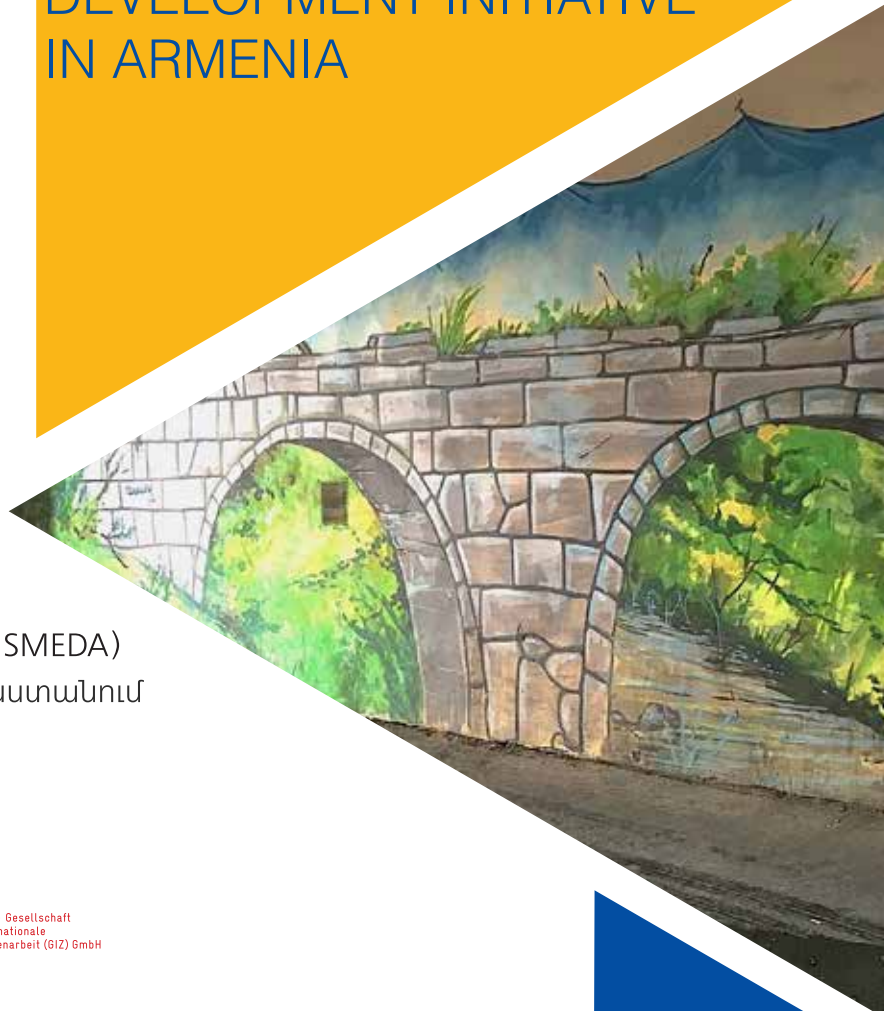




EU4Business



BUSINESS MEMBERSHIP
ORGANISATIONS (BMO)
DEVELOPMENT INITIATIVE
IN ARMENIA



Support to SME Development in Armenia (SMEDA)
Աջակցություն ՓՄՁ վարձացմանը Հայաստանում



Գերմանական
համագործակցություն
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EU Support to SME Development in Armenia Project (SMEDA)

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Abbreviations

ARMCCI – Armenian Republican Chamber of Commerce and Industry

B2B – Business to business

BDS – Business development services

BSO – Business support organization

BMO – Business membership organization

CCI/CIC – Chamber of Commerce and Industry / Chamber of Industry and Commerce

EBA – European Business Association

PPD – Public-Private Dialogue

RUEA – Republican Union of Employers of Armenia

SMECA – SME Cooperation Association

SO – Societal organization (NGO)

UCORA – Union of Credit Organizations of the Republic of Armenia

UE – Union of Employers

UITE – Union of Information Technologies Enterprises

UITO – Union of Inbound Tour Operators of Armenia

ULE – Union of Legal Entities

UMBA – Union of Manufacturers and Businessmen of Armenia

YCCI – Yerevan Chambers of Commerce and Industry

Executive Summary

The BMO sector in Armenia is relatively young, and has substantial room for development, which presents both challenges and opportunities that should be properly addressed in order to develop the sector which in its turn will contribute to the development of the SME sector and business environment in general.

The current feasibility has revealed BMO success stories and certain strengths of the sector, such as:

- Friendly legal framework which ensures sustainability of the Republican Chamber of Commerce and Industry;
- Sustainability of BMOs in the strong sectors of the economy (e.g. IT);
- Relatively strong lobbying and business networking capacity of most BMOs.

At the same time, majority of BMOs face serious challenges, which are due both to the overall economic situation and environment in Armenia, and to weaknesses of the BMO sector and BMOs themselves. Main challenges faced by BMOs revolve around the interconnected issues of:

- low capacity, sustainability and maturity of BMOs in terms of service provision strategy alignment;
- low level of awareness and understanding of existing and/or potential benefits of BMOs among current and potential member businesses, unwillingness of current members to actively engage in the lobbying and advocacy activities of the BMOs).
- Geographical disparity, with BMO activities and membership largely centered around Yerevan, and the potential to engage fee paying members from the regions remaining a serious challenge due to weaker economy and potential member awareness.

The recommended actions aimed to remedy the existing challenges and weaknesses include:

- Creation of BMO platforms and pooling of resources.
- Modification of BMO organizational structures with more active member engagement.
- Regular member needs assessments.
- Introduction of new services.
- Improvement of lobbying services.
- Improvement of business networking services.
- Improvement of business information services.
- Improving visibility and communication to members and non-members.

1. Environment Assessment

This chapter makes a market-level overview of the SME sector and its environment in Armenia encompassing macroeconomic environment, institutional and regulatory framework, focusing on market-level barriers, obstacles and opportunities for SME development in the country as well as assesses the specific role of BMOs in the development of SMEs in Armenia.

1.1. Macroeconomic environment

As a result of the collapse of the Soviet Union in the early 1990s, Armenia, one of 15 former Soviet Union republics, underwent significant economic decline causing poverty and large migration resulting in a substantial brain drain. Reforms initiated by the Armenian government in the second half of the 1990s to revitalize the economy provided some positive results in helping the economy recover.

Another round of reforms was introduced in the fiscal, banking and energy sectors in line with the Poverty Reduction Strategy program, which was adopted in 2003. Following these reforms, the economy showed significant improvement with double-digit GDP growth enabling the country to go from “low income” to “middle income” status.

In 2008, Armenia was hit by the global financial crisis resulting in the contraction of the economy in 2009 by 14.2%. The economic downturn was strongly impacted by a sharp decline in remittances and a decline in the construction industry. In 2010, the economy started to recover and GDP grew annually up to 7.2% in 2012, mainly driven by double-digit manufacturing sector growth, increased international prices for metals (Armenia’s main export commodity), growth of the agricultural sector, and stabilization of the trade and service industries. In 2013, however, growth again slowed due to regional and global economic downturns.

Recent developments

Since 2014 due to significant decline in remittances and commodity prices Armenia’s GDP growth was declining: in 2014 GDP grew by 3.5%, in 2015 by 3% while in 2016 growth was only 0.2%. In 2016 the fiscal deficit rose to 5.6 percent of GDP, while the current account deficit remained below 3 percent of GDP and reserve buffers were rebuilt. In early 2017, economic activity has shown signs of recovery, with robust private sector credit growth supported by monetary policy easing. According to IMF projections, GDP growth and end-year inflation will reach around 3% and 1.75%, respectively, in 2017. There are risks to the outlook: the recovery in remittances and copper prices may not endure, and growth in key trading partners could be weaker than expected.

1.2. SME sector environment

Being a small land-locked country with a dependence on imports and remittances, SME sector development in Armenia is crucial for strengthening economic competitiveness. The government has taken on reforms targeting improvements in the business environment, which included optimization of business legislation, expansion of e-government services, and implementation of one-stop shop for registration of businesses.

As a result, Armenia has made substantial progress in the World Bank *Doing Business* Report where it currently ranks 38 in 2017 (compared to 43 in 2016) according to the ‘Doing Business Report 2017’. Armenia has a quite a favorable regulatory framework for MSMEs, and ranks highly amongst its regional peer group:

Table 1: Key Indicators for Doing Business in Armenia, 2017

Doing Business Category	Score
Starting a business	9
Dealing with construction permits	81
Getting Electricity	76

Registering property	13
Getting credit	20
Protecting minority investors	53
Paying taxes	88
Trading across borders	48
Enforcing Contracts	28
Resolving Insolvency	78

Source: Doing Business Report, 2017

However, there are still crucial reforms that need to be implemented, such as improvements in insolvency and collateral frameworks to facilitate access to finance, and strengthening of the public procurement framework to stimulate SME participation and bring it in line with international best practices. Longer-term challenges include improving the scope and quality of SME data collection, streamlining tax administration, and expanding current support for innovation, export development and SME promotion.

