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**PRELIMINARY STUDY  
OF  
POLAND'S HOUSING  
CONSTRUCTION SECTOR**

October 1991

*prepared for*

U.S. Agency for International Development  
Washington, D.C.

*under contract to*

PADCO  
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NAHB Research Center  
Upper Marlboro, MD 20722



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**PRELIMINARY STUDY  
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**EXECUTIVE SUMMARY**

There are strategic principles shared by successful kombinats and private contractors alike. These principles include universalization and flexibility. In other words, contractors can and are willing to do whatever the client wishes. Kombinats resemble armies--they are well equipped and can bring massive amounts of resources to a project. Private companies, on the other hand, resemble guerrillas--they do not have the resources of the kombinats but can act more quickly and more efficiently with the resources at their command. These companies are willing to expand into new markets. The need to compete for contracts originating from a shrinking number of investors causes these companies to reevaluate their traditional range of specialized construction activities and their historic clients.

In Torun, a single kombinat is well entrenched and enjoys between 80 percent and 90 percent of the housing construction market. The largest cooperative in Torun contracts almost exclusively with the kombinat. On the other hand, some private construction firms in Torun are becoming well entrenched in the housing construction market, offering more attractive, larger housing at lower cost than the kombinat. Three private contractors are building housing for a company-owned cooperative using traditional block and brick construction. Another private contractor is experimenting with American wood-frame technology, building four speculative units on privately owned land outside of Torun. The market for new housing in Torun is large with as much as 20 percent of the population in need of decent housing.

In Gdansk, the large-project construction market is dominated by four municipally owned construction kombinats, one of which has recently undergone reorganization into three private stock companies and one small municipally owned firm. But at least two relatively large and successful private general contractors are succeeding and expanding in Gdansk. They occasionally win larger construction contracts in direct competition with the kombinats. In

addition to the Gdansk housing kombinat that has undergone privatization, several more are in the process of investigating the move to privatization, some with more gusto than others.

In Warsaw, as in Gdansk, large kombinats dominate the market, but at least one is in dire financial trouble. Of two private construction companies interviewed in Warsaw, one is expanding to become a more complete construction service firm that offers design, development, and construction services. It is currently building a dental clinic, a small multifamily building, and several single-family houses. The other firm is involved in renovation for state enterprises and in new housing construction for cooperatives. This firm is considering building its own projects and has identified a number of prospective individual clients that have their own funds. The firm is considering American construction technology as a less costly alternative. In addition, two private developers were interviewed in Warsaw. One has been growing due in part to his work with foreign firms. The other private developer's primary activity is consulting on legal matters relating to ownership and on feasibility studies for investors and contractors. Some companies, both private and state-owned, are exporting housing and other construction activities to other European countries.

Organizationally and structurally, the private companies appear to be more streamlined than the state/municipally owned companies. It is, however, difficult to verify this observation because of the lack of a mature private sector and the extreme difference in size between private and public businesses. Yet, because private companies tend to pay higher salaries than state-owned enterprises and remain competitive on projects within their capacity to handle, it is reasonable to assume that they are better managed. Most state-owned enterprises evidence a multilayered management approach with no clear decision-making responsibility. On the other hand, most private contractors are either sole proprietorships or a partnership in which one partner holds the controlling interest. Therefore, business decisions are rapid and not open to debate by differing factions. Employee-owned private companies have yet to be evaluated, although there are signs of increasing labor productivity and cost reduction in the one employee-owned housing factory in Gdansk.

The competitive bidding process has begun to emerge in Poland and private contractors often win contracts that they are permitted to bid upon. In many cases, large housing cooperatives and municipal offices submit requests for bids only to municipally owned enterprises because of past relationships or vested interests. Private contractors that have been invited to bid often win based on reduced construction schedules and lower costs.

The labor supply in Poland poses an enigma. While the supply of workers appears plentiful, most companies--private and state-owned--expressed concern over the lack of skill, high salaries, and ingrained inefficiencies. Two private contractors and the Deputy Minister of Physical Planning and Construction told the Research Center's interviewer that construction labor, except for electricians and plumbers, is considered the lowest form of work in Poland. One contractor called it "accidental" labor, consisting of street people and farmers who work in construction between crops. On the other hand, several of the managers of state-owned enterprises voiced contradictory opinions. They degraded private construction firms for their lack of worker expertise and then admitted that many of their own skilled workers have gone over to the private companies because of their higher salaries. In addition, it is not unusual for employees of state-owned construction enterprises to "moonlight", working at their regular jobs until 3 p.m. and then working for private contractors until 9 p.m. or 10 p.m. In Warsaw and Siedlce, some state-owned companies have requested permission to import Soviet workers who will work for about one-half of the pay of Polish workers. One of the results of the privatization of the Gdansk kombinat was worker salary adjustments to match those paid by private companies. The company manager also stated that salary adjustments were accompanied by an immediate improvement in worker morale and efficiency. The company's workers are stock holders in the firm.

Construction technology in Poland has evolved over the last 40+ years much as it has in other Eastern European countries. Although some traditional building material use continued over this period, large prefabricated concrete panels, erected on site with cranes, became the preferred method to build large apartment buildings. This created a sterile sameness in design throughout the country and caused traditional labor skills practically to vanish. However, traditional block and brick technologies are beginning to reemerge with most of the private contractors and several

municipally owned firms now using traditional construction materials. A municipally owned enterprise in Warsaw has a department working on design and marketing of single-family houses that incorporate traditional materials.

Foreign systems are also being investigated and used. At least two kombinats have introduced an Austrian system called Peri. Peri is a formed-in-place system that offers more design flexibility, reduced construction schedule time, and a 50-year warranty versus the typical five-year warranty for the conventional Polish panel system. In Torun, one of the private contractors is building four "experimental" single-family houses using American technology, and a contractor in Warsaw is strongly considering the same approach. At least one foreign firm, Curtis Construction, Ltd., is currently marketing and building American-style housing in a development in Piaseczno, near Warsaw. Most of those interviewed, however, believe that wood-frame construction will not become popular in Poland because it is considered "temporary" by Polish standards. On the other hand, most agree that this type of housing might offer a solution for accelerating construction schedules.

Three of the private contractors stressed the need to build energy-conserving buildings. Most units are heated with hot water radiator systems supplied from a district heating facility--most often the local electric power plant. Fuel costs for district heating facilities are currently subsidized by the state, making residential energy conservation a nonissue at present. However, the national government is planning to phase out energy subsidies in the near future, thereby forcing a considerable increase in residential heating costs. Many residents set their radiators fully open for the entire heating season and moderate temperatures by opening and closing windows. A new national construction standard requires that each dwelling unit must have provisions for an individual heat meter so that energy costs can be properly allocated when the subsidies are eliminated. Because most existing housing is uninsulated or poorly insulated and has poor quality windows, energy costs may become extremely burdensome for most Polish families.

Much of the equipment used to fabricate concrete panels, transport them to the construction site, and lift them into place is old and in need of replacement. Some state-owned enterprises that

have recently invested in upgrading their equipment are finding that, because of the current slowdown in construction, the equipment is causing a severe drain on their cash reserves. Enterprises that have the oldest equipment are finding it difficult to compete because of inefficiencies and maintenance costs. Most private construction companies do not own their own heavy equipment and instead lease such equipment from the state-owned enterprises as needed. This arrangement provides the enterprises with some relief from their capital burden while allowing the private companies to operate without undue capital expense. The return to traditional construction techniques (brick and concrete block) and use of foreign cast-in-place concrete technology (the Peri System) allows some companies to remain competitive without the great expense associated with the purchase and maintenance of heavy equipment.

Currently, construction material availability and cost do not appear to be problems in Poland. Since the country's shift to a free-market economy, sources of materials have become competitive, and foreign materials are also easily obtained. On the other hand, the trend away from large concrete panels and, to some extent, toward single-family housing might require a reevaluation of material sources and availability. Further, it is likely that present material abundance is due in part to minimal construction activity. When housing construction activity increases, material shortages and higher prices may result.

The availability and cost of financing is possibly the most pressing problem for all participants in Poland's housing construction sector. The Polish call those involved in the development of housing "investors." The primary investors in housing are the housing cooperatives. In the past, they survived on subsidies and low-interest bank credits. Now, however, neither subsidies nor cheap credits are available and other alternatives for funding have yet to be completely developed. Until recently, almost all housing was controlled by the state. Individual home mortgages were practically nonexistent. Now cooperatives are requiring individual families to pay cash or to obtain their own financing. Few families are capable of doing either. This financial predicament has been worsened by an extremely high rate of inflation. In recent months, however, inflation has slowed considerably. Many construction firms are in the middle of projects but are having trouble continuing because investor payments are in arrears. All firms,

public and private, involved in Poland's housing delivery system are being adversely affected by the country's financial problems.

Private construction firms and developers, for the most part, rely upon investor financing. Some, however, have good credit ratings and are able to secure bank financing for construction or purchase of equipment. Some began business with ample personal capital and do not require bank financing of their operations. In fact, most would prefer not to borrow at the current high rates. One private contractor in Torun sells dwelling units for around \$260 per square meter for cash or \$350 per square meter if construction is financed. The difference represents the cost of credit over the construction schedule, which is normally 10 to 15 months depending on the size of the building. Permanent mortgage financing, if used, must be obtained by the buyer.

After financing, the most pressing problem faced by firms involved in housing is the availability of developed land. All state-owned land is in the process of being turned over to municipalities for disposition. Rules and regulations are still not in place for the local officials to follow. Given this transition period, some local officials have done a relatively good job of reallocating land, but others seem to be incapable of effective action. In addition, heredity issues are being raised on much of the state-owned land that was appropriated from private individuals some 45 years ago. Heirs of the historic owners are petitioning the government for reinstatement of their land. Therefore, some municipalities have difficulty obtaining notarial releases to reallocate much of the land under their control. Land acquisition for housing is accomplished primarily by housing cooperatives. Many are now at a standstill in obtaining new building sites. Some are purchasing sites only from private land owners.

Some developers and contractors have demonstrated ingenuity in acquiring buildable land with little, if any, capital or financing. They look for privately owned infill parcels of land already serviced by infrastructure and offer the land owner one of the first dwelling units in the building as payment for the land. The owner may also be offered a small percentage of the profits from the building, depending on the size of the parcel. Because many of the land owners are on waiting lists for cooperative housing, some are happy to cut their wait from 10 to 20 years down to 10 to 15 months. Some private contractors have developed reputations for relatively rapid,

higher-quality construction; investors come to them directly without competitive bidding. With annual interest rates of about 45 percent, investors are aware of the need for speedy construction.

Infrastructure expansion is also a major problem. Often when land is available, it is unimproved. Poland's tax laws prevent municipalities from levying new taxes which, in turn, precludes them from providing services. Extension of utilities and roads is the municipality's responsibility, but most local governments are not financially able to provide needed services. Therefore, if infrastructure is installed, the developer bears the expense. By law, the municipality must reimburse the developer within a reasonable time frame when developer-built infrastructure is deeded over to the town. The municipality seldom can afford to do this. The net result is that new projects are placed on hold until someone can pay for infrastructure.

Only one private contractor placed poor construction management at the top of the list of problems in Poland. He described the construction process as disorganized and not professionally managed. While lack of skilled labor contributes to the problem, it underscores the need for strong management. The private contractor believes that introduction of more efficient technologies will help, but more important is the need for training of both workers and managers. Although other contractors did not directly mention construction management as a problem, many of the other problems that were mentioned might relate to the need for more on-site professionalism.

Privatization of state-owned housing construction enterprises is to be accomplished in conformity to rules that apply to all Polish industries, regardless of the type of industry. General rules consist of two steps: 1 change from state ownership to a joint-stock company with 100 percent state ownership and 2 complete privatization. There are several paths to complete privatization: employees' stock ownership; public stock offerings; public offerings combined with controlling shares retained by active investors; joint ventures with foreign companies; privatization through liquidation; mass privatization; and sectoral privatization and restructuring designed by Polish and foreign consulting firms. Each of these paths has specific guidelines and rules to be followed.

Apparently, there is little or no private influence in shaping national housing policy in Poland. No formal organization of housing related industries exists--in fact, very few private builders and developers are aware of the nature or strength of their competition.

Although the current housing construction sector in Poland is somewhat stagnant, prospects are encouraging. Many of the interviewees were optimistic about the future and believe that the market economy will succeed. The degree of competitiveness among private construction firms is astonishing given that such firms have existed for only a year or so in their present form. Many of the state-owned companies have made moves toward privatization. Although skilled labor is in short supply, most regions of the country can point toward an ample labor pool. However, there is a clear need to improve the image of construction work to make it a desirable occupation rather than "accidental" work. A worker training program should also improve the quality of construction. Construction materials are currently abundant, although shortages may result when construction activity picks up,. Finally, the pent-up market for housing in Poland is enormous. Citizens know that there is a wide gap between their housing needs and the present housing construction sector's ability to satisfy those needs. Because housing has become one of the major focal points in the national economy, Polish politicians are certainly aware that a successful housing program can result in considerable political currency.

## **INTRODUCTION**

### **Background**

Poland's housing construction industry is undergoing a process of change. In some respects, change is rapid and dramatic. In other respects, change is slow and cumbersome. Most of the large state-owned housing construction companies (kombinats) still exist, but most are now owned by municipalities and "voivodships" (district political jurisdictions similar to counties). Huge housing cooperatives have been the primary providers of Polish housing, acting as developers and landlords. Large, precast concrete panel multifamily construction still predominates. Private construction companies are now challenging the kombinats, private

developers are competing with housing cooperatives, and traditional brick and concrete block construction is gaining ground on concrete panel construction.

