the next section will suggest.

4.2 Implications for international development agencies

In addressing the above-mentioned challenges, concerned with reform of the business environment for small enterprises international development agencies can play a number of important roles, including but not restricted to the following:

- **Advocate for deeper democratic reform including the decentralization and the development of democratic local governance** — International development agencies are often involved in a broad range of political, social, and economic reforms within countries. Coordinating these efforts to broaden and deepen the democratic reform process is crucial. Particular attention also needs to be given to the development of media. With their experience, international development agencies can help governments implementing democratic reforms and decentralised forms of decision-making. Some larger organisations such as the United Nations, the ILO the World Bank and others would even offer a set of norms, regulations or recommendations that lead countries to more transparent, democratic and participatory efforts. International development agencies can play an important role in seeing that the implementation of these norms, regulations or recommendations goes beyond mere ratification. Creating international awareness through media (e.g. in the case of violation of basic labour standards) is one way through which they can advocate for democratic reforms in a specific country.

- **Build up capacity of government officials (at all levels) to implement and integrate technocratic and participatory decision-making approaches** — Training and advisory services can play an important part of any package of assistance to policy-makers. Such support needs to highlight and integrate both the technocratic and participatory process. In providing such technical assistance, special attention needs to be given to decentralized levels of government. Many development agencies already possess training services to raise awareness amongst government officials towards the needs and the importance of the small enterprise sector.
However, more needs to be done on how these needs can be effectively addressed using a participatory approach in the policy formulation process.

- **Support private sector representative organizations to reach out and give voice to small enterprises** – Extending the outreach of existing organizations, or building new organizations may be necessary, as is the need to strengthen their technical capacity to represent and advocate on behalf of their members. The means by which this can be achieved has been discussed in section 4.1.3. International Development agencies can however help private sector organisations to overcome initial difficulties. Linking up small enterprises often requires simple things such as computers, telephone and fax machines, an office, stationeries etc., but it would also require building up services from which small entrepreneurial members might benefit. Many international agencies have Business Development Services (BDS) Programmes. Small business associations should increasingly be considered as deliverers of such services. Bilateral partnership between employers’ and workers’ organisations of different countries could also be a way to strengthen representative organisations. International organisations could bring together the potential partners. In such a relation weak organisations can learn from experiences made by their partner organisation in another country.

- **Provide international comparative information that can be used as an input into reform debates** – Such information provides valuable inputs that can be used by participatory decision-making process that converts this information into actionable decisions for change. It is also provides a benchmark against which progress can be assessed.

- **Facilitate relations between concerned stakeholders** – In situations where government and citizens do not have a history of participatory policy dialogue the presence of a neutral facilitator can be very crucial. This neutral party can help to bring about participation and engagement precisely because the various stakeholders can see that they are not personally interested in any specific policy outcome beyond assuring that dialogue takes place. The tripartite structure of the ILO (consisting of governments, employers’ and workers’ organisations) for example enables it to initiate a social dialogue between its constituents in the respective
countries. This could be one way in facilitating relations between concerned stakeholders.

- **Provide information on innovations and good practices elsewhere** – International Development Agencies are in a unique position that enables them to gather knowledge about innovations and good practices taking place elsewhere in the world. The knowledge basis that an international agency thus acquires can be a very useful input factor, especially when it comes to the reform of an enabling business environment for small enterprises. Innovations that are being more widely introduced in democratic reform programmes such as citizen panels, citizen juries, communities of place, and e-democracy could be tested and adapted in the reform of the enabling environment for small enterprises.

## 5 CONCLUSIONS

In many developing and transitional countries, the enabling environment is unfavourable towards the development of the small enterprise sector. Past technocratic driven, policy reform processes have tended to ignore the needs of small enterprise sectors – both workers and employers. Theoretically, increasing the involvement of these stakeholders will lead to better decisions, and decisions that are more likely to be implemented.

While the integration of the technocratic and democratic approaches, poses significant challenges for policy makers, today it is widely accepted that successful and broad based participation in policy reform is strongly linked to creating an enabling political environment with increases in accountability, transparency, openness, and responsiveness to demands from a wider range of societal groups.

The paper has highlighted that despite significant experiences gathered, the issue of participation and voice of owners and workers in small enterprises in political decision-making processes requires considerable more attention. The contribution that representative organisations can make towards reforms that meet the needs of the people whom they concern and their ability to help to implement these reforms, is often underestimated by governments and (international) development agencies. However, the paper has also shown that simply asking for the opinion of representative organisations is not sufficient. A broader approach that includes building the capacity of representative organisations and government officials to actively engage and dialogue on
an ongoing basis is required. In this respect, the international development community can play a number of important and vital roles as outlined in this paper.


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