The country has a system of business support infrastructure coordinated by the SME DNC (Development National Centre). Established in 2002, the SME DNC accumulated substantial experience in the provision of information, training and consulting services to SMEs. Activities are defined in annual state programs prepared jointly with the Ministry of Economy, which set targets and budget allocations. The SME DNC operates through 10 regional offices. The SME DNC is primarily funded by the state, although it also coordinates a number of donor-funded programs.

In 2011, Armenia harmonized the official definition of micro, small and medium-sized enterprises based on EU regulations. According to the 'Law on State Support to Small and Medium Enterprises, 2010 amendment', MSMEs are defined by number of employees and at least one of two financial criteria (annual turnover and balance sheet volume). Table 2 summarizes these definitions.

Table 2: Armenia MSME Definitions

Criteria	Micro	Small	Medium	Large
Number of employees	<10	<50	<250	>250
Annual turnover (AMD million)	<100	<500	<1,500	>1,500
Balance Sheet total (AMD million)	<100	<500	<1,500	>1,500

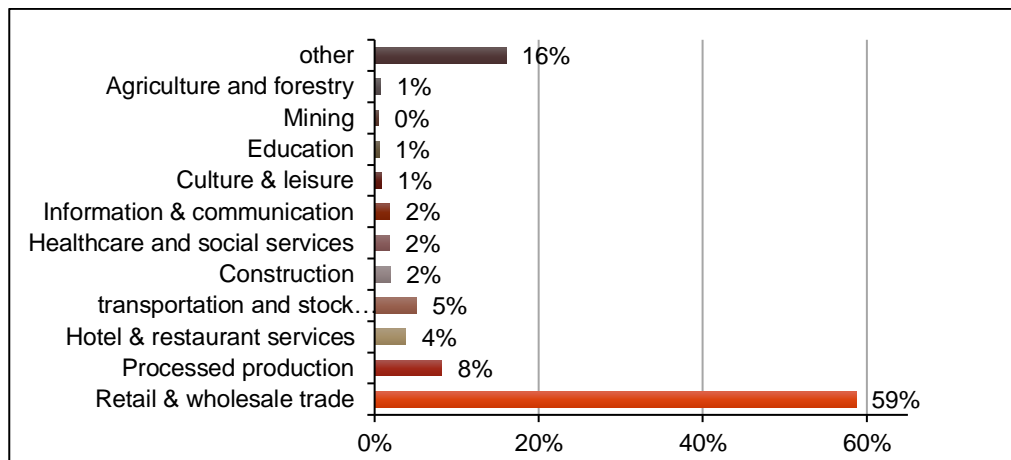
It is difficult to find consistent up-to-date figures regarding the number of SMEs operating in Armenia. As of 2012, there were around 74,000 active MSMEs, which represent 98% of active companies in the country. The number of active SMEs increased by 25% between 2010 and 2012, while a net increase of around 10% was registered in 2015¹.

As of the end of 2012, the MSME sector employed 290,388 people – approx. 25% of total employment and a 12.3% increase from 2010. Micro enterprises have the highest contribution with a 40% share of total MSME sector employment. It is also noteworthy that around 40% of jobs created by the sector are in the border regions of the country. In terms of sectoral distribution, the biggest share of employment in the sector (around

¹ The absolute figures that appear in statistics, publications and the public media suggest that the SME sector is growing. From 2010 to 2012, the sector grew by 25% to 74,000 registered SMEs (see SME Policy Index Eastern Partner Countries 2016, OECD, EU, EFT, EBRD, page 213). The Ministry of Economy announced in December 2015 that twice as many SMEs (15,000) were registered in 2015 than those closing down (7,000) (see <http://armenpress.am/eng/news/830765/over-7-thousand-smes-closed-and-about-15-thousand-registered-in-armenia.html>).

59%) is in wholesale and retail trade (Figure 1 below). It should be noted that the low share (1%) in the agricultural sector relates to legal entities of a certain size. Agricultural entities at the lower end of the sector are not obliged to register as entrepreneurs and do not appear in the statistics.

Figure 1: Distribution of SMEs by Industry



Source: SME DNC

1.3. BMOs at first glance

Business Membership Organizations (BMOs) have an important role in enhancing public-private dialogue, promoting entrepreneurs' business interest and supporting development of business environment overall. The business associations are overall underdeveloped in the Armenian market yet both in terms of representation and the role in the market. Specifically, there are less than 40 active BMOs with roughly 20,000 or so member companies which is less than 1/4 of all existing companies in Armenia. As for the functions and services provided, the services of the existing BMOs are very often fragmented, not very much driven by the demand. Additionally, most of the BMOs are understaffed even against the limited scope of services they provide, and otherwise lack capacities. Thus, there are issues with relevance as well as sustainability of those BMOs.

2. Methodology

This chapter describes the methodology developed for the current feasibility study. The key aspects of the methodology were developed and presented to the GIZ at the proposal stage. The key principles and methods of the methodology were followed during the project, however, in the courses of the study some of the tactical steps and approaches were optimized and adapted to the encountered realities.

2.1. Objectives & goals

The methodology applied during the assignment aimed to:

- a) Identify the existing BMOs in the Armenian market
- b) Identify the general trends of the BMOs sector overall
- c) Identify specific features of each individual BMO (to a possible extent)
- d) Identify the range of services provided by the BMOs and their quality
- e) Analyze the existing issues, challenges as well as opportunities in the sector:
 - a. Both from the prospective of the BMOs, and
 - b. From the prospective of member and non-member SMEs

2.2. General approach

To achieve its objectives, the methodology required execution of a range of activities (aimed at collection, aggregation and analysis of diverse data and information from different sources) to be carried out both at market and individual BMO levels. We envisaged that some activities will be carried out in parallel.

The assessment was carried out at two levels: market-level assessment and individual BMO level assessment. The Consultant applied several approaches and principles which ensured high quality of acquired information and respectively enhanced the quality of the study:

- In most cases information was crosschecked (to a possible extent) via different channels/groups and methods. For example, the online surveys were cross-checked during the individual face-to-face interviews.
- The Consultant ensured efficient execution of its activities in order not to misuse the counterparties' time. Specifically, all questionnaires and interviews were designed in such a way that one interviewee was approached with a full set of questions only once.
- The Consultant applied valid sampling methodologies to accurately capture the opinions of respective populations.
- The Consultant ensured that there is no overlap of target audience in different procedures. For example, the same person was targeted only once.

2.3. Tools & research methods

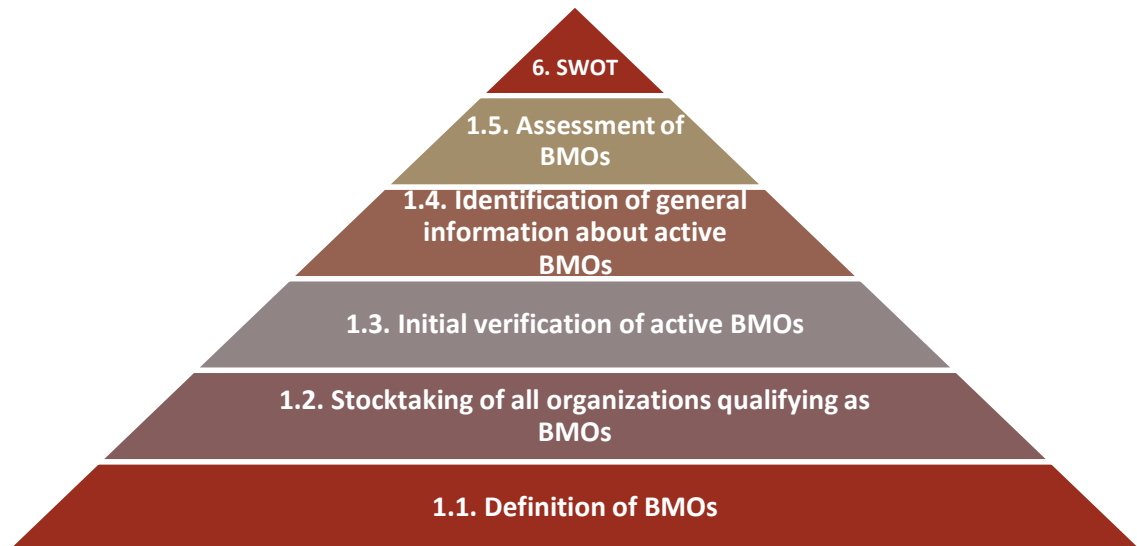
In order to best fulfil the expectations of the GIZ and achieve the objectives set out in the Terms of Reference, while ensuring a systematic methodology as well as most efficient use of resources, the approach was built on several methods and channels which fairly targeted all the objectives as well as counterparties of the Project. Specifically, for achieving best results in each phase we used the following methods and tools:

- Desk research - mainly used to gather market information on BMOs, analyze regulatory frameworks, state strategies related to the field;
- Document review - various documents concerning the sector, including reports on international best practices, legislation & regulatory framework, internal documents of the BMOs, other, were reviewed;
- Data mining and analytical procedures - analysis of databases (e.g. State Registry's database against registered BMOs), results of surveys etc.;
- Surveys - structured online surveys carried out among BMOs;
- Phone interviews of more standardized nature to target larger span of respondents, mostly BMO representatives, BMO members/stakeholders as well as non-member SMEs representatives were conducted;

- Qualitative in-depth interviews: The interviews were conducted based on predefined questionnaires and scenarios to objectively assess the results.
- Review of BMO records on offered services as well as corporate governance, organizational structure, other important aspects, challenges was done (including website information, provided reports, corporate governance documents etc.).