In the past, the state-owned contractors and state-controlled cooperatives existed on subsidies and reduced-rate financing. Under communism, housing--considered a social benefit rather than a commercial good--did not contribute to the Gross Domestic Product (GDP). Therefore, central government planners never considered housing a high priority industry. Because funding seldom matched demand, housing was in notorious short supply. Since Poland's return to a market economy, almost all housing subsidies have been discontinued, and bank interest rates are now market-driven and used to curb inflation. Therefore, the state-owned contractors and cooperatives must compete with each other and with private companies for resources. The primary advantages of state-owned enterprises are size, organization, land availability, and capital equipment. Their primary disadvantages are inertia, inefficiency, and sterile housing designs.

The reemergence of private building contractors in Poland began in the late 1980s when state policy became more conducive to such activities. Most private contractors are relatively small compared to state-owned firms, but some are gaining ground. During the same period, small housing cooperatives were formed by individuals who discovered that such an arrangement would greatly reduce the waiting time for housing. Because institutions based on the once-socialist economy are deeply rooted, private firms are finding the pace of reform slower than they would prefer. On the other hand, socialist institutions have been in place for almost half a century and, although the old economic system has been abandoned, workable alternatives are only beginning to emerge.

There is a critical shortage of housing in Poland. Nationally, almost 20 percent of the urban households share dwelling units with one or more other households.<sup>1</sup> For years, production has fallen short of demand because Poland's economy was not driven by market forces. Since economic reform, inflation, the lack of capital, and high interest rates have exacerbated the problem. Contracts for housing construction have been shrinking. As a result, some of the large

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<sup>1</sup> Poland, a Strategy for the Housing Sector, Report of the Joint Bank-Polish Task Force on Housing, October 1990.

kombinats have become insolvent and others have been forced to reorganize into more efficient operations or to transform into private-enterprise businesses. The more efficient private contractors seem to be surviving and growing during Poland's current economic instability--they have more flexible workforces and are not hindered by large investments in capital equipment.

Under contract to the U.S. Agency for International Development, Planning and Development Collaborative International (PADCO) designed and implemented a survey approach for obtaining a better understanding of the current and future state of Poland's residential construction sector. PADCO commissioned a Polish contractor, SMG/KRC Poland, to investigate state/municipally-owned enterprises, housing cooperatives, and private firms involved in Poland's housing delivery system. The NAHB Research Center (Research Center) reviewed the SMG/KRC draft report, organized and summarized the results, and traveled to Poland to clarify and expand upon some of the more significant findings.

## **Methodology**

SMG/KRC Poland interviewed officials of 26 construction sector companies in four cities: Warsaw, population 1,653,100; Gdansk, population 464,600; Torun, population 200,800; and Siedlce, population 70,500. A PADCO team visited these cities in April 1991, with the goal of understanding the housing construction sector in a cross-section of Polish communities, large and small. Initially, four types of enterprises were identified for inclusion in the survey. These were

- private residential contractors;
- state-owned construction enterprises;
- private housing developers; and
- housing cooperatives in their role as developers.

Following the SMG/KRC interviews and the submission of a draft report of interview results to PADCO, an analyst from the Research Center went to Poland to clarify further the roles of the different firms involved in the housing construction sector. The Research Center analyst

interviewed six additional firms plus the Deputy Director of the Polish Ministry of Physical Planning and Construction, SMG/KRC, and an official of the World Bank. He also visited several construction sites to observe and develop a first-hand evaluation of materials use, housing design and quality, and labor expertise.

The SMG/KRC investigation revealed that private developers are still rare in Poland, a fact that was verified by the Research Center analyst. In addition, SMG/KRC investigated four other companies that cannot be classified into any of the above categories. These companies were a municipally owned construction management firm in Gdansk, a joint-stock construction material supply firm in Siedlce, a "public economy unit" construction enterprise in Warsaw, and a construction/renovation company in Siedlce owned by a housing cooperative. Interviews with these companies contribute to a broader understanding of Poland's housing sector. The Research Center analyst interviewed two private residential building contractors and a private consultant/developer in Warsaw. In Torun, he interviewed two private contractors and the director of a housing cooperative that employed three private contractors for most of its construction.

The distinction between private firms and state/municipally-owned companies in Poland is sometimes blurred. For example, the building supply firm in Siedlce is a free-market, for-profit enterprise, but its stock is owned entirely by the municipal government and municipally owned construction companies. The owners are also the major clients. Thus, the firm is a semi-monopoly, although all are free to conduct business with other firms. In another example, the reorganization of a kombinat in Gdansk resulted in the creation of three private companies and one municipally owned firm. The municipally owned firm retains a large share of the private firms' stock. In yet another example, once it satisfied the housing needs of its own members, a company housing cooperative in Torun decided to continue developing property for sale to nonmembers, using private contractors exclusively. Income from this venture is reinvested in maintenance and upkeep of cooperative member housing. Therefore, the cooperative is similar to an American nonprofit organization.

Many cooperatives--the socialist housing developers--are discussing the possibility of transforming themselves into for-profit businesses given that state subsidies no longer exist and low-interest bank credit is no longer available. Yet, these organizations are not privatized. Some of the municipally owned firms are looking into privatization by becoming one-person stock companies whose stock is held by the local town president. None of the state/municipally owned firms is obligated to purchase material from state-owned sources. Almost all "socialist" institutions, including building contractors and housing cooperatives, are becoming involved in the competitive bidding process. So, conditions are not always as they seem in Poland's housing construction sector.

SMG/KRC applied a multilevel case study approach and obtained information about each firm through interviews with managers, owners, and/or employees. A list of possible interview subjects included the following:

- company size;
- longevity;
- organizational structure and ownership;
- market served (clients) and market share;
- technology employed and supply of building materials;
- financing;
- links to foreign capital and firms;
- access to land;
- labor issues;
- current status;
- links to municipalities, voivodships (larger "district" political jurisdictions similar to counties), and the national government;
- access to and use of subsidies; and
- reorganization and privatization plans and issues.

To the extent possible, the interviewer attempted to elicit information based on the above list. Occasionally, identical types of information were not available from each source. In other cases,

specific questions were not applicable to the company under investigation. Summaries of each of the interviews are attached to this report as an Appendix.

Table 1 shows the types of firms investigated by SMG/KRC and the Research Center analyst in each city.

Table 1. SMG/KRC and NAHB Research Center Interviews by Business Type by City

<u>City</u>	<u>Company Name</u>	<u>Business Type</u>
Gdansk	Zakoniczyn Housing Society	Cooperative developer
Gdansk	Management of Gdansk Urban Dev.	Municipally owned mgmt firm
Gdansk	Mr. Piotr Lejman	Private developer
Gdansk	Marbud	Private contractor
Gdansk	Masbud	Private contractor
Gdansk	Maxbud	Private contractor
Gdansk	Poldom	Municipally owned enterprise
Gdansk	Gdansk Houses Building Factory	Municipally owned enterprise
Warsaw	Warsaw Construction Enterprise	Public econ. unit contractor
Warsaw	Apt. Building Factory - North	Municipally owned enterprise
Warsaw	Urban Building Enterprise - South	Municipally owned enterprise
Warsaw	Teachers' Const. and Housing Society	Cooperative developer
Warsaw	PLON	Cooperative developer
Warsaw	The Housing Cooperative	Cooperative developer
Warsaw	CARTA S.A.	Private developer
Warsaw*	ENEL	Private contractor
Warsaw*	DUO Company	Private contractor
Warsaw*	Alpha Chem	Private developer/consultant
Siedlce	Municipal Construction Enterprise	Municipally owned enterprise
Siedlce	PROBUD	Joint-stock materials supply firm
Siedlce	Ludwik Krzeszewski	Private contractor
Siedlce	Building and Renovation Division	Cooperative contractor
Siedlce	Siedlce Co. for Indust. Construction	Municipally owned enterprise
Siedlce	KUMBUDEX	Private contractor
Torun	Na Skarpie	Cooperative developer
Torun	Mikro	Cooperative developer
Torun	Komunalik	Cooperative developer
Torun	Kombinat Budowlany	Municipally owned enterprise
Torun	Pragmatic	Private contractor
Torun*	RENBUD	Private contractor
Torun*	KABET/BUDTECH/MARBUD	Private contractors
Torun*	MetalChem	Company cooperative developer

\* Interviewed by NAHB Research Center, the remainder interviewed by SMG/KRC.

## HOUSING CONSTRUCTION SECTOR

This section contains synthesized reports by company type based on the interpretation of individual case studies. For case study interview transcriptions, refer to the appendix.

### Private Developers

Unlike the West, Poland can claim only a limited number of private sector developers. Most development work in the housing sector is carried out by housing cooperatives. Poland's nascent private developer sector serves primarily as packagers of services for clients. There is no comparison between Polish and American development firms in the scope of activity, financing methods, or size of operation.

*Longevity.* Private development firms in Poland have just recently started their businesses. There is no recent history of this type of private enterprise that could provide a benchmark for business longevity potential. The oldest firm of the three interviewed has been in business for three years, but it focuses primarily on consulting services for all types of industry.

*Size.* As a relatively new type of business, private developers are very small in size. A Gdansk developer has a two-person staff--himself and his wife who works part-time. He wants to enlarge the company by several people during the construction period. A Warsaw firm employs a full-time staff of two engineers and a secretary and a part-time lawyer, accountant, and another secretary. The other Warsaw developer, more aptly called a consultant, has organized a group of 67 associates who provide consulting services for all types of businesses, including residential developers and contractors. This firm is also involved in matching foreign investors with Polish construction contractors.

*Scope of Activity.* As the private developer is a new player in the Polish housing delivery system, those who have entered the housing business are trying to define the scope of activities that they will provide. The Gdansk developer provides financial and development services to a housing society (cooperative) that has several thousand members. He is primarily involved in

handling the legal affairs associated with residential building sites, including ownership matters, property surveys, and preparing necessary documentation for land transfers. He acts as an ombudsman between current and potential land owners. One Warsaw developer provides the following services:

- obtaining land through purchase, lease, or partnership with the owner;
- analyzing the legal status of the land;
- evaluating of the land as a building site;
- proposing the most suitable type of investment and negotiating with municipal authorities;
- conducting economic and financial analyses (feasibility studies);
- locating a contractor;
- working out the project schedule;
- performing market research; and
- working out project financing (loans, investors, partnerships).

The company does most of its own work but subcontracts such work as design. It has entered into total project partnerships, although the partnership approach is not the firm's preferred way of conducting business. The company focuses on housing construction--both multifamily and single-family--but is involved in other types of construction activity such as the development of hotels and motels, banks, office buildings, and other commercial structures.

The other Warsaw developer is a consultant who specializes in evaluating and assessing project feasibility and in assisting material suppliers and state-owned contractors who are interested in privatization. The company does legal research on land ownership problems and helps arrange joint-ventures and partnerships. The company serves as a middleman for foreign investors

**Business Stability.** If the current financial condition in Poland remains unchanged, small, under-capitalized private developers will experience difficulty in surviving. Risks are substantial. Investors may withdraw from a contract for any reason (or without reason) and without consequence because legal rules are so unclear. On the other hand, as state and municipal companies become privatized and large housing cooperatives are disbanded, a niche will be

created for those who can work projects through the system. One Warsaw firm is particularly diverse in its business activities; housing development is a but minor part of its operations. Such diversity seems to create a more stable business overall.

*Land.* Obtaining serviced land is the most serious problem because of administrative disorder in some municipalities. Municipalities were required to complete a list of available land a year ago, but many have yet to prepare such list. As a result, one Warsaw developer negotiates only with private owners or municipalities that can guarantee that the legal ownership of the land is clearly established.

Typically, the municipality makes all decisions concerning allocation of municipally owned land. Developers apply for allocation of a specific parcel of municipally owned property that is zoned for the developer's intended use. In the case of land owned by the Polish Treasury or by a town, a tender for purchase is obligatory. A municipal office collects all necessary certifications from other city agencies, including sanitary and health administration and fire department. Once all certifications are obtained, the city architect must approve the allocation. With the architect's approval, the developer prepares more detailed project plans for submission to the city administration for granting of "localization" or authorization to proceed with construction plans. In the case of Gdansk, processing of plans takes about nine months.

In accordance with Polish law (the Act on Spatial Planning), municipalities must review and elaborate on their urban development plans (zoning). Municipal agencies of spatial planning, which resemble local planning commissions, are responsible for conducting the review.

*Clients.* Private developers' principal clients are large housing cooperatives. The Gdansk developer's sole client is a large housing cooperative of which he is a member. Before forming his own business, the developer provided the same services as an employee of the cooperative. A Warsaw developer's clients have included a housing cooperative, four municipal governments, the Polish Ministry of Tourism, and a private land owner who engaged the developer to construct a motel and medical care center.

**Financing.** Financing is a problem for private developers whose fate usually rests with the ability of their clients to obtain financing, either through cooperative members or from Polish state banks. For example, the Gdansk developer relies on his housing cooperative client to provide financing, but the cooperative's ability to provide credit to its shareholders through the Invest Bank is highly limited. The cooperative is able to provide credit for only one in 50 houses it constructs. The Gdansk developer applied for about \$30 billion zlotys (\$2.7 million U.S.) in credit from the cooperative. However, the cooperative has a condition that the applicant must contribute payments to his account that represent at least 20 percent of the investment value for at least one year. At that time, the cooperative will consider the application for credit. To receive the credit, a lien is placed on the unencumbered site in the amount of the credit. These conditions were unacceptable to the developer.