2.4. Stages of execution

The feasibility study was conducted by using a pyramid approach, which started from the stocktaking of the whole (to a possible extent) BMO population and ended up with different levels of sampling at different stages. Specifically, the study was conducted through the following steps:



2.4.1. Definition of BMOs:

Definition of the BMO was crucial for the successful implementation of the study, as based on the definition the Consultant had conducted the stock-taking of BMOs which later served as the basis for the whole study. The methods used included **desk reviews** and **research of regulatory frameworks**. The BMO definition was developed based on international best practices, feedback provided by the international expert and local regulations and practices.

2.4.2. Stocktaking of all organizations qualifying as BMOs

The stocktaking of all organizations qualifying as BMOs was though a resource-consuming, but an important stage in the study. The objective of this stage was to identify the whole population of the organizations that qualify under the definition of BMOs.

The methods used included **data mining** and **analytical procedures**. During this stage, a full list of organizations qualifying and potentially qualifying as BMOs as per the definition was pooled from available databases (Ministry of Justice database of Union of Legal Entities (non-official source), e-register system (www.e-register.am), yellow pages (e.g. www.spyur.am)). The potentially qualifying organizations were then fully reviewed to determine actual qualification. Specifically, such criteria as the name of the organization, the mission, goals and vision (if any), the activities listed on the website/Facebook page/yellow pages were used to identify whether the organization falls under the BMO definition or not.

2.4.3. Initial verification of active BMOs

Due to limitations of information on the identified BMOs available in databases and web resources, the verification stage was crucial to ensure that the final list of BMOs is relevant and can serve the purpose of the study. Therefore, the Consultant has conducted the verification procedures to arrive at the final list of BMOs.

The methods used at this stage included further **desk research (verifications by internet research) and verifications by phone calls**. For efficiency purposes during this stage, the Consultant has made further verifications to identify:

- Whether the BMO is active or inactive
- What type of members BMO has (legal status etc.)
- What type of key services it delivers (lobbying, intermediary services, other services)

2.4.4. Identification of general information about active BMOs

After identification of active BMOs in the market and their initial verification it was important to understand and assess the specifics of individual BMOs on the one hand, and analyze the general trends of the BMO sector, on the other hand. At this stage, the Consultant's task was to collect and analyze data regarding at least the following aspects of BMO sector:

- Scale of each individual BMO as well as activeness of BMOs in the economy as such
- Governance and management specifics and challenges
- Long-termness and strategic approach of BMOs
- Capacity of BMOs
- Financial sustainability of BMOs
- Key services delivered by BMOs

In order to acquire comprehensive information as well as get precise, comparable data from BMOs, as well as get a reliable sample, the Consultant preferred to conduct an **online survey** among the majority of verified BMOs. For this purpose, a questionnaire consisting of 23 questions (with majority of questions being multiple choice) was developed and shared with all identified BMOs with an invitation to on-line survey.

The questionnaire was shared (via google-forms survey) with all identified active BMOs. To ensure high level of participation, we contacted the BMOs via **e-mails and phone calls** and followed up. It should be also mentioned that the questionnaire was very user-friendly and time-efficient (it required only 15 minutes for filling in).

The survey was submitted by 21 BMOs. The results of survey were summarized and analyzed, different sets of statistical information (both by BMOs and by members) were derived as a result.

2.4.5. Assessment of sustainability, capacities & service quality of BMOs

In order to arrive at a multifaceted and balanced opinion on sector-specific and BMO-specific issues and verify the results of online survey the Consultant conducted 2 sets of activities under the current stage:

- a) The Consultant has conducted face-to-face interviews with the management of 9 BMOs. The BMOs sample for 9 interviews was done based on survey results and ensured several critical factors, such as:
 - i. Sector diversification – BMOs of different industries/economic sectors were sampled;
 - ii. Size diversification - BMOs with different member sizes were sampled;
 - iii. Level of advancement - BMOs with different level of development and quality of services (at least as perceived as a result online surveys and market knowledge) were sampled;
 - iv. Other specifics (for example, 1. EBA was sampled due to the fact that its members represent foreign investment interests, 2. Republican Chamber of Commerce and Industry was sampled as it has a special status and legal framework, and also based on its ability to provide generalized feedback on the Regional Chambers).

- b) The Consultant has conducted phone interviews with 20 businesses who are either BMO members or non-members (disclaimer: the initial sampling covered a larger number of companies (35 companies), since it was expected and confirmed that certain companies will decline the interview). The sample for the phone interviews was done to ensure several critical factors, such as:
 - i. Size – the interviewees are representatives of both big, medium, small and micro sectors;
 - ii. Industry – the interviewees present different sectors of economy;
 - iii. (Non) - Beneficiaries – the Consultant targeted in the sample both member-businesses and non-member businesses. (disclaimer: some businesses were initially targeted as non-

members, however, in the course of interview, it was found out that the company is a member of this or that BMO).

2.4.6. SWOT analysis of the BMO sector

The SWOT analysis was the culmination of the study and thus at this stage the Consultant made use of all acquired information. The Consultant applied the following methods to arrive at the components of SWOT analysis:

- analyzed information acquired at previous stages;
- performed benchmarking of existing practices with international best practice and market needs.

3. Assessment Results

3.1. Definition of BMOs & their legal framework

3.1.1. Definition

According to the international approaches, for the purposes of the present survey the term BMO (Business Membership Organization) is defined as follows:

An organization with business members, whose main objective is to provide services to the respective businesses and/or represent their interests through lobbying and other means. The business membership criteria may be satisfied both via direct membership (i.e. when the business entity is directly a member of the BMO) and indirect membership via the executive or other representative of the business entity, provided the such representative is de facto enrolled in the BMO on behalf of the business.²

3.1.2. Excluded categories

Professional organizations. Armenian legislation provides for the creation of certain professional organizations, with some of their function being similar to those of BMOs. Particularly, two most relevant organizations are the Union of Advocated of the Republic of Armenia and the Self-Regulating Organization “Collegium of Bankruptcy Managers”. Both organizations are regulated by dedicated regulations, and have as their primary function self-regulations of the respective professions. They also represent the interests of their members in relationships with government and private sectors. In view of their predominantly self-regulatory functions in our understanding they cannot be considered a proper BMO.

Foundations. Foundations are one of the main types of non-for-profit legal entities in Armenia. Under the law they are not based on any membership, and upon creation by the founder(s) (individual(s) or legal entity(ies)) they are managed by the Board of Trustees and an executive officer for the benefit of the beneficiaries defined in their charters. Lack of membership disqualifies them from being viewed as BMOs. At the same time, the certain (very limited) number of Foundations that define businesses as their primary beneficiaries and set BMO-like objectives (e.g. the Innovation and Industry Development Fund), will generally qualify as business support organizations (BSOs).

3.1.3. Legal framework for BMOs

Two important categories of BMOs – (i) Chambers of Commerce and Industry and (ii) Unions of Employers – have dedicated regulations pertaining to their activities. For other BMOs, under Armenian law there are currently two general organizational frameworks which are available for such organizations – Societal Organizations (SOs, which are in practice more commonly referred to as NGOs) and Unions of Legal Entities (ULEs).

Due to recent changes in the Civil Code of Armenia (enacted in February 2017) the latter form is currently being eliminated, and all existing ULEs will have to reorganize into SOs (NGOs) or liquidate by February 2018. However, so far most of the ULEs have not yet reorganized, and thus this organizational form cannot be disregarded.

Chambers of Commerce and Industry

The creation of Chambers of Commerce and Industry (CCIs) is provided for by the law of Armenia “On Chambers of Commerce and Industry”, whereby each region (including Yerevan) may have one CCI, which are in turn all members of the CCI of Republic of Armenia (ARMCCI). The law uses a mixture of approaches

² Due to historic specificities relating to NGOs (Societal Organizations), as explained below, certain BMOs involve executives or other representatives of the business entities as formal members on behalf of the respective businesses

used in the world in relation to Chambers, combining voluntary membership (used in the US) with a limited set of official functions (not including such key functions as registration of commercial companies).

Regional CCIs generally have classical BMO functions (plus the right to establish an Arbitration Tribunal). As regards the ARMCCI – in addition to standard BMO functions, the law enshrines a special status to the ARMCCI by granting it with the authority to issue certificates of origin (providing a strong incentive for exporters to become members), to maintain a non-official registry of legal entities and private entrepreneurs whose financial and economic situation certifies them as reliable business partners, officially confirm existence of force-majeure and business customs, coordinate activities of constituent Chambers, as well as specifically provide for its participation in the development and execution of governmental programs aimed at supporting SMEs.

All CCIs are non-for-profits, and are funded by membership fees, but may also receive donations both from members and non-members. The ARMCCI is additionally able to generate funds through providing the services described above and other services (to members and non-members alike).

Unions of Employers

The creation of Unions of Employers (UEs) is provided for by the law of Armenia “On Unions of Employers”, whereby such unions can be created on industry, regional industry, regional cross-industry and republican (national) level (only 1 union is allowed and exists on the national level). Both employers (legal entities and private entrepreneurs) and lower level UEs may be members. The Republican Union of Employers of Armenia (RUEA) is established via participation of at least half of the regional and industry employer unions. All UEs are non-for-profits, and are funded by accession and membership fees, and may also receive donations both from members and non-members.

The main function of UEs is to represent employers in social partnership issues (including negotiation of collective agreements), as well as to lobby their interests (particularly in regard to labor law issues). As per the law RUEA Chairman is specifically entitled to participate in the sessions of the Government of Armenia on issues directly related to labor legislation and socio-economic issues directly related to it.

UEs are non-for-profits, and are funded by membership fees, but may also receive donations both from members and non-members. The UEs are also allowed to generate funds through providing paid services to members and non-members.

Unions of Legal Entities

ULEs are non-for-profit legal entities, established by 2 or more commercial companies with the objective of coordinating their commercial activities, representing and protecting their material interests, including by providing free-of-charge services to the members (which altogether largely corresponds to the classical set of services provided by BMOs).

ULEs may have open or closed membership. The ULE members may bear subsidiary (residual) liability for the obligations of the ULE, as provided by the ULE charter. ULEs are controlled by the members and managed by an executive officer (director, president or other). Creation of a board or similar management organ is optional.

ULEs are funded by membership fees, as well as donations which they can receive both from members and non-members. ULEs cannot engage in commercial activities, which limits their ability to acquire funds through provision of paid services.

A significant part of industry level BMOs (business associations) are organized as ULEs, and are currently in the process or contemplating reorganization into SOs/NGOs.

Societal Organizations (SOs/NGOs)

NGOs are non-for-profit legal entities, established by 2 or more individuals and/or legal entities, for the purpose of fulfilling non-material needs of their members (and potentially also other beneficiaries, if so provided by the NGO charter). If specifically envisaged under the Charter, an NGO may provide free-of-charge services to its members.

NGOs may have open or limited membership (limitations should be set in the charter by setting objective membership criteria).

The NGO members do not bear any liability for the obligations of the NGO.

NGOs are funded by donations which they can receive both from members and non-members, and may also receive membership fees if provided by their charter. Furthermore, by recent legislative amendments NGOs were allowed to conduct entrepreneurial activities to fund their activities, which may prove an important factor for NGO BMOs.

Currently the main umbrella level BMO (the Union of Manufacturers and Businessmen of Armenia) is registered as an NGO, along with several other industry level and other BMOs. Since any given NGO may potentially have both business and non-business members, and additionally may provide assistance and services to both members and non-member beneficiaries, definitive characterization of an NGO as a BMO may only be done upon review of its membership structure, objectives, provided services and beneficiaries.

3.2. Stocktaking & verification of all organizations qualifying as BMOs

The stock-taking of BMOs was conducted according to the methodology described above (in Chapter 3 Methodology).

As a result of stocktaking the Consultant has identified 144 organizations that could potentially fall under the definition of BMO as per their legal status and/or name of the organization and/or activities described in yellow pages/websites/Facebook pages and other sources of information. In order to find out whether the identified organizations are BMOs and are active (i.e. conduct any activities in line with the definition of BMOs) the Consultant has conducted verification phone call as a result of which **37 active BMOs** were identified. The list and the key information on both active and non-active BMOs is presented in *Annex 1 - Mapping Database*. The key issues causing fall-out from the list were the following:

- It was not possible to find out any information (no website, phone or similar);
- The organization was not a BMO as per our definition (for example, many of them were rather professional association, guilds);
- The organization was once active but currently had no activities.

3.3. Assessment of BMO sector, their capacities and service quality.

The identification of key information about individual BMOs as well as the sector overview was conducted via on-line surveys (20 BMOs) (see the detailed results of surveys in *Annex 2 – Online Survey results*) and face-to-face interviews with BMOs (9 BMOs) (see the detailed results of the interviews in *Annex 3 – BMO Face-to-Face Interview Results*) as well as phone interviews with both member and non-member companies (see the detailed results of the interviews in *Annex 4 – Stakeholder Phone Survey Results*) (the detailed methodology is described under Chapter 3 Methodology).

The assessment results show the following observations and findings:

1. **Membership issues:**

Industry Associations mostly have a relatively active membership, often with a specifically active membership core, who actively engage in the activities by sitting on the Boards, participating in general meetings, and in some case by participating working groups (e.g. UITE).

On the down side – when facing problems with the authorities, BMO members are often unwilling to be named or otherwise engage with the issue, making lobbying their interests extremely challenging.

In addition:

- a. **Concentration:** there is a high concentration of members in several BMOs, while the rest of BMOs are not representative in terms of number of members. Specifically, while the number of members in 20 surveyed BMOs is 19, 731, 70% of those members are in one BMO (Republican Union of Employers of Armenia³), while 96% of all members are concentrated in 5 BMOs.

³ The members of this BMO include industry, regional and industry regional unions along with direct business members.

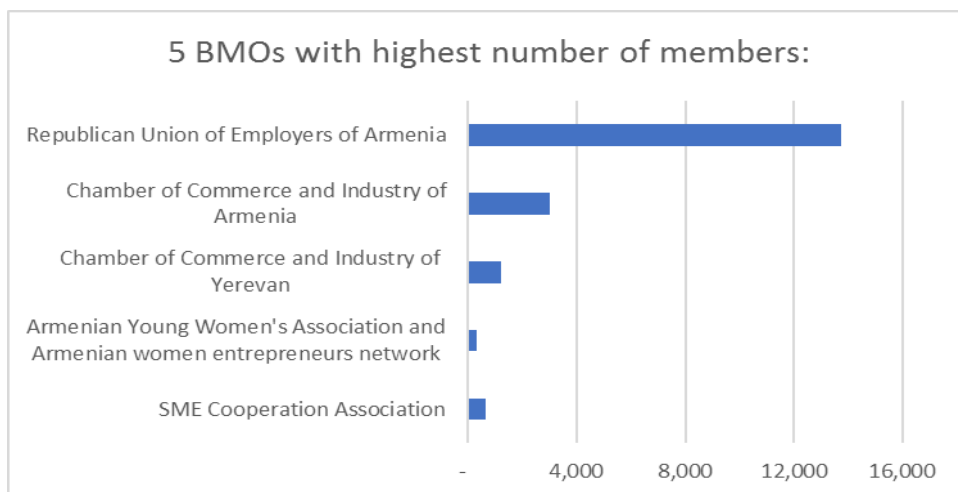


Figure 2: BMO members concertation

This is an evidence of the fact that one of the key issues in the sector is the low number of members in each individual BMO which makes them unsustainable, unable to scale up resources as well as lowers their impact in lobbying and related activities. This leads to a conclusion that there is a possible need for consolidation or establishment of cooperation platform and scaling up.

- b. **Tendencies in member attraction:** Memberships has been stable or moderately increasing in most cases (strong growth demonstrated only by SMECA and newly created EBA), while membership in the regions (marzes) is generally volatile, especially if membership fees are charged (substantially weaker economy makes local businesses unwilling to pay the membership fees, which in its turn prevents increasing services to members to attract membership, creating a “chicken or egg” problem). In 2/3rd of BMOs there was a tendency of **increase of number of members** (as declared by the surveyed BMOs).

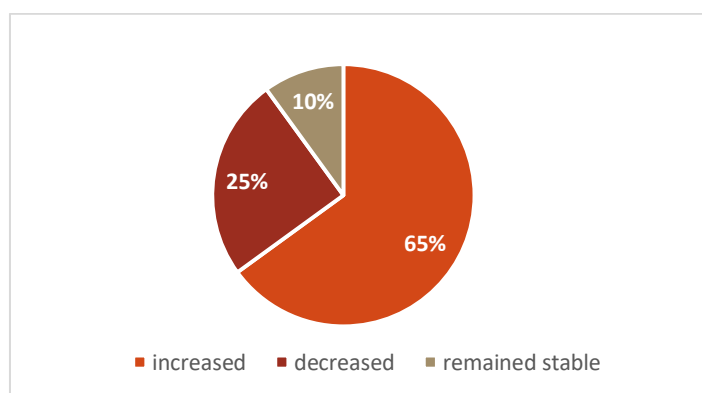


Figure 3: Dynamics in number of members

This trend, however, is not fully driven by more attractive BMO activities and thus higher interest from members, but rather by several new BMOs established in recent 1-2 years, as well as the fact that in spite of multiple members many BMOs testify that majority of members do not pay membership fees (so, having a member is rather relative).

2. Governance & management:

In all cases, regular re-elections of either the executive or the board (in some cases both) are in place, but in practice the person in charge of the management (in most cases – the executive) is rarely replaced. Relatively active engagement of the Board is more common for the smaller BMOs than for republican chambers and unions, indicating a relatively low level of democracy therein.

Specifically:

- nearly in all surveyed BMOs there is a clear procedure and periodicity of the Board elections (from 1-5 years) as well as executive body appointment and this information was confirmed by interviewed (at a later stage) members.
- all BMOs indicated that their members and/or board meets as often as every month but at least once per quarter and this information was confirmed by interviewed (at a later stage) members.
- Not all BMOs have strategies and mid- to long-term plans (only 35% of BMOs indicated that they have them), but this issue can rather be related to the lack of funding and thus uncertainties towards the future.