Because so few individuals and private developers are able to finance new housing themselves, new sources of financing are needed. Some employers have "flat funds" available as a potential source of financing. A Warsaw developer is interested in foreign currency credit, which is less expensive than Polish credit. He uses foreign contractors who make it possible to gain access to foreign credit. The other Warsaw developer stated that foreign investors have no economic reason to come to Poland. One of the reasons, he said, is that foreign investors may legally purchase only 20 percent of the value of a property. Higher investment percentages must be approved by the Polish government.

**Construction Materials.** Competition in the construction material market has caused a decrease in traditional material prices. Private developers normally do not get involved in direct purchase of materials, but they do provide architectural design services and specify the technology and type of construction materials to be used.

**Competition.** In the past, private developers experienced difficulty in competing with housing cooperatives because of the latter's ability to obtain low-interest financing from state banks. Now, because rates are equal, cooperatives are no longer at an advantage and will have difficulty retaining their supremacy. When lower-cost credit becomes available to private developers and

contractors, it is likely that the private sector will have a competitive edge because of efficiencies and the tendency of private developers to build only on better sites.

A Warsaw developer has sent information about his activities to housing cooperatives to invite their cooperation but has yet to receive a response. On the other hand, contacts with embassies and foreign partners show great promise.

***Relationship with Municipalities.*** Working with municipal offices is difficult because of bureaucratic red tape. The need to collect agreements and secure approvals from an excessive number of approving agencies creates a lengthy, cumbersome, and expensive process. The Gdansk developer indicated that most regulations for site and development design approvals are meaningless and should be lifted. On the other hand, it is the developer's expertise in dealing with the system that makes his business more secure. One Warsaw developer's success is based on the fact that the firm is expert in dealing with bureaucracies.

***Infrastructure.*** By law, the municipality is responsible for providing all infrastructure. This is due, in part, to the nationwide convention of providing district hot water heat. However, many municipalities do not have the financial means to install new or extend existing infrastructure. Therefore, costs are borne by future inhabitants who then pass ownership back to the servicing utility or municipality. A 1991 Act of the Minister's Council allowed the municipality to collect these infrastructure "impact fees" with the stipulation that they would eventually be repaid to the inhabitants. In general, this has not yet occurred.

As an example, the Gdansk developer is interested in developing a large property. However, a heat generating plant, heating pipelines, sanitary sewer, and water, gas, and electric utility lines would have to be installed at his expense before construction could begin. The investment in infrastructure alone would be several hundred billion zlotys (over \$10 million U.S), placing in doubt the project's feasibility.

***Contractors.*** One developer uses foreign and private Polish general contractors. They are less expensive than Polish state-owned construction firms.

## Private Building Contractors

SMG/KRC and the Research Center interviewed 10 private building contractors. The contractors' size and activities varied much as they would in the case of a random sampling of U.S. building contractors. One common thread was that few of the contractors build for-sale housing with their own resources. The following table shows the location, size, and business longevity of the contractors:

Table 2. Private Contractor Interviewees by Location, Type, Size, and Longevity in Business

<u>Firm No.</u>	<u>City</u>	<u>Type</u>	<u>No. of Employees</u>	<u>Longevity</u>
1	Gdansk	General Contractor	120	4 years
2	Gdansk	Construction Co.	40	5 years
3	Gdansk	Housing Factory*	400	3 months
4	Torun	Construction Co.	87	3 years
5	Torun**	General Contractor	70	2 years
6	Torun**	Construction/Renovation	140	3 years
7	Siedlce	Construction Co.	5-10	32 years
8	Siedlce	Subcontractor	varies	?
9	Warsaw**	General Contractor	120	3 years
10	Warsaw**	Construction/Renovation	40	1 year

\* Created from privatization of a state-owned enterprise  
 \*\* Interviewed by NAHB Research Center. Remainder interviewed by SMG/KRC.

**Ownership and Structure.** Private contracting firms are organized in a variety of ways that range from single-person proprietorships, to two-person partnerships, to employee-owned stock companies. For example, Company 1 is a two-person partnership. The principal, a construction engineer, owns 60 percent of the firm. The company possesses its own technical expertise and is capable of a wide range of construction activities. Currently, about 90 percent of the firm's profits are spent on expansion and development of the firm's technical potential.

In Gdansk, three private companies and one state-owned enterprise were formed from the break-up of a large state-owned house building factory. Their supervisory boards include employees and persons from outside the factory. Because they have just begun to operate as separate entities, it is difficult to assess their early successes or failures. One of the three companies is

a new private construction firm. It consists of a two-person board with oversight from a supervisory board. There are 300 shares in the company worth 500 thousand zlotys (\$45 U.S.) each. Employee shareholders hold 216 shares and the parent company holds 84 shares. The supervisory board is involved with expeditiously resolving the legal and organizational matters of the new company.

In Warsaw, both of the private contractors were two-person partnerships. The larger of the two, ENEL, started as an electrical contractor. The other, DUO, began as a renovation contractor, working primarily for cooperatives. In several cases, principals of privately owned construction firms were formerly managers of state-owned businesses and brought their best managers, skilled workers, and potential client contacts with them when they started their own companies.

**Volume.** The total monetary volume of the private contractors varies according to size. The large housing manufacturer has an annual monetary volume in the range of 60 billion to 65 billion zlotys (\$5.5 to \$6 million U.S.).

**Activities.** Private construction companies engage in a wide range of activities--commercial, institutional, and residential construction and from excavation to finish work, including infrastructure where needed. As an example, one company started as an earthworks contractor that installed utilities. The firm is currently improving the water distribution system in the city of Gdynia. It is also involved in an engineering/repair and construction project for an industrial firm. The diminishing market for contract work has forced the company to diversify and, recently, to expand into multifamily housing construction on a "turnkey" basis after it won a contract for the construction of an apartment building and a large commercial pavilion. The company successfully competed against state-owned firms and another private company on the basis of lower price and shorter time schedule. The firm tends to continue to build only on contracts rather than to build speculative "for-sale" housing. It is changing its focus to smaller contracts.

The state-owned factory spin-off contractor does not intend to limit itself to large-scale construction activities. It plans to expand into repair contracts. Possibilities of lower costs are

appearing through the competitive process. For example, the company was able to use the services of a lower-priced private transportation company rather than its "brother" transportation firm on a project. In addition, material inventories have been reduced, thereby causing a reduction in storage costs and the amount of credit required to prepurchase materials.

One of the Warsaw general contractors plans to reorganize into a more complex company and to offer complete services to its clients, including land development, design, and construction. The company has its own architect and engineers and is currently building dental clinics, churches, a small multifamily building, and some single-family houses. Another Warsaw contractor built its reputation as a renovation contractor, working primarily for cooperatives and state and municipal governments. The company's ability to get work done more rapidly than its competition resulted in clients asking the firm to take on new construction as well as renovation.

Only one of the eight private contractors is building speculative units and it is building four "American" style wood-frame homes on farm land outside of Torun. The firm's principal believes he will be able to sell the units, once completed, at a lower price than the competition and still make more profit. Other contractors are unwilling to take the risk of building speculative for-sale houses under the current Polish economic condition, although some expressed the desire to do so in the future.

**Clients.** Private contractor clients include the state, municipalities, cooperatives, other private firms, and, occasionally, individuals. One company has three contracts for construction work in Germany. Costs for entering the international market are high and potential profits are low, but the firm justifies the expansion into foreign markets as an investment for the future. Another private contractor is currently negotiating a contract to build apartment buildings in Russia. Because, as mentioned, some of the private contractors were previously managers of state-owned firms, they have developed business contacts inside and outside Poland. In addition, some foreign clients seek out Polish construction firms that will build abroad at relatively low costs. One Warsaw firm, discussed as a private developer, specializes in matching foreign investors and Polish construction companies.

Almost all private contractors complained about slow payment for completed work, regardless of the client. Housing cooperatives are still building due to contracts in the pipeline, but few new projects are planned. Employer-built construction has practically ceased in some localities. Small private contractors occasionally do work for private parties, but the primary clients of small companies are the large state-owned construction firms that use "craftsmen" companies for finishing work on large housing projects.

**Construction Materials.** Contractors purchase materials directly from manufacturers, from state enterprises, or from private supply firms. Small contractors often are employed to install materials purchased by large general contractors. Currently, there appears to be a good choice of materials in each of the cities included in the survey. Competition and reduced construction activity has kept material prices relatively low. There was some concern that availability and price may become a problem when housing construction begins to come out of its present recession. All private construction companies expressed the need to find the least expensive materials to preserve a competitive edge over large state-owned companies. One contractor said that he does not purchase from a municipally owned building supply firm because private suppliers offer lower prices. Large prefabricated elements are purchased from state-owned factories.

One contractor is building wood-frame dwelling units and another is considering doing so. The supply of lumber, plywood, and other materials peculiar to this type of construction is entirely adequate for a low level of activity but, if a major shift toward wood-frame housing developed, present sources of supply and distribution would soon be overextended. Certain specific materials and building products are in short supply or not available in Poland. As examples, Polish-made thermal insulation is of poor quality and limited availability according to one contractor. But, because few contractors worry about thermal efficiency, there is no perceived shortage. High-quality thermal windows and doors are expensive and are not readily available. Individual unit forced-air heating systems are practically unheard of in Poland because district hot water systems are so common except in remote rural areas.

**Labor.** None of the private contractors expressed concern over worker availability. However, almost all agreed that workmanship, skill level, and knowledge are, on the whole, poor. On the other hand, private contractors tend to recruit more efficient, higher-skilled labor than the state-owned firms, primarily because the private firms offer higher wages than their state-owned counterparts. One owner blamed the lack of trained professionals on the fact that the best tend to leave the country. Another contractor claimed that he is forced to keep inefficient employees because of the difficulty in finding experienced new workers. He believes that people have effectively been taught not to work and that only one in three new employees will stay with the company. The firm employs workers from as far away as 200 kilometers. In the case of professionals, the firm pays their rent, transportation, and other costs. Most construction managers possess a higher education, but the principal of one firm said he hired and fired 10 site engineers before he found one who knew what he was doing. At least one company pays its workers on a piece work system but has no quality assurance program to ensure against unsatisfactory work. On the average, labor costs represent about 16 percent to 18 percent of total construction costs.

**Equipment.** The technical equipment owned by most of the private construction companies is inadequate. They own smaller equipment such as concrete mixers, polishing machines, construction material lifts, and drills but lease heavy and special equipment from state-owned companies. The one exception is the company created from the break-up of a state-owned housing factory; it has access to all necessary heavy equipment.

**Competition.** The sources and depth of competition vary between cities and according to size of contractors. In Gdansk, for example, housing cooperatives carry old contracts with large state-run construction enterprises. When the cooperatives organize new tenders (requests for bids), they may invite only two or three state-owned enterprises to offer bids. Private contractors that have attempted to enter that market with a more attractive bid have usually met with failure, although there are examples of successful exceptions. The competitive bidding process is relatively new in Poland and, depending on the client, is not always open to all qualified firms. When private companies are allowed to submit a proffer, they often win because of reduced construction schedule time, which, because of high interest rates, is often more important to

investors than project construction costs. There is little competition among large private firms in Gdansk because so few exist that can offer a variety of complex services.

Only large private contractors have the resources to compete with large state firms. Accordingly, smaller private firms are not able to strengthen their position. Without expansion, they find it difficult to maintain their current market. Opportunities for small contractors exist primarily in free-enterprise single-family housing and in working under subcontract to larger firms. Because of the lack of business opportunities, some small "craftsmen" firms dissolve and find work with larger private contractors. Even though state-owned enterprises entered the competitive field in a very strong position in view of their current construction contracts and historical clients, their position is now weakening as their material, technical, and financial reserves shrink.

In Torun, three private construction firms work almost exclusively for a company cooperative. Combined, the three firms have 285 employees and build with traditional materials. State enterprises are not yet afraid of competition because they control 80 percent to 90 percent of the market. On the other hand, the private contractors in Torun appear to be well organized and have a three- to four-year backlog of construction activity sponsored by the company cooperative. The cooperative has a waiting list of 2,000 families and estimates that the total market exceeds 20,000 families in Torun. The contractor interviewed for this study claims that many families now living in state factory-built housing are also potential customers for the Torun contractors' larger, more attractive, energy-conserving dwellings. Another contractor stated that there is no competition among private firms in Torun for work but that there is competition for financing.

In Siedlce, there is no major competition at the moment. The lowest bids are winning contracts, but only large state-owned firms have the capacity to bid on large contracts. The smaller private companies tend to subcontract with state-owned companies. Small "craftsmen" contractors are often cheaper and more competitive on small projects. Some competition exists among large private companies, but not among state-owned construction enterprises.

**Financing.** Most private construction firms do not rely heavily on outside financing at present. They build only to contracts that require others to provide financing. However, the larger firms

are interested in finding stable financing at reasonable interest rates for investing in the improvement of their equipment and educational technical base. In addition, the lack of financing makes it almost impossible to build for-sale houses. One company uses self-financing and bank credit to upgrade its equipment, but high interest rates make the purchase of modern equipment difficult.

The private firm that originated from the large state-owned housing enterprise in Gdansk uses the Gdansk Bank, the credit source of the parent kombinat, for financing. The bank maintains the credit contract for the parent enterprise and the three private companies at the same level as before the reorganization. The preservation of the same interest rates indicates confidence in the reorganization, even though recent payment difficulties have occurred as material suppliers demand immediate cash payment and some factory customers fall into arrears.