3. Sustainability:

- a) **Financial resources:** according to the survey results, nearly half of the budget of BMOs is derived from membership fees. It is obvious, however, that the BMOs are not usually financially sustainable which negatively influences their activeness and activities.

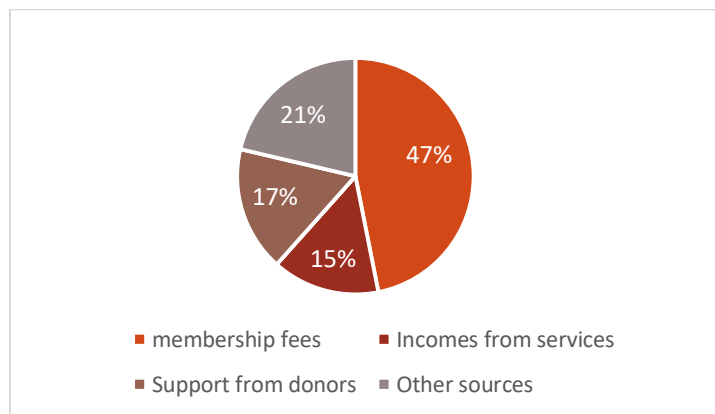


Figure 4: Sources of funding

- b) **The BMO staff capacity** is overall evaluated as low in terms of number of staff. With rare exceptions (UITE, to some extent EBA) smaller BMOs are significantly understaffed (often just 1-2 employees, mostly with only administrative capacities). Even those BMOs with relatively large staff capacity experience lack capacity in such matters as communications, event management (for organization on business forums and similar events). Among professional staff, very few BMOs have inhouse expertise in accounting and law, while the situation is slightly better in terms of professionals responsible for event management. Lobbying, advocacy, foreign relations, relationships with members are in most cases done by the executive, without professional support staff.

The BMOs have on **average** around **5.5 employees** (including Republican Chamber of Commerce which has 25 employees which are involved in issuing of certificate of origination – an additional function). If we exclude this effect, then the average number of staff per BMO is **4.6 employees** which is on the lower side for running the BMO operations. It is worth mentioning that, in Consultant's opinion, the BMO staff is often paid lower than the market average and thus the BMOs are not usually equipped with strong in-house expertise (Disclaimer: the salary data were not surveyed, the Consultant based his assumption on market knowledge and experience of face-to-face interviews).

4. Services:

Business networking, lobbying, advocacy & information sharing services are among the most common ones among the surveyed BMOs. Nearly all BMOs deliver the mentioned services. The chart below gives an overview of the statistics on member access to services (the statistics is not taken by BMOs, but by share of members who have access to this or that specific service out of the total number of members).

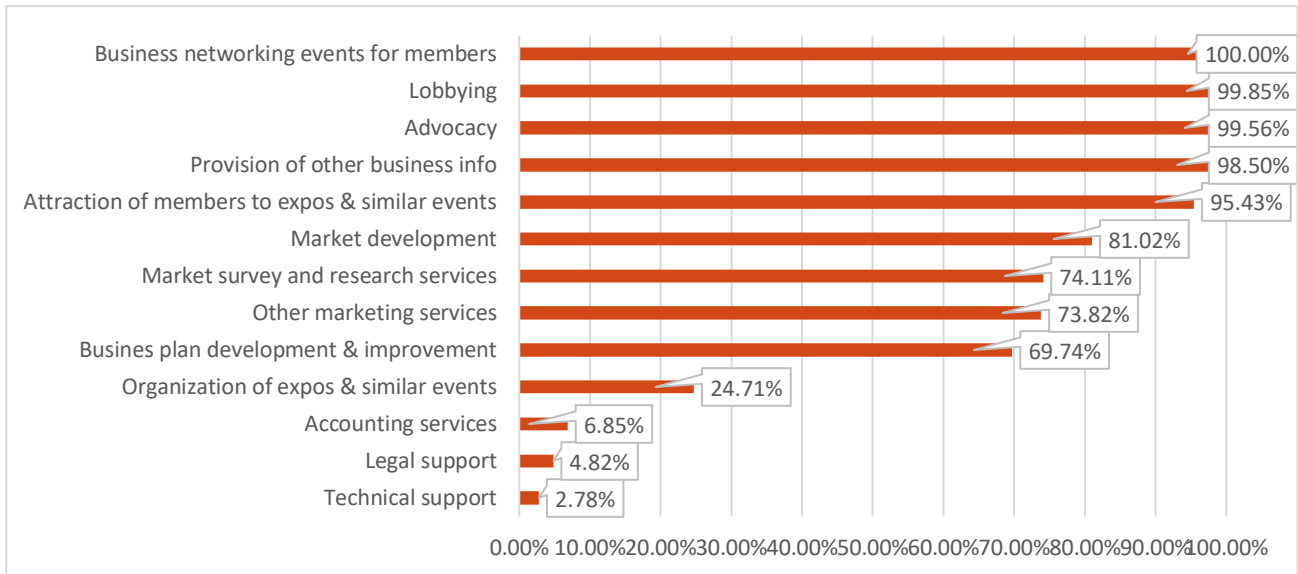


Figure 5: Member access to services

While most members are generally satisfied with the quality of services provided by the BMOs, the feedback regarding the motivation to join and receive services, as well as feedback from non-members, indicate that this satisfaction cannot be interpreted as indicating overall high quality of services, but rather is due to limited expectations.

Particularly, most members indicate lobbying and networking services as key drivers for joining, while substantial number of members join to further common causes – contributing to industry development and the like. At the same time, the under-development of other services, along with quality issue relating to lobbying, networking and business information services (as discussed below in this section), is among the key factors limiting new member enrolment.

Lobbying and networking are the main services members receive, plus to a lesser degree organization and participation in expos. At that, in terms of quality there is notable room for improvement as per all such services. Particularly:

- As for lobbying, the BMO efforts are often reactive (i.e. acting after the legislation is already adopted) rather than proactive (i.e. acting during drafting stage or via proposals for reforms and new legislation). An important reason for this has been relatively low engagement from the government side, which currently has a tendency to improve (both the BMOs and the Ministry of Economy, which is the primary responsible party for PPD on the government side, indicate recent significant improvement of PPD as between them). At the same time, many BMOs still do not take full advantage of new possibilities of lobbying engagement with the Center for Strategic Initiatives, and the recently introduced e-drafts platform.
- As for networking, while most of the BMOs do provide such services and member satisfaction is generally high, there are some simple shortcuts that many BMOs don't take, e.g. majority of BMOs do not have published up-to-date complete lists of their members, or provide detailed information about key areas of activities of the members, although such information should be relatively easy to generate and would enhance member-visibility to potential partners and also to one another.
- As for business information services, not all BMOs currently provide such services, despite them being a relatively easy way to provide apparent benefits to members.

Under-development of other services is an issue across the board. Mostly often cited services that would be appealing to current and potential members include tax and accounting services, legal consulting services, marketing and promotion services (to members and in some cases more broadly towards the industry in general).

5. Trainings:

Training is another very popular activity being delivered by BMOs to its members and even non-members. The BMOs deliver trainings on a big span of topics ranging from business management, marketing to specific technical topics.

The chart below presents the access of members to trainings by topics.

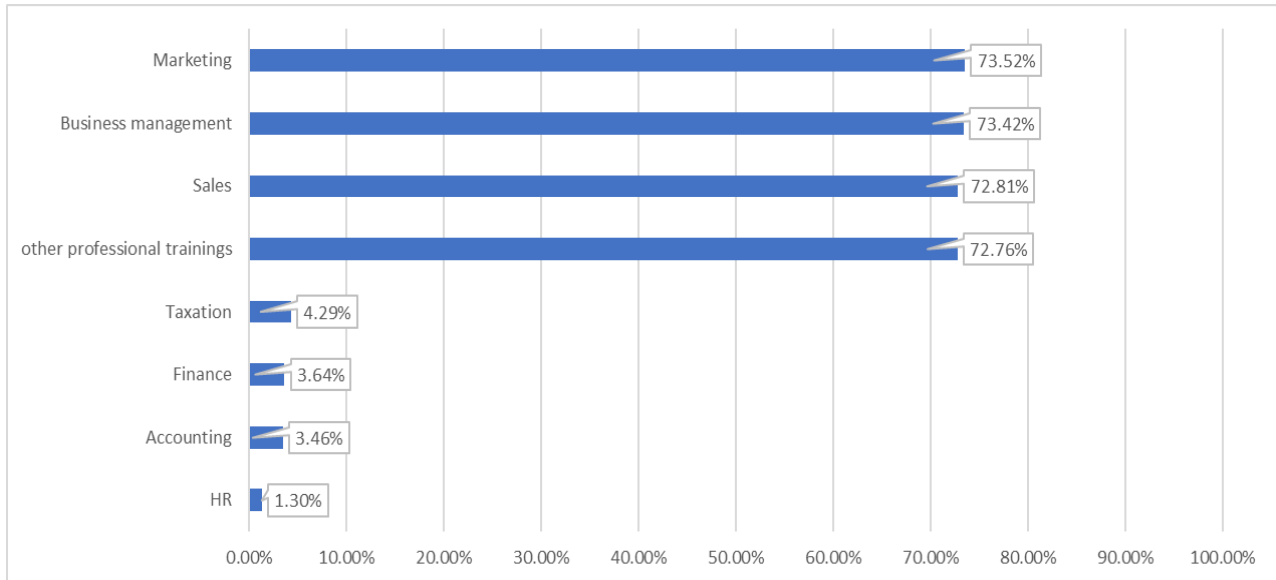


Figure 6: Member access to services

The training activities have the following general issues among BMOs:

- The trainings are not always a constituent part (a tool) in the framework of a project, but rather a stand-alone service which does not always fully contribute to the set objective;
- The trainings are not always a result of needs assessment, but rather take place ad-hoc, depending on the availability of a program/expert.

4. Key Challenges. SWOT analysis

4.1. Key challenges of the SME sector

Before moving to discussing the specific strengths, weaknesses, opportunities and threats of the BMO sector, we find it useful to present information about the key challenges of the SME sector, since those play an important role in shaping the challenges and opportunities for the BMO sector.

Qualitative information collected through interview and additional information provided by certain BMOs (EBA, RUEA, UITE, SMECA) show the following key challenges for the SME sector in general:

- i. **Taxes:** The main issues include ambiguity and constant changes of tax legislation (especially challenging to small businesses), high tax burden in certain sectors (e.g. micro and small), pressure to make tax prepayments and corruption, penalization of even smallest mistakes.
- ii. **Customs:** The main issues include lack of transparency, corruption, prolonged and complicated customs procedures (including in relation to the Eurasian Economic Union).
- iii. **Access to finance:** The main issues include high interest rates and unavailability of uncollateralized loans and AMD denominated business loans.
- iv. **Rule of law issues:** low reliability of the judicial system, selective application of tax and other laws to large player, enabling tax evasion and other preferences.
- v. Some SMEs specifically indicate lack of access to technology, business management and marketing knowledge, difficulty in engaging high-quality labor.

4.2. SWOT Analysis:

4.2.1. Strengths of the BMO sector

Generally, it is difficult to speak of the strengths of the BMO sector in Armenia, since the sector as such is still relatively weak and underdeveloped. At the same time, there are some success stories and positive factors worth mentioning:

1. **Sustainability of Republican Chamber of Commerce and Industry.** Although Armenian law stops short of stipulating mandatory membership in Chambers or empowering them with universally demanded functions (such as registration of commercial entities and maintaining registries of such entities) as per the French or German models, the law does provide for certain functions, among which the authority to issue certificates of origin is the most important, as it provides a steady source of revenue, as well as a strong incentive for exporters to become members, in order to benefit from special member-rates for this service.
2. **Sustainability of BMOs in strong sectors.** While industry associations (industry BMOs) often demonstrate low capacity and sustainability, certain success stories (most notably UITE) act as evidence that it is practicable to ensure BMO sustainability at the very least in the strongest sectors of the economy (e.g. IT). Furthermore, experience collected by such BMOs and their expertise may be used as a valuable resource in developing the BMO sector in general.
3. **Relatively strong lobbying and business networking capacity.** With most of active BMOs constantly engaged in lobbying and business networking, this provides a clear base for growth, including through further improvement in those areas and also through serving as a platform for growth in other service areas.

4.2.2. Weaknesses of the BMO sector

Main challenges faced by BMOs revolve around the interconnected issues of capacity, sustainability and low maturity of members. Also, lack of effective platforms for BMO cooperation, and problems with engagement of the authorities have been frequently mentioned as issues, recent positive tendencies allow also viewing those areas as open for opportunities, and they will be discussed in the “opportunities” section.

1. **Member maturity.** This is an issue faced by arguably all BMOs. Particularly, there is generally still a low level of awareness and understanding of existing and/or potential benefits of BMOs among potential member businesses (especially SMEs). There are several reasons for this, among which lack of 'tradition', success stories, examples (and also weak communication on existing success stories and examples, indicating a clear need to awareness raising).
2. **Geographical disparity.** The BMO activities and membership are largely centered around Yerevan, and the potential to engage fee paying members from the regions is a serious challenge, as the substantially weaker economy there makes local businesses unwilling to pay of membership fees, which in its turn prevents increasing services to members to attract membership.
3. **Capacity** is an issue of concern for even the most sustainable BMOs. The capacity issues are both resource-related (like lack of expertise, lack of staff and similar) as well as misunderstanding/misinterpretation of members needs or potential needs (for example, with few exceptions, there is not much of an established practice among BMOs to conduct needs assessment among members and/or potential members).
4. **Lack of consistency and strategy** in providing services over time. While most of the existing BMOs maintain a relatively stable level of services to members, some have been struggling with consistency, allegedly due to capacity issues (e.g. very limited staff who is also engaged in other work/activities aside from the BMO).

4.2.3. Opportunities for the BMOs

While in several cases poor level of Public-Private Dialogue and also lack of effective BMO cooperation was mentioned, most stakeholders mentioned recent positive tendencies, which allow those areas as open for opportunities, along with other opportunities mentioned below:

1. **New Services.** A significant part of the BMOs does offer some services beyond lobbying & advocacy and business networking, and several of those have been recently launching certain new services or alternatively negotiating discounted service packages. So far successful examples mostly include accounting services and other support with tax issues, which is consistent with the fact that tax and customs issues are among the top challenges from the business and specifically SME sector in Armenia. Accordingly, this is a proven model for increasing appeal of BMO membership and increasing sustainability. At the same time, there are clear signs that for increasing services is important to increase membership, and in some cases current members are supportive of increasing fees to increase provided services (possibly through diversified membership packages). Additionally, there appear to be notable opportunities for BMOs to address other business needs (particularly those already identifies by the BMOs or mentioned by interviewed members), such as marketing and promotion (where BMOs are uniquely positioned to perform promotion and sales of SME members' products/services under umbrella brands), legal consulting, recruitment or training of qualified personnel, as well as increasing activities as far as business networking and organization of expos and similar events are concerned.
2. **PPD.** Most BMOs have mentioned low level of cooperation from the government authorities, but also acknowledged positive tendencies. With an increased number of agencies now willing to engage in constructive dialogue with business over legislative reforms (certain improvement of engagement from the State Revenue Committee, new possibilities of engagement with the Center for Strategic Initiatives), there is room for further strengthening BMO lobbying efforts, which not all BMOs are taking advantage of so far. Additionally, the recently introduced e-drafts platform also offers new possibilities for lobbying not yet utilized by BMOs.
3. **BMO cooperation.** With most of the challenges facing BMOs being identical, sharing of experience, cooperation and creation of platforms for joint activities is likely to bring positive results for the BMO sector. With only limited recent examples of successful cooperation involving certain BMOs along with non-BMO NGOs, there is much room for improvement with potential gains for all stakeholders, and especially the relatively new ones. Platforms could also be used to increase capacity by pooling human resources (including through several BMOs jointly hiring professionals whom they cannot individually afford, e.g. lawyers, communication experts, etc.). Such pooling appears as a preferable alternative to

donor-supported staff, since supporting new staff with donor aid is mostly project specific, and is a short- or mid-term solution, which fails to create sustainable capacity. Pooling is more sustainable, as it relies on already existing resources to increase capacity, and thus is neither limited to specific projects nor is constrained timewise.

4. **Business networking.** With business networking being a relatively strong side of most BMOs, it appears strategically beneficial to further enhance the quality and outreach of such services. A relatively easy way to improve quality of business networking services for majority of BMOs would be to publish up-to-date complete lists of their members and provide brief details about key areas of activities of the members, which would enhance member-visibility to potential partners and also to one another.
5. **Business information services.** Currently not all BMOs provide such services, and most of them limit such services to members only. While it is reasonable to limit full access to such services to members, providing non-members with business information “teasers” (e.g. selected information, or very short statements with full information remaining visible to members only) as a way to increase interest towards membership.
6. **Business ombudsman.** There are indications for political will for the creation of a business ombudsman institute (including with the possible support from EBRD).⁴ While there is no clear publicly available information on the specifics, this appears as an opportunity for BMOs, who could lobby for the creation of this institution and also for reserving a special legally guaranteed relationship for themselves with the ombudsman (which could range from the duty of the ombudsman to systematically consult with BMOs to actual involvement of the BMOs in the election/appointment of the ombudsman).

4.2.4. Threats for the BMOs

1. **Sustainability.** Majority of BMOs have relatively low levels of sustainability. In most cases (with exception of BMOs with large company members) either the membership base is too small or the membership fees are low or not collected from all members and thus not enough for sustaining full-fledged and well-functioning BMOs. Since this issue is closely related to the other 2, it is implicit that mid-term support is needed to enable the BMOs to develop capacity and increase member maturity in order to achieve long-term sustainability.
2. **Unreliability of PPD.** The success of lobbying activities of BMOs has historically strongly depended on willingness of state stakeholders to engage them in PPD. While the trend is currently positive, with small exceptions (legally guaranteed right of the Republican CCI and the Republican Union of Employers to participate in discussions of respectively SME and Employment related legislation and policies), there are, so far, no institutional or legal guarantees which would secure engagement of stakeholders by the government. Accordingly, any change in the position of government authorities could greatly roll back any progress of BMOs in this area. The creation of a legal framework for PPP is currently under discussion at the government level, and could remedy this threat.
3. **Members avoiding open engagement.** Many small companies are unwilling to become members or openly raise the issues that they encounter with the authorities through the BMO or otherwise. This is an obstacle to both increasing membership and increasing effectiveness of lobbying efforts. However, it seems feasible to overcome this obstacle by shifting from reactive lobbying towards pre-emptive and proactive lobbying.