The smaller private firms tend to finance themselves from profits and from investor payments. One small Siedlce company finances itself although it has two bank credit lines. One bank offers mortgage credits only; consequently, the only way to apply for credit is through a cosigner who owns property. A Warsaw contractor is investigating the possibility of joint-venturing with a German construction company that can provide capital at an interest rate of around 12 percent. The current Polish bank interest rate available to this contractor is 45 percent.

**Land.** There are no problems purchasing privately owned building sites. It is another story, however, with state and municipally owned land. Land owned by the State Treasury is being transferred to local governments. The transfer process is long and complicated and, when completed, the land will be practically unavailable for construction in many municipalities owing to local bureaucratic inefficiencies and requirements. Because taxing authority of local jurisdictions is restricted by law, some jurisdictions are financing all government services by land sales. Some contractors claim that the price of land offered by municipalities is much greater than its value. On the other hand, because most private contractors build on contract only, obtaining sites for construction becomes the investor's problem.

***Business Stability.*** Expensive credit and slow payments from clients who rely on the central budget sometimes place private contractors on the threshold of insolvency. Clients often demand fixed-price contracts that expose firms to losses due to inflation. Whenever possible, the more successful firms include a contract provision to renegotiate prices if construction costs rise more than 5 percent. Some private contractors have continued to grow and prosper during the current Polish economic difficulties.

***Perspective.*** The larger firms would like to expand into different areas and to combine the roles of investor, developer, organizer of the investment process, and general contractor. However, the lack of financing is an obstacle to the expansion of firms and the assumption of new roles. On the basis of the dynamic development of his company, one owner is an optimist. When he collects overdue payments from his customers, he intends to purchase more modern construction equipment. He believes that the future lies in private construction enterprises as housing cooperatives begin to contract with private companies. Some smaller contractors who were interviewed do not feel the need to develop their companies any further. They believe they have found their niche in the local building market. They act either as subcontractors employed by large building companies or are involved in smaller renovation contracts. Two contractors are investigating "Western" technology and one of them is actually building two wood-frame duplexes.

***Difficulties.*** Gaining new contracts, high credit interest rates, inconsistent construction and financing regulations, helplessness in collecting money for work performed, lack of appropriate communication with other institutions, lack of skilled and professional staffs, lack of goodwill, troubles with telephones, etc., all pose difficulties for private construction contractors.

### **Housing Cooperatives**

Housing cooperatives, sometimes called "societies," have traditionally been the socialist housing developers. Until recently, almost all housing in Poland was produced through one of many large cooperatives as a communist "benefit." If housing was needed, the normal procedure was for individuals to join a cooperative (often at the place of employment), put their name on the list,

invest in the cooperative, and wait. Waiting lists reached as long as 20 years. Cooperatives existed on inexpensive credit and state subsidies. Since housing was not considered a productive enterprise, state financial resources were often diverted into more important "productive" enterprises. Most of the housing cooperatives continue to exist in Poland as other alternatives have not yet risen to the task of housing production. Most cooperatives act as housing project developers and landlords. Almost all housing built by cooperatives within urban areas over the years has been in multifamily buildings. Recently, proprietorship cooperatives have been founded to develop for-sale housing for both members and nonmembers. These proprietorship cooperatives are most akin to nonprofit organizations in the United States. Proceeds from the sale of dwelling units are used to pay off debt, finance the purchase of new land, and service and maintain member rental properties.

*Size.* The cooperatives range in size from 250 members with no paid employees to a giant cooperative in Warsaw with 20,000 members and 620 employees. The smallest cooperative controls one building with 30 dwelling units. Completion of the second building is expected in 1991.

*Longevity.* The oldest and largest cooperative was founded in 1958. The most recent was founded in 1988. One cooperative was registered in 1981, but started activity in 1987 after receiving credit from PKO, the National Savings Bank.

*Organization.* Housing cooperatives were originated as voluntary associations of members organized for satisfying members' housing needs. Other than this common goal, organizational structure and management vary widely. For example, a large Gdansk cooperative has dramatically changed its operational procedures from a full membership to a "contract membership" society. New and future members are tied to the society by a contract--rather than by membership--that obligates the society to provide a housing unit of selected size and approximate price in a set time frame. The member is obligated to make payments according to a preestablished payment schedule within the same time frame. Payment schedules are concurrent with the building construction schedule. If construction is delayed, payments are delayed accordingly. Contract members are not entitled to any of the rights of the regular

members such as shaping society policy in general meetings and electing representatives to the supervisory board.

One cooperative is composed of several departments and is headed by a chairman. Another is managed by a three-member "direction" headed by the chairman. These three individuals started the cooperative as a method to obtain housing for themselves. Another cooperative is managed by a chairman, deputy chairman, chief accountant, and administrative clerks. The larger cooperatives are managed by a board, district administrators, a meeting of representatives of the members, a supervisory board, and a "districts" board.

**Financing.** Some cooperatives try not to tap outside credit sources, preferring to finance all construction with members' funds. Some proprietorship cooperatives investigate candidate members for their capability to obtain their own mortgage financing. The difference between the price of a dwelling unit and the individual's mortgage capability must be paid in cash. In view of Poland's current financial problems, some cooperatives build housing for the small number of investors who can personally finance construction. Expensive credit makes it practically impossible to build for the speculative market.

All cooperatives cooperate with the state's National Savings Bank (PKO BP). Because of bank practices, there are hindrances to direct financing. For example, the bank mixes deposits intended for various cooperative investments into one cooperative account, a practice that creates chaos when a project needs to be financed with the money of only those cooperative members who are directly interested in the investment.

Cooperatives no longer receive any state or municipal subsidies. The largest cooperative in Torun continuously makes investments in new housing and related facilities called accompanying investments. For new investments, it uses bank credits. Some cooperatives are changing from the exclusive development of rental housing to development of for-sale housing similar to condominiums as a method of raising capital. The capital so generated is reinvested in new construction or in maintenance of existing members' rental units.

**Land.** After the lack of money, obtaining new building sites is the major problem for most housing cooperatives. State-owned land is being transferred to municipalities for disposition and there is little consistency in land transfer practices between municipalities. Some municipalities tend to concentrate on disposal of state-owned property occupied by existing buildings. The lack of proper organization in the municipal offices and the disorder that characterizes ownership matters have effectively diminished land availability. In addition, in some cities, city councils have raised prices of municipally owned land. Further, some fiscal chambers have imposed a transaction tax that often exceeds the value of the land.

Some cooperatives are finishing construction on sites acquired in previous years but have not secured land for new projects. Legal questions concerning hereditary ownership and "soil rent" make land acquisition practically impossible in some municipalities. Because of these issues, one municipality recently canceled already issued construction permits because it failed to obtain notarial consent for the land. "Soil rent"--a long term lease of usually 99 years--has become a popular alternative to purchasing land in some localities.

Although undeveloped land is often plentiful, developed land is in short supply in many municipalities. Development costs are high, and banks are often unwilling to provide credit for development. Several small cooperatives are in a relatively good position in that they have already purchased developed properties. Other small cooperatives are not situated as favorably as their counterparts. Some cooperatives purchase land only from private owners. A Torun company cooperative concentrates on privately owned infill sites, offering the land owner a housing unit instead of money as payment. On larger sites, a percentage of the profit from the building may be included in the barter agreement.

**Contractors.** The near-monopoly of large state housing factories still persists in some municipalities. Private development and construction firms actively try to obtain contracts from housing cooperatives and are extremely flexible with respect to contract conditions. They often quote extremely low prices, but their performance credibility often suffers because of their limited capital, lack of equipment, and unstable workforce. Nonetheless, many cooperatives have used private contractors with satisfactory results. One cooperative in Gdansk is currently using

a private contractor for the complete land development and construction of a 200-house district. No other single contractor was willing to take on the full job. According to the cooperative representative, the private contractor is working well and quickly. The company cooperative in Torun works exclusively with private contractors, citing lower costs, higher quality, and a shorter schedule as the reason for this approach.

Usually, however, large cooperatives contract with large state-owned contractors for major construction projects. They often contract with private subcontractors, either independently or through the general contractor, for finish work. Smaller cooperatives often use private general contracting firms.

One small cooperative did its own construction. It bought its own materials through the contacts and acquaintances of cooperative members and the members participated in construction. Construction teams from outside the cooperative were hired to do heavy work.

**Competition.** There appears to be no competition among housing cooperatives for either new members or completion of housing construction.

**Privatization.** One cooperative saw some movement toward privatization of that portion of the cooperative that deals with investments and house utilization, although the sales function would have remained the cooperative's domain. Because cooperative members perceived potential problems with the relationship between the private company and the cooperative, they abandoned the idea. Other cooperatives have discussed moves toward privatization but have no clear-cut guidelines on how to accomplish the transition. Proprietorship cooperatives closely resemble private firms inasmuch as they build for-sale units and reinvest proceeds into other housing-related activities.

**Prospects.** The position of many cooperatives in the housing construction market is strong because of membership reserves and avenues to bank credit. Many cooperatives hold land for new building sites. Cooperatives that have become more attuned to customer needs and desires will, no doubt, be most successful in the long run. Only weak private sector alternatives have

emerged to challenge the current cooperative system. Few, if any, private developers are large enough or well-financed enough to tackle large projects. Some private contractors are moving toward becoming developer/builders. As more private firms emerge and more construction occurs outside the cooperative system, the cooperatives may eventually lose their importance as housing providers in Poland.

***Profitability.*** As a rule, cooperatives operate at no profit. Even so, the house building industry as a whole is currently at a low point as high construction costs reduce sales and eliminate profitability.

***Difficulties.*** Some cooperatives are facing difficulty in borrowing because credit is scarce and interest rates are high. Developed land is in short supply and development of undeveloped land raises construction costs. Although infrastructure installation should be carried out by local authorities, there are no funds in many municipal budgets for this purpose. Some cooperatives experience problems in collecting rent from tenants. In some cases, local land-holding inhabitants protest extension of cooperative construction onto new land in their areas. It is the perception of some small cooperatives that they must endure the slighting attitudes of urban authorities. There appears to be a total mismatch between cooperative housing unit production and the ability to pay and housing style preferences of the client group.

***Relationship with Authorities.*** Relationships between most cooperatives and local authorities are limited to geologic matters, territorial matters, approval of land development plans, and financial matters, including payment for sites.

### **State/Municipal Construction Enterprises**

Nine state/municipally-owned construction enterprises were interviewed. They ranged in size from 60 to 1,600 employees. Some were well financed and active, while others were on the verge of bankruptcy. The following table lists the cities, type of construction activity, number of employees, and the length of time each enterprise has been in business.

Table 3. State- and Municipally-Owned Construction Companies

<u>City</u>	<u>Type of Activity</u>	<u>Employees</u>	<u>Longevity</u>
Gdansk/Gdynia	Production & Services	60	35 years
Gdansk	Factory & Gen. Contractor	581	n/a
Torun	Housing Factory	1,600	30 years
Warsaw	Const. Mfg. & Repair	603	4 years
Warsaw	General Contractor	776	n/a
Warsaw	General Contractor	1,000	n/a
Siedlce	Construction	244	40 years
Siedlce	Building & Renovation	263	1 year
Siedlce	Construction	300	14 years

**Organization.** All but two of the firms are owned by the municipality. Organizational structures vary considerably. Each enterprise has a chief manager, but the rest of the management structure depends on size, activity, and company efficiency. For example, one of the smaller enterprises has a manager, two deputy managers, and a chief accountant. There are also four building-site managers.

Some firms have increased management efficiency through computerization and contemporary marketing approaches. The large Torun housing factory relies on a horizontal and team management structure. That is, the management system involves management, departments, and divisions that institute work for their own account.

The organizational structure of one Warsaw enterprise is somewhat unusual. Neither a state nor private enterprise, it is a public enterprise called "a public economy unit." A holding company--the "mother" company--consists of about 27 persons from the board of directors and satellite companies, with participation from the employees. Most employees are shareholders. Management believes that this organizational approach and shared ownership create initiative and a willingness to work and decrease construction site theft.

Several companies have recently undergone or plan to undergo a restructuring aimed at partial or complete privatization. A tax on excessive income called "popiwiek" is levied on employees of state- and municipally-owned companies whose incomes exceed an established maximum.

This tax is deemed necessary because workers' councils in public companies can vote themselves salary increases. This inflation-fighting measure helps prevent higher-than-acceptable salary increases. One way to avoid the tax is to become a private company.

One enterprise in Siedlce was originally the renovation department of a large housing cooperative. It was spun off into a separate company in 1990 because other large building enterprises were not providing the construction technology preferred by the cooperative. The cooperative owns the enterprise.

*Clients.* With respect to housing production, the primary clients of the state construction enterprises are housing cooperatives. Most of the construction companies also build municipal and state projects and other types of construction. Few build for private clients. The more successful firms enjoy a backlog of work. Others are completing projects and have no backlog. Several of the housing factories export to foreign countries, especially to Germany, the Soviet Union, Czechoslovakia, and Bulgaria.

*Competition.* Competition from private construction firms and from other state-owned enterprises varies from city to city. For example, in the Gdansk area, four large state-owned building enterprises compete with each other. Private contractors also compete on projects that do not require significant capital resources. Although incapable of constructing entire districts, private companies are competitive on smaller projects. Often, state-owned companies hire private companies to perform some of the on-site work such as renovation or finish work.