⁴ <http://www.armradio.am/en/2017/01/17/ebrd-armenia-cooperation-priorities-discussed/>, last accessed on 19/06/2017

5. Comparative analysis concerning Armenian BMOs in the international context

5.1. Status and service delivery of BMO in Germany and other Western countries

Germany and some other European states like France, Italy and Austria have chambers for various parts of the business community with mandatory membership. There are chambers of industry and commerce, chambers of skilled crafts (for craft enterprises of different sectors) and chambers for agriculture and professionals like lawyers, physicians and architects. All these chambers have a public law status.

In contrast to that, chambers in other parts of Europe like Great Britain and the Scandinavian countries as well as in America have a private law status with voluntary membership of companies. The same applies for associations of all business sectors including employers' organizations, industry federations and trade associations in all countries including Germany.

There are 80 Chambers of Industry and Commerce (CIC) in Germany (with an apex body in Berlin, the Association of CIC – DIHK) each covering a specific region with companies of all sizes and sectors. These CIC have 3.6 million companies as mandatory members being 45,000 members per CIC in the average. More than 90% of the member companies are small and medium-sized enterprises (SME) with less than 50 employees. At the same time 100,000 of these companies with 8 million employees in total are voluntary members in 38 industrial sector associations under the national umbrella of the Federation of German Industries (BDI) being around 2,600 enterprises per association in the average. Beside their membership in a chamber other 530,000 SME with 10 million employees in total are voluntary members in the German Association for Small & Medium-sized Businesses (BVMW) or one of its 21 member associations representing various business segments. The BVMW has 300 contact offices all over Germany.

Beside these examples there are many other associations of various sizes and sectors on local, regional and national level which cannot all be described here. A considerable part of German associations is much smaller in membership than the federations BDI and BVMW on national level which are mentioned above. Typical services of German BMO (associations and chambers) are as follows:

- Advocacy work:
 - Dialogue with government/local administration and parliaments on the impact of economic policy affecting the business sector
 - Collection and representation of views and grievances of the member companies towards the political decision-makers, e.g. in conferences and policy papers
- Information services: collection and dissemination of information on basically all relevant business related topics, newsletters, membership directories
- Consultancy to individual SME in fields like enterprise management, bookkeeping, marketing, legal affairs, export, starting a business
- Trainings to improve knowledge and skills of SME staff in various business related areas
- Organization of B2B meetings, participation in exhibitions, trade missions abroad and other foreign trade guidance for SME
- Assistance for SME in access to finance (building contacts to the banks, development of business plans)
- Especially for employers' associations: work on questions of social policy and labour, employer – employees relations, negotiations with trade unions about salaries and working conditions

In principle this service portfolio does also exist in other Western countries. Apart from the services mentioned above chambers in Western countries including Germany do often have delegated functions from the state.

Many are active in the registration of businesses, in mediation and arbitration and in issuing trade documents like certificates of origin and ATA carnets. Beyond that, German chambers do play an eminent role in the field of vocational training.

5.2. Comparison of BMO in Western countries and Armenia

Armenia has a chamber system with voluntary membership like in those Western states following the Anglophone chamber model as in Great Britain, the Scandinavian countries, the USA and Canada and is facing the same challenge of attracting member companies on the free market, in contrast to countries like Germany, France, Italy and Austria with mandatory membership in chambers. What the Armenian chamber system has in common with the situation in Western countries is the regional organization of Chambers of Commerce and Industry (CCI) representing enterprises from many sectors in one region and – like in Germany and other states – the existence of a national umbrella organization for the CCI. Similar to Western chambers also is the role which the local chambers (or at least ARMCCI - the Armenian CCI as their apex body) play in arbitration, issuance of certificates of origin and other official documents.

Although it is not possible to compare very many chambers and employer/business associations of the Western world with BMO in Armenia in detail, it can be assumed that a bigger part of Western BMO has a higher lobbying power and a more diversified and consistent service supply for SME than BMO in Armenia. Many BMO in Western countries have a comparably big membership and are therefore in a better position in the Public Private Dialogue (PPD) for representing the interests of their member companies towards policy makers and the public administration.

In addition, many BMO in Germany and other Western countries might have the better organizational set-up compared to Armenian BMO. They are often organized internally in topic-oriented committees and working groups in which entrepreneurs and company representatives regularly meet to discuss relevant economic policy questions (e.g. concerning taxes, infrastructure, industrial estates, sector specific issues etc.) on a voluntary basis. This structure facilitates good networking between the companies and the development of common positions for advocacy on various questions. Beyond that it is a cost-saving way of dealing with business topics in a BMO because the company representatives are not paid for their work in committees and working groups. Concerning manpower and expertise it also seems that many Western BMO have more staff available in their secretariats for their daily work.

From the BMO assessment in Armenia it can be assumed that perhaps with the exemption of some bigger Armenian BMO on national level the chambers and even more the associations do in tendency have lacks - if you compare them with Western BMO in general - in the delivery of information services and in the assessment of their members' needs. Room for improvement for Armenian BMO might also exist in terms of consultancy for individual companies in commercial, legal and technical questions. Another field of activity which might have a potential for increase among Armenian BMO are services of foreign economic relations (export, import, foreign investment etc.) for those SME which have international contacts or want to create or expand them. In addition, the proactive role which a BMO can play in PPD, might also be an area where experiences of Western chambers and associations can be studied for enhancing the advocacy work of Armenian BMO.

5.3. Comparison of BMO in developing countries and Armenia

Although the situation of BMO in developing countries is different from country to country, some characteristics can be summarized according to the project experience of sequa with BMO in many developing countries. Many of these BMOs are caught in a vicious circle which can be described as follows:

low membership ► limited resources/income ► deficits in organisational set-up and staff ► lack of services
► low membership

A low number of members will limit the income generation of a BMO in terms of membership fees, and this in turn will not allow the BMO to build up adequate capacities with qualified staff in order to provide good services for SME being their members or non-members which might become their members in future; and as long as the BMO cannot offer attractive services to the SME its membership will remain low.

More specifically the weaknesses of BMO in developing countries in general become visible through the following aspects:

- Service delivery of many BMO is insufficient mainly due to a lack of money and expertise. Basic information and lobbying on local level might be provided for the SME but more sophisticated business information, consultancy and training facilities as well as advocacy on a broader or higher level (regional and national) are either not offered or do often not meet – in terms of quantity and quality - the companies' needs.
- In general governance of the BMO is weak (more or less). A committed leadership might be there but often the continuity of the association or chamber work with long-term goals and strategies is not assured partly due to lacks in the internal organization in terms of proper committees, working groups etc. and/or due to a weak secretariat which is needed to assure a smooth further development of promising activities which were started by the BMO.
- **Many BMO have a small membership which limits their financial capacities and their whole development as service provider for the SME. These BMO but even those chambers and associations with larger memberships have** a problem with the collection of membership fees from their member enterprises. Often this is a reflex of the negative image of the BMO as service deliverer for the companies and/or a consequence of the fact that there are deficits in the democratic procedures in the BMO (no regular elections for General Assembly and the Board) and that the members are not sufficiently involved in the life of a BMO, e.g. through participation in committees. According to a BMO survey in Georgia recently it was found that companies were ready to pay for individual BMO services only, but not for the membership in the BMO.

What are the potentials for BMO development? Experience in many developing countries shows that chambers and associations can in principle do relevant advocacy work for their members and cover a certain range of information, training and consultancy services for SME on various levels (local, regional, national). However, many BMO in developing countries face a lack of good and diversified services for the enterprises which are handled in a professional way. Therefore, the BMO should carefully select the services which they want to develop and offer to member and non-member companies in future. By analysing their strengths and weaknesses and the specific market situation for various services in their outreach, BMOs have to take a decision which services they will offer at all to SME and whether they will be the providers of the selected services themselves or whether they will have the role of facilitators only. In the latter case the BMOs have the following options:

- inform the SME where they can get the needed service/know-how,
- bring BMO in contact with providers where the demanded service might be available,
- act as contact point and platform where such providers (e.g. consulting companies) can meet SME in order to inform and consult them with regard to commercial, legal and technical questions for which the BMO don't have own staff available.

These examples show that BMO can play an important role on the supply side of the market for business development services even if they don't provide such services themselves. In many cases they act as intermediaries between SME looking for specific services and providers like training institutes and consulting companies which do often not know how to reach SME and what their specific problems and needs are.

A clear potential of BMO for future development is their function as providers of business information and networking agencies for companies, especially for SME. This is a core element of their function as membership organizations. Experience in developing countries shows that it is essential and at the same time not very difficult to strengthen BMO as service supplier in this field. Examples for appropriate measures in this regard are regular business meetings for all members or various interest groups within a BMO, the creation of internet based business contacts, newsletters and other publications, membership directory and database, conferences and annual reports.

Related to that are activities of trade and market development which BMO often implement for their members, also in developing countries: providing market information (on national and export markets), organization or visits of exhibitions and trade fairs, organization of buyer-seller meetings and trade delegations on national and international level.

Looking on the results of the BMO assessment in Armenia it can be said that the weaknesses described above for BMO in developing countries on the whole are also existent for chambers and associations in Armenia. The basic problems of BMO in Armenia are not different from such problems in other parts of the world. The challenges for most of the Armenian BMO as far as identified in the present assessment are similar to those which are presented here for BMO in general. This includes the fact that chambers and associations near the capital (or bigger cities) meet better conditions in terms of a comprehensive membership than in regions outside the urban centres.

Like for the weaknesses, the potentials for BMO development in Armenia are in tendency not different to the potentials described above for BMO in developing countries in general. A positive factor in this regard is the fact that Armenia has made a reform policy on the economic and legal framework which facilitates SME development and might have paved the way for some success stories of BMO, e.g. in advocacy and business networking. Very important for the future perspectives of BMO in Armenia is the question in how far local entrepreneurs will see BMO as vehicles for improvement of the private sector and are ready to actively participate in the work of the management board and other bodies of the BMO in which they are members.

Member enterprises are the reason for a BMO to exist. As already mentioned above a small membership often is a crucial aspect of underdevelopment of BMO, and this is also the case in Armenia. So membership development and especially efforts to attract new members play an eminent role in improving the situation of BMO in Armenia. As the table below shows a bigger number of members will provide for more lobbying power of a BMO and strengthen its advocacy work in the political field, and at the same time more members will motivate a BMO to provide more and better (business development) services for them, and the demand for that might particularly come from new members. As a consequence from a better profile in advocacy and service delivery a BMO will become more attractive for the business community; this in turn might encourage new companies to join the BMO, and more members might be ready to pay their membership fees. Consequently, more income is generated for the BMO which can be utilized to extend its advocacy work and service delivery.



Figure 7: Importance of Membership

However, how can membership grow as long as advocacy and service delivery are still poor? The solution can be a combination of introducing at least one attractive new service (or extension of one existing service) which is not so difficult and costly (like a quarterly business newsletter of the BMO) with direct active measures of membership development. Examples of such direct membership development measures are:

- Organization of an open-house day: the idea is to invite members and non-members to the place of the BMO, bring them in contact with its representatives and offer them a first-hand impression of the BMO activities. Such an event could happen every six months.
- Member-to-Member System: Every member company defines a price discount for its service/product which it offers to any other member. Non-members are excluded from this discount and might see this as an incentive to join the BMO.
- Member recruitment by members: there might be several very committed members which can be requested to win new members for the BMO. An incentive for that could be a reduction of the membership fee of the recruiting member for 20-30% for one year.
- Feedback: After may-be half a year of membership a company should be given the opportunity to express its satisfaction or dissatisfaction with appearance and services of a BMO in a feedback form or in a meeting with board members or leading staff of a BMO.
- Public relations through cooperation with members: member companies can be involved in attracting attention for the chamber or association to which they belong. They can for example give the BMO an opportunity to set up a display in their foyer in which the BMO calls attention for its service offers.
- Appropriate membership fees: there should be an annual membership fee which doesn't create a significant burden for the members. However, membership fees shall not be too low either. It shall be related to the size of a company in terms of turnover or profit for example. Consequently, smaller enterprises will be charged less than larger enterprises according to their financial capabilities.
- Discounts of service fees for members: Some services like a conference and a membership directory might be free of charge or charged with a low price for members while non-members have to pay or pay more than members for these services. This can be an incentive for a non-member to join the BMO.

Partly the above-mentioned measures are exclusively directed to non-members which shall be gained as future members of a BMO. Some other issues like open-house day, member-to-member system or the fee policy for members are also relevant for the retention of already existing members in a BMO.

6. Recommendations

The Consultant proposes the following actions to remedy the existing challenges and weaknesses:

1. **Creation of BMO platforms and pooling of resources.** Due to capacity issues, most of the BMOs do not have the staff and financial resources to substantially improve the quality and increase quantity of their services, and often lack strategic experience and expertise. The proposed solution to those issues is the creation of permanent BMO cooperation platforms, which will:
 - a. Serve as a forum for sharing experience and best practices, planning and coordinating strategic efforts, and initiating joint lobbying and other activities;
 - b. Serve as a medium for pooling resources of several BMOs, which will allow to engage new talent and acquire services for joint use, which smaller BMO's cannot afford on their own (and potentially also cannot fully utilize alone). This can include both hiring professionals whom BMOs cannot individually afford and/or utilize (e.g. lawyers, tax experts, communication experts, etc.), and also procuring services for members in bulk, which will allow ensuring better prices and quality;
 - c. In the short-term, taking advantage of the seeming existence of corresponding political will, such platforms could be used for lobbying for the creation of the business ombudsman institute with a special legally guaranteed relationship for BMOs (which could range from the duty of the ombudsman to systematically consult with BMOs to actual involvement of the BMOs in the election/appointment of the ombudsman).

2. **Modification of organizational structures with more active member engagement.** Individual BMOs or BMO can substantially improve both their capacity and quality of services by engaging members in working groups and/or committees dedicated to specific issues (e.g. tax, HR, legal, expos and other questions). Such structures will immediately improve management democracy (immediate feedback from members, increased bottom-up approaches and more member engagement), and will also provide added capacity to BMOs. Also, if consistently implemented and coordinated, such structures are proven to make membership more appealing, as potential members have a better understanding of how they can engage in mutually beneficial cooperation with the BMOs in areas of interest for them, and also provides additional networking opportunities between the BMO members.
3. **Regular member needs assessments.** Formal member needs assessments are only implemented by few BMOs, with majority relying more on communication during meetings and one-on-one communication to understand their member needs. While such approaches can work effectively with small membership, if BMOs are to increase membership and sustainability, they need to introduce regular formal member needs assessments, which should serve as a basis for improving quality and scope of BMO services. At that, in the mid-term perspective assessments can also be targeted at potential members, which will allow collecting information on their needs (which might differ from those of current member) to potentially address them, and as a side-benefit will increase awareness and potentially interest towards the BMO among potential members.
4. **Introduction of new services.** Increasing quantity of services to members is a proven model for increasing appeal of BMO membership and increasing sustainability. The survey indicates that the following new services are most relevant for the SMEs:
 - a. Accounting and tax advisory;
 - b. Legal consulting;
 - c. Marketing and promotion of sales (particularly via promotion and sales of SME members' products/services under umbrella brands);
 - d. Pooled recruitment and training of qualified personnel for member companies

New services do not necessarily need to be provided by BMOs at their own expense. BMOs could rather negotiate bulk prices for such services for their members from existing service providers, which will ensure better price and quality of services.

5. **Improvement of lobbying services.** BMOs need to continue taking advantage of the improving quality of Public-Private Dialogue, particularly, by continuing to move from reactive to proactive lobbying tactics, and also by actively engaging new channels, including cooperation with the Center for Strategic Initiatives and utilization of the recently introduced e-drafts platform.
6. **Improvement of business networking services.** As an almost zero-cost way for improving quality of business networking services most of BMOs could move to publish up-to-date complete lists of their members and provide brief details about key areas of activities of the members, in order to enhance member-visibility to potential partners and also to one another.
7. **Business information services.** While it is certainly advisable for BMOs who do not currently offer such services to start providing them, those BMOs who do provide them should consider the option of providing non-members with some amount of business information (e.g. selected information, or very short statements with full information remaining visible to members only) as a way to increase interest towards membership.
8. **Improving visibility and communication to members and non-members.** Raising awareness about BMO activities, success stories and membership advantages is strategically important to increase understanding of existing and/or potential benefits of BMOs among potential member businesses (especially SMEs). To this end utilizing of digital technology (improved and more informative websites, social media pages) and traditional communication means (press coverage, circulation of brochures and publications) should be utilized. In these areas support of donors may be especially effective, as many of the activities can be implemented through short- and mid-term projects, which will give BMOs tools for long-term use.

9. **Development of trade and market development services** on national and international level, ranging from providing market information to trade fair visits and organization of trade delegations is also an important aspect that should be tapped for the development of BMOs.
10. What the BMOs also need is an **analysis of competitors and own capacities** in order to decide whether they will introduce and run an identified new/extended service for SME with their own resources or whether they take an intermediary role as facilitator of this service to be implemented by another provider like a training institute or a consulting company. It is important to mention here that the implementation of a service and the introduction of a new service by a BMO also depends on the **calculation of expenses and the expected income** from this service. A BMO must be aware whether it can afford a service which is demanded by the companies.

A cross-cutting issue for all the above-mentioned recommendations is the topic membership development. Each of the proposals above might contribute to the efforts to better respond to the demands of member enterprises and to gain new members for Armenian BMO as a necessary precondition for their growth and development. In addition, several direct membership development measures are possible and have proved to be useful in many BMO in various countries (Western countries including Germany, developing countries) for attracting new members and retaining members which already belong to a chamber or association. There are financial incentives for non-members to join a BMO like the member-to-member system and also the organization of meetings and other contact making opportunities which show new and already existing members that they are appreciated as relevant parts of a business community (see details in 5.3). In order to implement such direct membership development measures, a certain number of committed representatives of the board or of other groups within the BMO are needed for doing the required work on a voluntary basis.