The large Torun housing factory dominates the construction market with an 80 percent to 90 percent share of construction, but competition between private companies for the remaining work is intense. The competitive bid process, relatively new in Poland, has created a new awareness of cost, schedule, and quality among state-owned companies.

In Siedlce, competition from private firms is growing, but the state-owned companies are, for the most part, in a strong position. As an exception, one Siedlce state-owned enterprise recently lost a tender to a private company for a large contract because of lower price. The state-owned

enterprise has only a few projects now. A representative of the enterprise believes that investors are prejudiced against large state-owned companies.

**Finance.** Financial liabilities are a major problem for many of the state-owned companies. Most companies are not financially sound enough to make substantial capital investments. Even though most enterprises enjoy the confidence of the creditor banks, the general economic conditions in Poland are not conducive to new construction activities. Generally, financing of construction is the clients' problem, but delays in payments to the construction firms are common. One enterprise is selling some of its fixed assets because of reduced production. Another factory has initiated talks concerning foreign investment possibilities. Expansion of this factory is also being planned but is on hold until a course of privatization is resolved.

**Labor.** Some state-owned construction firms expressed no concern over labor availability, while others believe that labor is becoming more and more of a problem because of the excessive-wage tax and low salaries. In one enterprise, for example, of 300 white collar workers, 100 have left for other companies, usually private construction firms that pay up to 50 percent higher wages. The general state of the Polish economy also has several managers concerned about their ability to retain a skilled workforce.

In Warsaw, two factory managers said that labor is a major problem. The enterprises are attempting to shorten the construction schedule because of a lack of skilled workers. These companies, along with two Siedlce companies, have asked authorities for permission to import Soviet workers.

In Torun, the state-owned housing factory does not have problems hiring labor, but the best are attracted to private companies. With the factory located a considerable distance from town, the lack of adequate public transportation is an issue for workers.

**Technology and Equipment.** The construction technology used by most state-owned construction firms is the large concrete slab system. This system requires heavy investment in capital equipment to manufacture, transport, and erect buildings. Most companies said that their

equipment was either poor or inadequate. Only one enterprise, in Siedlce, has new equipment, but it is having difficulty paying for its investment. The firm justified its purchase on the basis of a large order from Germany but subsequently lost the order. Other companies would like to purchase new equipment but do not have the guaranteed market that makes investment feasible. Currently, firms cannot afford new equipment because credit is expensive and profits are low or nonexistent.

At least one state-owned enterprise does not use large concrete panels for construction; instead, it builds on site with brick. Although labor-intensive, this approach reduces equipment requirements to small, relatively inexpensive tools and machinery and offers an alternative to large, somewhat sterile architecture. At least one enterprise is starting to build with new monolithic technology based on the Peri System rather than with large precast concrete slabs. Peri is an Austrian-licensed system with a 50-year guarantee. It is no more expensive than the Polish technology, which provides only a five-year guarantee. The old technology uses too much material and increases the amount of required finish work. The new monolithic technology reduces rough construction time by 40 percent and shortens the finish work cycle. The system also modernizes plumbing and electrical installation, making it possible to install electrical wiring without drilling.

**Materials.** All the state-owned construction companies buy their own materials from the most advantageous sources, usually through competitive bids or through a central purchasing office. Some have obtained materials through barter by exchanging services for materials.

**Land.** On the whole, land is the clients' problem. However, if clients are unable to acquire land, then construction activities suffer.

**Privatization.** One of the state-owned construction companies has already privatized most of its operations. Several others are on the verge of privatization, others are exploring privatization's advantages and disadvantages, and still others are not considering privatization at all. One of the primary problems of the state-owned firms is the excessive-wage tax imposed on state-owned

enterprise workers for the purpose of halting inflation. One solution is privatization as employees of privatized firms are not required to pay the excess wage tax.

The director and workers' council of one enterprise have undertaken a privatization effort and have prepared and submitted the enterprise's application to city hall, which is the owner of the enterprise. The plan is for the enterprise to be turned into a joint-stock company. Employees want to buy the assets but do not command sufficient capital. The director wants to sell small stock packages to the employees and their families. In addition, a program of partial privatization that is under development would consist of selling one of the work plants that usually leases its equipment to private subcontractors.

The company that has already privatized is now a small state-owned firm that was formed from the break-up of a large state-owned factory, a kombinat that produced housing in Gdynia, located near Gdansk. Three distinct sectors of the kombinat were construction and assembly, manufacturing of prefabricated materials, and the equipment base. Employees established three limited-liability stock companies with the surviving state-owned former-factory as a 30 percent shareholder. These separate companies lease fixed assets from the parent firm, which maintains all formal and legal requirements for the three private companies. The trade unions and workers' council agreed to the reorganization. Management of the three companies accepted all workers without reductions in total force. Workers were, by and large, supportive of the change, which resulted in higher salaries. The rationale for privatization was employee threats to leave the kombinat. Management determined that privatization was the logical alternative to mass worker resignations.

One urban building enterprise in Warsaw feels it has no chance for survival as a municipally owned enterprise. It has no new clients and its current clients are not paying their bills. The municipality and ministry have shown no interest in the enterprise's plans and activities for over a year. Therefore, the kombinat manager believes it will be necessary to introduce partial privatization by establishing limited-liability companies with the participation of employees and board members. The latter group will act as an intermediary during talks with investors. The

firm is making contacts with private companies headed by former partners of the firm. In addition, construction managers are organizing themselves into private companies.

Another state-owned enterprise's director noted that it will be necessary to divide the enterprise into smaller units or fall into bankruptcy. The enterprise has enormous production potential but requires reorganization and change in ownership. But it will not change by itself. Intervention from the outside is necessary, but it is unlikely that one investor would want to purchase the entire enterprise. This is one of the reasons why the current management believes breaking the enterprise into at least two smaller companies makes sense. According to one interviewee, a request for privatization has already been initiated, but the employees are so poor that any kind of share participation is unlikely. New equipment purchased in 1990 is a heavy burden for the enterprise because of a tax that state-owned companies pay on their assets. By separating the equipment from the enterprise, the tax attaches to the equipment. By transforming itself into a one-person joint-stock company of the state treasury, the company can avoid the high dividends imposed on land and equipment.

State-owned enterprises can take one of several approaches to privatization. The first step is to apply for a change in formal status from a state-owned enterprise to a joint-stock company with 100 percent state ownership. This step results in the liquidation of the workers' councils and a partial elimination of the excess wage tax. As a consequence, workers lose control over the workplace. On the other hand, depending on the next privatization step selected, a degree of control may be returned to employees if the enterprise becomes an employee stock ownership firm. Other privatization approaches include initial public offering (IPO) of stock, IPO combined with active investor control, joint ventures with foreign firms, liquidation, and mass liquidation in which case 60 percent of the shares are transferred into mutual funds.

**Perspective.** Some of the state-owned companies are well organized and can develop their activities without difficulty. They are flexible and can adjust to market requirements through specialization in traditional construction practices. It appears that these companies can succeed in a market economy. Others, however, seem to be nearing the end of their operations. Inefficiency, outdated equipment and technology, high costs, lack of contract backlogs, and

inability to adjust to market demands will force these companies either to reorganize very soon or to become extinct. At least one enterprise appears to be nearing the end as a viable company. Management and workers seem to be resigned to the enterprise's fate as no new contracts are coming in, the enterprise is in the final phases of current contracts, and the municipality, the firm's owner, has shown little interest in saving the enterprise.

One firm's manager for development has created a team that has proposed a new business for the enterprise: the construction of traditionally designed single-family houses built of prefabricated materials that can be quickly erected and competitively priced. The firm can offer the houses either assembled or unassembled. The firm would market to individual buyers rather than to housing societies. The enterprise intends to erect a model home and make it easy for potential buyers to observe construction. A professional advertising company will likely be retained to promote the system.

Work on restructure has begun in one enterprise. A break-up of the enterprise is not foreseen; rather a movement to greater departmental independence and self-financing is envisioned. In the beginning, the factory will become a "treasury company," a joint-stock company with 100 percent state ownership. In the second phase the company will issue shares. From there, everything will depend on the value of the shares and the demand for the factory's products.

**Relationships.** Many of the firms enjoy excellent relationships with local authorities and with other state-owned and private firms. Some have become the major patron of small private enterprises by contracting with them for finish work or other specialty "craftsmen" portions of the contract. Others, however, do not seem to have good relationships with any other organization. These are the companies that are unlikely to survive.

### **State/Municipal Construction Management Service**

A municipally-owned inspection service enterprise was surveyed in the city of Gdansk.

**Size.** 70 employees

**Longevity.** Over 40 years old

**Organization.** Originally, the organization was connected with the municipal office. Currently, it is a "budget enterprise," which means it works on its own account with a limited salary fund. Salaries are paid from commissions on services provided.

**Personnel.** Of the 70 employees, one-half are supervisory inspectors who are required to have current knowledge of building regulations and standards, skills that are in demand by private companies. Staff stability is a major concern as effective operation requires continuity over the sometimes long construction cycles. Salaries are relatively high compared to the rest of Poland.

**Activities.** The company acts on behalf of investors. It organizes contracts and supervises construction, but does not deal with land acquisition.

**Clients.** The town of Gdansk and municipal and state offices such as public roads management have traditionally been clients, but the enterprise fears of losing these clients as communal services undergo privatization.

**Company Strengths.** Because of its long presence in Gdansk, the company has a thorough knowledge of the local market.

**Performance:** Since the mid-1990, the company has organized sales by competitive bid, which, as a rule, are won by state companies. Recently a private company won the tender for construction of a power network.

**Privatization.** The company is currently discussing privatization internally but the plans are not particularly advanced. The lack of any clear privatization path from the Ministry for Investment Enterprises make near-term privatization less likely.

## **Joint-Stock Building Material Supply Firm**

**Type.** Building Materials Supply

**Size.** About 80 employees.

**Longevity.** 4 years

**Organization:** The company started as a production and services enterprise and transformed into the "Building Materials Center of Siedlce," a joint-stock company. Fifty-three percent of the shares are held by the "voivoda" (regional governor) and the rest by building companies. The company is based on old connections and supported by local authorities. The company is highly confident that it can succeed in a market economy and is already among the leading private companies.

**Competition.** The company has its own regular customers. Competition is not substantial.

**Clients.** The company serves craftsmen, private contractors, retailers, and small investors from Siedlce and neighboring voivodships, including Warsaw. State construction enterprises usually supply themselves.

**Technical Equipment.** There are two modern, heated stores--one in Siedlce and the other in Lukow.

**Finance.** The company's capital assets are worth over 6 billion zlotys (\$550,000 U.S.). The company maintains 2.7 billion zlotys (\$245,000 U.S.) in bank credit. Turnover is constant. Except for shareholders, there are no outside investors.

**Suppliers.** The company buys materials from manufacturers from all over Poland. In addition, about 10 to 15 percent of the materials are purchased from abroad. The company has no problem in finding and purchasing construction materials.

*Staff.* There is no problem with staff except for a shortage of managers with a knowledge of foreign languages.

*Perspective.* The company is developing. It is trying to keep prices low and volume high. Company wages are high.

*Relationship with City Authorities.* Relations are very good. The city controls 53 percent of the company's shares. The chief manager of the company is on the city council.

# **APPENDIX**

## **Case Study Interviews**

## PRIVATE DEVELOPERS

### 1. Piotr Lejam, Gdansk, Investment Services

**Type:** Investment Services

**Size:** Two persons--husband and wife. Just getting started. He wants to enlarge the company by several people during the construction period.

**Scope of Activity:** The developer has just recently formed a business of providing financial and development services, primarily to a Drewbud, a housing society (cooperative) which has several thousand members. If successful, he will develop three districts (subdivisions)? consisting of 180, 250, and 200 housing units each. He is primarily involved in handling of legal affairs concerning residential building sites including ownership matters, property surveys, and preparing necessary documentation for transfer of land. He acts as an ombudsman between current and potential land owners.

**Business Stability:** If current financial conditions remain unchanged, the developer sees little hope for successful completion of any of his projects and is doubtful that his business will survive.

**Land:** All decisions concerning allocation of municipality owned land are made in the Gdansk Department of Development. Developers apply to the Department for allocation of a specific piece of municipally owned property that is zoned for intended use. The Department's Office of Projects Agreement collects all necessary certifications from other city agencies such as the sanitary and health administration and the fire guard. Once all certifications are obtained, the Gdansk Architect has the authority to approve or disapprove allocation to the developer. Once land allocation is approved, the developer prepares and submits more detailed project plans for city administration granting of "localization", that is, the project suits the city zoning master plan. The processing of plans by the city takes about nine months. Once localization is granted, the developer prepares documentation of a district.

In accordance with Polish law--the Act on Spatial Planning--Municipalities review and elaborate on urban development plans (zoning). This is being done by agencies of spatial planning. This makes it possible to obtain building sites. Some of the land has been promised to housing cooperatives. In the case of land owned by the Polish Treasury or by the town, a tender is obligatory.

**Clients/Customers:** The developer is a shareholder in Drewbud, a large housing cooperative society. Documentation of the district was prepared in the name of Drewbud. The developer concluded contracts with other shareholders interested in construction using Drewbud housing credits. About 200 shareholders expressed interest. His current project will contain 180 housing units. Two more projects are planned, one with 200 and the other with 250 units.

**Financing:** Drewbud promises credits to its shareholders through the Invest Bank. Drewbud credit capabilities are very limited and is able provide credit for only one in fifty homes constructed by them. The developer, a Drewbud shareholder, applied for about \$30 billion zlotys (\$2.7 million U.S.) in credit. However, Drewbud has a condition that the applicant must contribute payments to his account for at least one year amounting to 20 percent of the investment value. At that time, the application for credit will be considered. To receive the credit, a lien is placed on the unencumbered site in the amount of the credit. These conditions were unacceptable to the developer. Very few individuals are able to finance new housing themselves. New sources of financing are needed. Some employers have "flat-funds" available as a potential source of financing.

**Construction Materials:** Competition in the construction material market has caused a decrease in traditional material prices.

**Competition:** In the past, private developers and contractors had difficulty competing with housing cooperatives because of the latter's ability to obtain low interest financing from state banks. Now, however, rates are equal. Cooperatives are no longer at an advantage and will have

difficulty retaining their supremacy. As credit becomes more available to private contractors, it is likely that they will have a competitive edge because of efficiencies and the tendency of private contractors to build only on good locations.

***Relationship with Municipalities:*** Working with municipal offices is difficult because of bureaucratic red-tape. Collection of agreements and an excessive number of intermediary approving agencies creates a lengthy, cumbersome, and expensive process. The developer indicated that the majority of regulations for granting site and development design approvals should be lifted.

***Infrastructure:*** By law, the municipality is responsible for all infrastructure. However, many municipalities do not have the financial means to install new or extend existing infrastructure. Therefore, costs are borne by future inhabitants who then pass ownership back to the servicing utility or municipality. A 1982 Act of the Minister's Council allowed collection of these infrastructure "impact fees" with the stipulation that they would eventually be repaid to the inhabitants. In general, this has not yet occurred.

As an example, the developer is interested in developing a large property. However, a heat generating plant, heating pipelines, sanitary sewer, water, gas, and electric utility lines would have to be installed at his expense before construction could begin. The investment in infrastructure alone would be several hundred billion zlotys (over \$10 million U.S.), placing in doubt the project's feasibility.

## **2. CARTA S.A., Warsaw**

***Type:*** Private Developer

***Size:*** A full-time staff of two engineers and a secretary and a part-time staff of a lawyer, accountant, and another secretary. CARTA SA is a small, recently organized company. They have a lot of clients but are in need of investors.

**Longevity:** Since February 1991

**Activities:** One of only three private developers operating in Warsaw, the companies activities consist of finding clients, obtaining orders, and organizing the project from start to finish, including the following services:

- Obtaining land through purchase, lease, or partnership with the owner.
- Analysis of the legal status of the land
- Evaluation of the land as a building site
- Proposing the most suitable type of investment and negotiating it with municipal authorities.
- Conducting economic and financial analyses (feasibility studies)
- Locating a contractor
- Working out the project schedule
- Market research
- Working out project financing (loans, investors, partnerships)

CARTA SA does most of the work themselves but subcontracts portions of the work such as design. They have entered into total project partnerships but this is not their favorite way of doing business. The company focuses on housing construction, both single- and multifamily houses but are interested in other types of activity such as hotels and motels, banks, office buildings, and other commercial construction.

**Clients:** The companies clients have included a housing cooperative; the Mokotow municipality (a part of Warsaw) for an 8 hectare housing estate; the Legionowo municipality (a town near Warsaw)--development of the city center; the Konstancin municipality (a town near Warsaw)--development of the city center; the Polish Ministry of Tourism--development of land around the Xth Anniversary Stadium; a private owner of land (20 hectares)--a motel and medical care center; the Municipality of Swinoujscie--the modernization of a hotel.

**Finance:** There are problems with financing. The company is interested in foreign currency credit which is less expensive than the Polish credit. They use foreign contractors which makes it possible to access foreign credit.

**Contractors:** The company uses foreign and private Polish general contractors. They are less expensive.

**Land:** Obtaining land is the most serious problem because of organizational disorder in municipalities. Municipalities were required to complete listing of available land a year ago but they have not finished yet. This is why the company negotiates with private owners or with municipalities who can guarantee the legal ownership of the land is clearly established.

**Risk:** Risks are substantial. Polish partners may withdraw for any reason (or without reason) without consequences because the legal rules are so unclear. Also, foreign partners believe that business in Poland is risky. Chances for survival of this type of business are around 20 percent.

**Competition:** Big state-owned enterprises are not competitors. CARTA SA has no business contacts with them. Housing cooperatives are going bankrupt. The company has sent information about its activities to housing cooperatives, inviting them to cooperate, but with no response. On the other hand, contacts with embassies and foreign partners are very promising.

**Construction Costs:** CARTA SA believes its construction costs are much less than both state-owned firms and other private firms.

## **PRIVATE CONTRACTORS**

### **1. Marbud, Gdansk**

**Type:** General Contractor

**Size:** Employs about 120 people.

**Ownership and Structure:** Two person partnership. The principal, a construction engineer, owns 60 percent of the firm. The company possesses its own technical expertise and is capable of a wide range of construction activities. Currently, about 90 percent of the firm's profits are spent in expansion and development of its technical potential.

**Longevity:** Since 1987

**Volume:** In the first half of 1991, turnover was 10 billion zloty (almost \$1 million U.S.).

**Activities:** Commercial, institutional, and residential construction, from excavation to finish, including infrastructure where needed.

**Clients:** Clients include the state, municipalities, cooperatives, and other private firms. The company has three contracts for construction work in Germany. Costs for entering the international market were high and potential profits were low, but the firm considers it an investment for the future. Work for municipalities has practically dried up and continuation of current contracts is hindered by long payment delays. Housing societies are still building due to momentum, but few new projects are planned. Employer-built construction has practically ceased.

**Construction Materials:** Buys from manufacturers

**Labor:** At present, there is no problem with the local labor force but there is a lack of trained professionals because the best tend to leave the country. The average monthly salary is about 2.5 million zloty (\$225 U.S.), which is comparable with other private construction firms. About ten percent of the labor force is unskilled. The majority of the workers are between 30 and 40 years old. All construction managers possess a higher education.

**Competition:** All major construction projects are contracted through competitive bid. However, housing societies carry old contracts with large state-run construction enterprises. If the societies do organize tenders (requests for bids), as a rule they only invite two or three state enterprises

to offer bids. Private contractors who have attempted to enter that market with a more attractive bid have usually met with failure. There is little competition between large private firms because so few exist that can offer a variety of complex services.

Only large private contractors have the resources to compete with large state firms. Accordingly, smaller private firms are not able to strengthen their position. Without expansion, they find it difficult to maintain their current market. Opportunities for small contractors exist primarily in free enterprise single-family housing. Because of the lack of business opportunities, some small "craftsmen" firms dissolve and find work with larger private contractors.

**Financing:** The firm does not use outside financing at present. They only build to contracts which require others to provide financing. However, they are interested in \$5 million in U.S. dollars for investing in improvement of their technical base.

**Perspective:** The firm would like to expand into different areas, combining the roles of investor, organizer of the investment process, and general contractor. Towards this goal, they bought two sites for construction of houses. They estimate that they can build at a cost of 3 million zlotys (\$270 U.S.) per square meter and sell at 4 million zlotys (\$364 U.S.) per square meter. Since the free market price is about 5 million zlotys (\$455 U.S.) per square meter, they are convinced that they would be successful and profitable. However, the lack of credits for financing prevents moving ahead.

**Land:** There are no problems purchasing privately owned building sites. Land owned by the State Treasury is practically unattainable because of local bureaucratic inefficiencies and requirements.

## 2. Masbud, Gdansk

**Type:** Private Construction Company

**Size:** Employs about 40 people.

***Ownership and Structure:*** Proprietorship

***Longevity:*** 5 years

***Volume:*** In the first half of 1991, the company volume was 2 billion zloty (\$182,000 U.S.). Second half turnover promises to be more.

***Activities:*** The firm started as an earthworks contractor, installing utilities. It currently is involved in a large project in the city of Gdynia, financed from the central budget, improving the water distribution system. It is involved in a construction engineering/repair and construction project for an industrial firm. The diminishing market for contract work has forced the company to diversify. Recently, the firm has expanded into multifamily housing construction on a "turnkey" basis, having won a contract for the construction of an apartment building and a large commercial pavilion. He successfully competed against state-owned firms and another private company on the basis of lower price and shorter time schedule. The firm tends to continue to build on contracts only rather than to build "for-sale". It is changing its focus to smaller contracts.

***Clients:*** Clients include the state-financed water supply project in Gdynia and an Siarkopol, an industrial firm.

***Labor:*** The firm employs 40 full-time people. So far, it has not experienced labor problems due to the irregular inflow of new contracts. On the other hand, since it has difficulty finding experienced new employees, the firm feels it is forced to keep ineffective ones. The firm's owner believes that people have effectively been taught not to work and that only one in three new employees will stay with the company. The firm employs workers from as far away as 200 kilometers. If professionals, the firm pays their rent, transportation, and other costs. Monthly salaries are between 2 and 3.2 million zlotys (\$190 to \$290 U.S.). Labor costs represent about 16 to 18 percent of construction costs.

**Competition:** The major competition comes from state construction enterprises which can be defeated by price. The firm is able to underbid state-owned companies by 25 to 30 percent and still offer a shorter construction schedule. Individual craftsman businesses fall out of the market. Medium size companies are experiencing stagnation. The state-owned enterprises entered the competitive field in a very strong position, but that position is now weakening because their material, technical, and financial reserves are depleting.

**Financing:** The lack of financing makes it impossible to build houses for sale. However, the firm plans on building for-sale homes in the future.

**Business Stability:** Expensive credit and slow payments from clients relying on the central budget sometimes place the firm on the threshold of insolvency, especially since monthly overhead costs are 300 million zlotys. Clients demand fixed-price contracts that exposes the firm to losses due to inflation. Whenever possible, the firm tries include a contract provision to renegotiate prices if prices rise above 5 percent.

### **3. Pragmatic, Ltd, Torun**

**Type:** Private construction company

**Size:**

**Ownership:** One-person proprietorship

**Longevity:** Established in 1988 for work in the tourism industry. Since May 1989, the company has engaged in apartment construction.

**Personnel:** The company has grown from 36 workers in 1989 to 87 workers by the end of 1990. Monthly salaries for workers average 1.7 million zloty (\$155 U.S.); for construction managers, 2.5 million zloty (\$225 U.S.); and for the owner, 4 million zloty (\$364 U.S.).

**Financing:** The company uses self financing and bank credit. High credit interest rates make purchasing modern equipment difficult. Total company turnover in 1990 was about 4.8 billion zlotys, 4 billion of which was in apartment construction. Profit increased from 54 million zlotys in 1989 to 63 million zlotys in 1990. For the first half of 1991, the company has been operating without profit. The company intends to invest in modern construction equipment and to purchase construction materials.

**Land:** Obtaining sites for construction is the investor's problem, not the company's.

**Contractors/Cooperating Companies:** As needed, the company employs commission contractors for some simple construction work. However, commission contractors are scarce.

**Clients:** Pragmatic provides services to housing societies, for the Municipality of Torun, for private consumers, and for state enterprises.

**Equipment:** The technical equipment of the company is inadequate.

**Materials:** Construction materials are bought by the owner who attempts to find the least expensive materials available. Other materials are furnished by state enterprises.

**Labor:** There is no problem hiring workers, but their quality, skill, knowledge, and experience is, on the whole, poor.

**Competition:** Competition is "wild." Connections have much to do with winning a contract. Tenders for execution of work are organized--a method of destroying those who could have won the tender. State enterprises are not afraid of competition yet because they control about 80 percent of the market.

**Difficulties:** Gaining new contracts, high credit interest rates, inconsistent construction and financing regulations, helplessness in collecting money for work performed, lack of appropriate

communication with other institutions, lack of professionals, lack of goodwill, troubles with telephones, etc.

**Perspective:** On the basis of the dynamic development of his company, the owner is an optimist. He has managed to secure contracts for 1991 and has prospects for future contracts. When he collects overdue payment from his customers, he intends to purchase more modern construction equipment. He believes the future is in private construction enterprises because, he believes housing societies will contract with private companies in the future.

#### **4, 5, and 6. Maxbud, Unidom, and Bastra, Gdynia**

**Size:**

**Longevity:** Since May 1, 1991

**Organization:** Three private companies and one state-owned enterprise, Poldom, were formed from the break-up of the state-owned Gdynia House Building Factory. Their Supervisory Boards include employees and persons from outside the factory. Since they have just begun to operate as separate entities, it is difficult to assess their early successes or failures.

**Financing:** The Gdansk Bank, the credit source of the kombinat, maintains the credit contract for Poldom and the three companies at the same level as before the reorganization. The preservation of the same interest rates indicates there is confidence in the reorganization even though there have been recent payment difficulties because material suppliers demand immediate cash payment and some factory customers fall into arrears.

- a. Maxbud, one of the private companies spawned by the break-up of the State-owned housing factory

**Size:** 400 employees, volume 60 - 65 billion zlotys

**Operations:** Maxbud does not intend to limit itself to construction activities on the scale of large districts. It will expand into repair contracts. Previous orders are still being implemented. Possibilities of lower costs are appearing through the competitive process. For example, Maxbud was able to use the services of a lower-priced private transportation company rather than its "brother" firm, Bastra, on a project. Therefore, Bastra may be willing to lower its prices. In addition, material inventories have been reduced causing a reduction in storage costs and reducing the amount of credit required to prepurchase materials.

**Structure:** Maxbud consists of a two-person Board with oversight from a Supervisory Board. There are 300 shares in the company worth 500 thousand zlotys (\$45 U.S.) each. 216 shares are held by employee shareholders and 84 shares are held by Poldom, the parent company. The Supervisory Board is involved with expeditiously resolving legal and organizational matters of the new company.

**Relationships:** The contract with Poldom gives Maxbud the right to refuse contracts that it considers to be disadvantageous. This may be the source of future conflicts with Poldom. Maxbud also has the right to sign new contracts with investors as equal partners.

**Employees:** Because of agreements with trade unions, it was impossible to fire ineffective workers. The Maxbud manager believes that if it were possible, the result would be a stronger psychological connection between the firm and the employees in terms of productivity and rewards. Average monthly salaries have been raised about 30 percent to about 1.8 million zlotys (\$170 U.S.). For those workers employed on piece work, it is possible to earn 3 million zlotys (\$275 U.S.). The labor fraction of sales amounted to about 19 percent in May 1991.

There has been some defection of workers to private construction companies who offer still higher pay. However, some have found that the private contractors are not as likely to provide steady employment as the factory. Trade unions have established an inter-

factory structure between the three private companies and have so far been involved only in individual worker cases involving salary disputes. The manager is planning conduct negotiations with the trade unions concerning employee benefits.

Technical and supervisory personnel have been with the enterprise for a number of years. The factory had a scholarship arrangement with the Department of Construction of the University of Technology which provided a regular inflow of graduates to the enterprise. Maxbud wants to preserve this relationship. Normal progression within the company for a recent graduate start with learning the factory operations as a "younger foreman" and then moving into a supervisory position with limited responsibilities. This provides a means of gaining construction qualifications and becoming construction site managers. The factory also cooperates with a professional high school for a source of new employees. Evaluation of personnel is based on efficiency and costs of construction.

## **7. Ludwik Krzeszewski, Siedlce**

**Type:** Private Building Contractor

**Size:** Between 5 and 10 employees

**Longevity:** Established in 1959

**Activities:** Construction and finish work in houses.

**Competition:** No competition at the moment. Cheaper construction is winning contracts. The company is looking for contracts with bigger state-owned companies. The company enjoys a good reputation.

**Clients:** The company works for state enterprises and on orders from city authorities. Rarely works for private parties.

**Technical Equipment:** Basic tools. Has no building machines.

**Financing:** He finances himself, receiving payment from investors. The company has no outside capital--no collaboration with any other company.

**Staff:** There are plenty of workers but not enough with skills. The company is always able to increase the number of employees. Average wage is about 2.5 million zlotys (\$230 U.S.).

**Perspective:** Mr. Krzeszewski doesn't feel a need to develop his company any further. There are fewer orders than last year but enough for the needs of the company. There are no private developers in Siedlce and the company is not interested in that activity. The company has been in business for a long time with a good reputation and has found its place in the local building market. It is a typical subcontractor employed by bid building companies or involved in smaller renovation contracts.

**Risk:** The company does not take risks.

## **8. KOMBUDEX, Siedlce**

**Type:** Multitrade Company

**Longevity:** Since January 1989

**Organization:** The company was established with capital of 4 million zlotys. Originally, it was a one-person partnership. Now the company is the third largest private building firm in Siedlce. **Activities:** The company had over 10 building sites in 1990. It specializes in road construction, but has built a sewage treatment plant and warehouses for industrial factories. The company does work requiring large amounts of reinforced concrete.

**Competition:** At small building sites, craftsmen are cheaper and more competitive than large companies. Competition exists among large private companies, not state-owned construction enterprises.

**Clients:** State-owned firms, Polish State Railways, Polish Alcohol Monopoly, and others.

**Technical Equipment:** The company owns smaller equipment such as concrete mixers, polishing machines, drills, etc. Heavy and special equipment is leased from state-owned companies.

**Financing:** Primarily, the company finances itself although it has two bank credit-lines. One bank gives only mortgage credits, so the only way to apply for credit is through a cosigner who has property. This credit line has not been used. The company has no connections with foreign capital but it wishes to conduct work abroad. At the moment, there is a shortage of work.

**Perspective:** The owner does not wish to get into general contracting because it is not familiar to him and because it would take a big inflow of cash to change. The company has been on the upswing, but is out of orders as of the end of July. Normally, the company goes to investors and offers services. The company has its own two-person designing office which sometimes sends work. Also, the company takes part in bids. Since there were no written procedures on how to bid jobs, the company learned by chance.

**Materials:** The company does not purchase from PROBUD because private suppliers offer lower prices. There is a good choice of suppliers. Prefabricated elements are purchased from City Building.

**Staff:** No problems. Skilled workers are paid up to 2.5 million zlotys (\$225 U.S.) per month for 8 working hours per day. The company pays on a piece-work system. If the company should expand rapidly, the owner sees no difficulty in staffing.

**Risk:** The company tries to avoid risks. It doesn't like to be in debt, having learned from painful past experiences.

## 9. ENEL, Warsaw (Interviewed by NAHB Research Center)

**Type:** Private Contractor

**Longevity:** 2 years

**Size:** 120 employees

**Organization:** The company is a two-person partnership. It began business as an electrical contractor.

**Activities:** The company calls itself a design/build company, offering architectural as well as construction services. It is moving toward becoming a more "complex" company which will offer its clients, among other things, development activities, approval applications, land acquisition, etc. The president of the company said he would like to do business the "Western" way, i.e., offer clients one company that can do it all. The company is currently building dental clinics, small multifamily structures, and some single-family buildings. It is also developing a remodeling business concentrating on retrofitting existing buildings for energy conservation. Considerable effort is expending selling clients on the need to spend more for energy efficiency.

**Land:** At present, the company relies on the client to provide land but wants to get into land purchasing and development. Transfer of state-owned land is difficult. It must first be transferred to local governments. The process is long and complicated. The better solution, according to the company president, is to obtain land through a 99-year, "perpetual" lease agreement.

**Financing:** The company is looking for foreign investors in order to expand its business into the areas mentioned above. The current Polish bank interest rate is 45 percent while foreign rates are between 10 and 12 percent. At present, the company relies upon clients to obtain financing for most projects.

**Perspective:** The company president is optimistic about his company's future and the future of private businesses in general. He believes that state-owned enterprises are killing themselves because of inefficiencies and inability to change with conditions.

**11. RENBUD, Torun (Interviewed by the NAHB Research Center)**

**Type:** Private Contractor

**Longevity:** 4 years

**Size:** 140 employees

**Organization:** The company is a proprietorship. The owner started two companies, one private and one limited liability.

**Activities:** The limited liability company is involved in the conservation of historic properties of all types and the restoration of works of art in the city of Torun. The private company is primarily involved in design and construction of new housing.

**Land:** The company has recently purchased rural land about 12 miles outside of Torun which will yield up to 30 single-family building sites. In addition, the company has control of about 40 more hectares of unimproved land. Municipally owned land is almost impossible to obtain in Torun.

**Financing:** The company doesn't want to rely on Polish bank loans because of high interest rates. The owner believes that a mortgage system, eviction rules, and ownership rights must be introduced for private businesses to succeed. He has obtained bank loans for purchase of equipment and has a two-year cooperative agreement with a Danish roofing manufacturer that provides credit for the purchase of Danish building materials. The owner believes that Polish currency cannot be part of any viable credit system.

**Materials:** The company builds with traditional block and brick. It believes that U.S. wood frame technology will not catch on in Poland because people think of it as a temporary or summer cottage construction method. Currently, there is no shortage of material but there is not much construction activity either. The company is not sure if materials will be available in sufficient quantity when housing construction activity increases.

**Labor:** Labor is abundant but mostly unskilled. The company offers workers higher than average pay with 6 day work weeks and 13 to 14 hours per day. This allows workers to take home relatively large pay checks.

**Clients:** Clients come to the company because of its record for low price and rapid construction. It normally does not get involved in competitive bidding. Clients include private parties and housing cooperatives.

**Perspective:** The company president is optimistic about his company's future and the future of private businesses in general. He believes that state-owned enterprises are killing themselves because of inefficiencies and inability to change with conditions.

#### **10. DUO, Warsaw (Interviewed by NAHB Research Center)**

**Type:** Private Contractor

**Longevity:** 2 years

**Size:** 15 full-time employees

**Organization:** The company is a two-person partnership.

**Activities:** Until recently the company concentrated on renovation for state enterprises and housing cooperatives. New housing construction is now the major activity because clients don't have money for renovation.

**Land:** The company has access to land through several different channels. It has been successful in finding privately-owned land and has option-to-purchase contracts on several parcels. However, the company is concerned about its ability to exercise the options because of the lack of low-cost financing. There is no real lack of state-owned land but there are legal problems in determining ownership on much of it. Infrastructure is a problem but the company believes small scale sewage treatment plants and community water and heating districts can easily be built when financing is available.

**Financing:** At present, financing is the problem of the company's clients. However, the company wants to market and build single-family for-sale houses and needs less expensive bank credit to do so. The president of the company mentioned an organization called "the American Foundation" as a possible source of inexpensive financing. Supposedly this organization will manage low-interest credits assigned to Poland once lending rules have been established. The interviewer attempted to find out more about the American Foundation but was unable to expand on this information.

**Materials:** The company now builds with traditional block and brick. The company president stated that Polish materials are of poor quality compared to materials from Austria and other countries. He used roof covering as an example. He has had a difficult time selling clients on higher quality to reduce maintenance and operation costs. He believes, however, that U.S. wood frame technology will be successful in Poland because it can be built rapidly and less expensively than Polish traditional systems. In addition, the American system has inherent energy conservation qualities that are not used in Polish style construction.

**Labor:** The company offers workers higher than average pay with 6 day work weeks and 13 to 14 hours per day. This allows workers to take home relatively large pay checks.

**Clients:** Clients come to the company because of its record for low price and rapid construction. It normally does not get involved in competitive bidding. Clients include private parties and housing cooperatives.

**Materials:** The company now builds with traditional block and brick but is also building four single-family "duplexes" with American wood-frame technology. Foam plastic insulation will be used because Polish mineral wool insulation is of such poor quality. According to the owner, Polish building materials are, in general, of lesser quality but it must be used in most applications to make housing units affordable. For this reason, he believes that improved technology for material manufacturing should be imported rather than materials.

**Labor:** Efficient skilled workers are in short supply although there are plenty of construction laborers.

**Clients:** The city of Torun has been one of the company's major clients but, because the city has no money, many of the company's projects are on hold. The firm is trying to remain in business by becoming doing more complex projects and building for-sale housing.

**Competition:** According to the company owner, there are about five private contractors in Torun. In his opinion, there is no real competition for work but there is financial competition.

**Perspective:** The company president is optimistic about his company's future and the future of private businesses in general. He believes that state-owned enterprises are killing themselves because of inefficiencies and inability to change with conditions.

## **12. MARBUD/BUDTECH/KABET, Torun (Interviewed by NAHB Research Center)**

**Type:** Private Contractors

**Longevity:** 3 years

**Size:** MARBUD, 120 employees; BUDTECH, 65 employees; KABET, 70 employees

**Organization:** The three independent companies have a loose alliance to do all the construction work for MetalChem, a private company cooperative. Management of all three came from large

state-owned enterprises and cooperatives. A principal of MARBUD was interviewed but he was representative of all three companies.

**Activities:** The companies are building for-sale multifamily units at a number of sites throughout Torun. The companies have a three to four year backlog of construction business. They are currently constructing several hundred units.

**Land:** The contractors rely on the cooperative for land and land development. Privately-owned infill properties within the city of Torun are the primary focus of the cooperative. The contractor representative said, however, that the current system is obsolete and the coop. system will go away in two to three years to be replaced by builder/developers that have legal rights to purchase and develop land. Coops, he said, will become property managers instead of developers. The cooperative has a unique way of obtaining buildable land from private land owners. It offers the land owner one of the first housing units to be completed in exchange for the land. On larger sites, the offer sometimes includes a small percentage of the profits. Because many small-parcel land owners are on long waiting lists for decent housing, this provides an opportunity to get a home in a short period (one to two years) with no capital outlay. This barter system has been proven effective on several projects in Torun. Private land that is serviced by infrastructure costs between \$10 and \$15 per square meter.

**Financing:** Financing is done by the cooperative which, in turn, relies heavily upon the financial means of the tenants. The cooperative also relies on bank loans but high interest rates scare people away from banks. If customers pay cash, they can buy a unit for around \$24 U.S. per square foot. If they rely on bank financing through the cooperative, they pay around \$32 per square foot. Young companies don't have the capital for infrastructure and construction. The respondent expects that state intervention will be necessary to reduce high interest rates.

**Materials:** The company builds with traditional block and brick. The respondent believes that high-tech solutions to reducing construction costs are needed. The companies consider all materials that are available, including lighter-weight building elements such as plastics and wood. The Polish government now requires that each dwelling unit have provisions for installation of

individual heat meters in anticipation of the removal of heating fuel subsidies. The contractor believes that new technology is required in all aspects of construction to reduce energy costs. Current district heating system hot water pipe lines are old and inefficient and most existing buildings were built without adequate insulation or energy efficient windows.

**Labor:** Labor is abundant but mostly unskilled.

**Clients:** Currently, the three construction companies work primarily for one factory cooperative although they are not bound to the cooperative. The companies are attempting to penetrate foreign markets, especially Russia and Germany, and would welcome foreign investors.

**Perspective:** The contractors are very optimistic about their role in housing construction in Torun. There are 2,000 families waiting for housing and a need for 20,000 more. In addition, the respondent believes that many people now renting older cooperative housing will become customers when energy subsidies are lifted. Currently, one large municipally owned housing kombinat dominates the market, supplying between 80 and 90 percent of all housing.

**INTERVIEWER'S NOTE:** After touring housing construction sites, the Research Center analyst believes that the quality of design and construction and the lower cost of the privately built housing relative to that being built by the municipally owned kombinat will ensure an increased share of the Torun market for the private companies, given a level playing field.

## **HOUSING COOPERATIVES**

### **1. Zakoniczyn Housing Society, Gdansk**

**Size:** In 1990, 108 multifamily units and a few single-family houses. In the first half of 1991, 150 units were completed as of investments made between 1987 and 1990. The value of fixed assets is about 2 billion zlotys in blocks of apartments and 10 billion zlotys in investments. 1990 turnover was 36 billion zlotys with a year-end balance of 15 billion zlotys.

**Number of Employees:** 30 persons with an average monthly salary of 1.26 million zloty.

**Longevity:** Since 1982

**Organization:** The society was originally formed as a "voluntary association of members organized for inexpensively and quickly satisfying member's housing needs." Subsequent changes have been made in the society charter. Rather than by membership, new and future members are tied to the society by a contract that obligates the society to provide a housing unit of selected size and approximate price in a set time frame. The member is obligated to make payments according to a preestablished payment schedule within the same time frame. Payment schedules are concurrent with the building construction schedule. If construction is delayed, payments are delayed accordingly. These "contract" members are not entitled to any of the rights of the regular members such as shaping of society policy in general meetings and election of representatives to the supervisory board. This creates a potential conflict situation between voting and non-voting members, but no conflicts have yet occurred as the society has respected all contract provisions which include an equitable refund policy in the event of resignation from the society.

**Financing:** Inasmuch as possible, the society tries to avoid credits from outside sources. Present societies finance construction with their member's funds. Potential members are checked for their capability to obtain their own mortgage financing. The difference between the price and the individual's mortgage capability should be paid in cash. Expensive credit makes it impossible to build for the speculative market. In order to endure current financial problems, the society builds housing for the small number of investors who can personally finance construction.

All societies cooperate with the National Savings Bank (PKO BP) which is a State bank. Because of bank practices, there are hindrances in direct financing. The bank mixes various investment tasks into one account which creates chaos when a project needs to be financed with the money of only those members who are directly interested in the investment.

**Perspective:** About 500 society members who received newly built units owe about 1 billion zlotys to the society. The society covered this deficit with money received from future investments. The auditing committee does not put pressure upon future investments and tries to delay repayment of outstanding notes and avoid interest costs. This creates a financial barrier to the possibility of larger future investment in housing.

**Land:** There is a financial barrier for the purchase land. The City Council recently raised prices of municipally owned land. In addition, the Fiscal Chambers added a transaction tax that is higher than value received. The society is looking for land and negotiating prices. It has recently purchased two sites for future investment from private owners. Most of the sites are bought for investment plans that already exist.

Land acquisition is complicated by the lack of governmental decisions concerning disposition of land owned by the State Treasury. The municipality tends to concentrate on disposal of state-owned property containing existing buildings. The society may take over such sites for hereditary utilization only after they have been "communalized." The lack of proper organization in the municipal offices and disorder concerning ownership matters help complicate the land availability situation.

**Contractors:** The near-monopoly of large state housing factories still persists. Private development and construction firms are actively trying to obtain contracts and are very flexible concerning contract conditions. They often quote very low prices. However, their performance credibility often suffers because of their limited capital, lack of equipment, and unstable workforce. In spite of this, the society has used a private contractor on installation of the power network for some time with satisfactory results. As an experiment, the society is currently using a private contractor for the complete land development and construction of a 200 home district (subdivision). No other single contractor was willing to take on the complete job. According to the society representative, the private contractor is working well and quickly. Note: Private contractors expressed that the society is too big and has problems with payments.

**Competition:** There is no constructive competition between housing societies. The society's accountant foresees no private general contractor or private developer competition.

**Privatization:** There was a concept within the society that utilization and investments should be separated for organization purposes because of the opinion that profits gained by the Board should not be consumed by the Supervisory Board. As a possible solution, the idea that a private company that deals only with investments could be established and house utilization while sales would remain within the domain of the society. Because society members perceived potential problems with the relationships between the private company and the society, the idea was abandoned. One major potential problem revolved around the notion that the new private company would have to compete with other private companies for financial services without a guarantee that its services would be bought by the society. The will to eliminate risk and preserve a "safe" arrangement prevailed. In addition, the society does not pay a special tax "popiwiek" on extremely high income which reinforces the status quo.

**Profitability:** As a rule, the society operates with no profit. Even so, the house-building industry as a whole is currently at a low point with high construction costs reducing sales and eliminating profitability. Single-family dwellings sell for about 5 million zlotys per square meter. Costs of the society do not exceed 5 percent of the investment value.

**Clients:** Society members and contract members.

## 2. Na Skarpie, Torun

**Type:** Proprietary-tenant Housing Cooperative

**Longevity:** Founded in 1982

**Size:** The cooperative controls 124 residential buildings with about 8,400 tenants.

**Structure:** The cooperative, composed of several departments, is headed by a chairman. The structure is currently changing because of a move to privatization. The course and intended results of this move have not been precisely determined

**Personnel:** The cooperative has about 220 employees, of which 90 percent have a college education.

**Finance:** Activities of the cooperative are financed from rents and bank credits. The cooperative does not receive any subsidies and does not cooperate with foreign firms. Na Skarpie, the largest cooperative in Torun, continuously makes investments in new housing and related facilities called accompanying investments. For new investment, it uses bank credits. It is a nonprofit enterprise.

**Land:** Land for new housing is obtained from the Torun Municipal Offices. Although undeveloped land is plentiful, developed land is in short supply. Development costs are quite high and banks are unwilling to provide credit for development.

**Contractors and Subcontractors:** The primary contractor for the cooperative is the Building Kombinat of Torun. In 1990, the cooperative spent 54 billion zlotys with them which accounted for about 90 percent of the cooperative's total construction expenditure. The cooperative also works with various subcontractors, either independently or through the kombinat, primarily for finish work.

**Competition:** The cooperative has no competition. In construction, the Torun Building Kombinat has dominated the market and until recently, it had no competition. In recent years, private firms have been created which may become competitive with the kombinat. These private firms have provided strong and ruthless competition for small housing cooperative construction investments. However, the kombinat still enjoys a 80 to 90 percent share of the construction market.

***Difficulties:***

- The cooperative is facing difficulties in borrowing because credit is scarce and interest rates are high.
- Developed land is in short supply and development of undeveloped land raises construction costs. Although development should be done by local authorities, there are no funds in the municipal budget for this purpose.
- The cooperative is having problems in collecting rent from tenants.
- Local land-holding inhabitants protest against attempts to extend cooperative construction onto new land in their areas.

***Prospects:*** The position of Na Skarpie in the Torun housing construction market is strong. The cooperative is investing and growing. Its growth is limited by the lack of developed land and a short supply of bank credit.

**3. Mikro, Torun**

***Type:*** A proprietary housing cooperative

***Longevity:*** Since 1988

***Size:*** One building with 30 dwelling units. The completion of the next building is expected in 1991.

***Management Structure:*** The cooperative is managed by a three member "Direction" headed by the chairman. These three individuals started the cooperative as a method to get housing for themselves.

***Personnel:*** Mikro has 10 employees including the three member management team. Management members have a university education and the other seven employees have a secondary education. Until recently, the Direction and some of the other employees worked for no pay. In 1990, it was decided to accept a salary. At present, earnings of the members of the

Direction average 3 million zlotys, the bookkeeping personnel receive about 2.5 million, and the others about 2 million. Because of the relatively high salaries, the cooperative is not in want of personnel.

**Finance:** The financial means of the cooperative come from rent payments and bank credit. The Direction is considering the sale of dwellings in the new building now being constructed. If sold, the cooperative should realize a handsome profit. Mikro continues to invest in new housing. A third building is in the planning stage. Currently, Mikro does not cooperate with foreign firms, but is ready to cooperate with both domestic and foreign capital. It can offer knowledge, experience, and the possibility of obtaining new land. It is ready for open cooperation.

**Land:** Land for new construction is actively sought by the cooperative. When found, it submits an offer to the Torun Municipal Office. For others, the most difficult problem is to find developed land, but the cooperative did not have trouble getting such property. It is now in possession of developed land for future construction.

**Contractors and Subcontractors:** The cooperative uses a private firm as its general contractor. This contractor is responsible for finding necessary subcontractors. The contractor's equipment is of "middle quality." He is responsible for obtaining building materials, although the Direction assists in locating the best material prices. Manpower is not lacking in Torun, but the quality is not good because the best skilled workers have found work abroad.

**Competition:** Because state enterprises are very expensive, there should be considerable room for competition among contractors. However, the competition is not fair because of the lack of fair play in submitting tenders. Also, there have been cases of bribes. Competition takes place, first of all, among private firms which have barely started business. This is why their share of the market is only about 10 to 15 percent.

**Difficulties:** The relative position of small housing cooperatives is unfavorable in view of the difficulties in obtaining credits at high interest rates. Larger housing cooperatives use their influence in finding land. Small cooperatives must endure slighting attitudes of urban authorities.

Prospects: Mikro is optimistic because it has already purchased land for construction of new buildings. The sale of dwellings in its second building promises a strengthened financial position.

#### 4. Komunalik, Torun

*Type:* A proprietary type housing cooperative

*Longevity:* Since 1983

*Size:* Three buildings containing 50 units and one under construction containing 18 to 20 units.

*Management Structure:* A chairman, deputy chairman, chief accountant, and administrative clerks. Komunalik was initially attached to the Municipal Office because its members were employees of municipal agencies. In 1986-87 it was registered as an autonomous housing cooperative.

*Employees:* The cooperative employs 6 persons, including the three member management staff. Monthly earnings of the management staff amount to about 2 million zlotys. The others earn about 1.5 million a month.

*Finance:* The financial means of the cooperative come from bank credits, sales of dwellings and other premises, and rents. The cooperative is not subsidized. Up until now, the cooperative has not made a profit but is expecting one in 1991 as a result of sales of dwellings and other premises. The cooperative continues to invest. The fourth building is expected to be completed in 1991 and others are planned for the future. They use "traditional" construction. There is no current cooperation with foreign firms, but the possibility of future cooperation is not excluded.

*Land:* Land for building sites are obtained through purchase from the Municipal Office. Komunalik is in a relatively good position, having already purchased developed properties. Other small cooperatives are not as favorable positioned.

**Contractors/Subcontractors:** The cooperative uses a private general contractor who deals with subcontractors directly. Building materials and construction equipment are also supplied by the general contractor.

**Competition:** The Komunalik cooperative is in a favorable position as a developer since, being an investor only, it can choose contractors on the basis of cost and construction time schedules. The market for housing construction is highly competitive except for the Torun Building Kombinat which, for the time being at least, is beyond competition. Private firms compete with each other unscrupulously, by fair means or foul. Each wants to win the order, so avenues and influences of various kinds are used in fixing the proposed prices and time-limits.

**Difficulties:** Limited and expensive credit and late rent payments.

**Prospects:** The prospects are good since the cooperative holds land for new building sites and it looks forward to cheaper credit and revenue from sales.

##### **5. Teachers' Construction and Housing Society, Warsaw**

**Type:** Housing cooperative, providing services for its own members.

**Size:** 250 members

**Longevity:** Created in 1928

**Structure:** Board, District Administrations, Meeting of Representatives, Supervisory Board, and Districts Board.

**Finance:** The society is financed by bank credit and membership investments. They do not exclude the possibility of use of foreign capital. Investments have been delayed because of the resolution of credits in soil. The town lacks the investment and urban development plans.

**General Discussion:** An investor's market has been created in Poland. Housing societies are making plans based on this fact. A slight disruption in the investors' balance will cause housing factories to go bankrupt. A drop in turnover is first caused by inflation. The most important matter is adjustment of the legal system. Activities of the housing society were harmed by an internal campaign against presidents and directors of the society. People were willing to blame the management for extremely high rents and all defects even though our units are constructed in such a way that 40 percent of the heat is lost. An urban concept is lacking. No one can afford to build a 4-story hotel in the center of town.

**Land:** The society should not be interested in infrastructure. This problem makes it impossible to cooperate with a foreign firm.

**Relationship With Authorities:** Relationships are limited to: geodesic matters (the commune); territorial matters (suspended); approval of land development plans; financial matters including payment for site.

**Subsidies:** The society receives "donations" from the budget for heating costs.

## 6. PLON, Warsaw

**Type:** Construction and Housing Cooperative

**Size:** No employees

**Longevity:** Registered in 1981, started activity in 1987 after receiving credit from PKO (National Savings Bank).

**Activities:** In the beginning, the society was established for the employees of the Main School of Farming and had about 100 members. Turnover was about 3 billion zlotys per year. The society obtained permission for a hereditary lease of land as a private ownership society. It is finishing construction now but are unsure about closing their activity. They may look for new

sites. The society's success was construction of a block of multifamily units. They participated in the construction process, costs were lower than those offered by other societies and construction addressed individual needs of the members. The construction schedule was shortened to 3.5 years.

**Finance:** Financing comes partly from society member contributions and partly from bank credits.

**Construction:** The society did its own construction. They bought their own materials through contacts and acquaintances of society members. All members participated in construction. Teams from outside the society were hired to do heavy work.

## **7. The Housing Cooperative, Warsaw**

**Type:** A membership housing society

**Size:** 20,000 members with no common affiliation. 620 employees

**Longevity:** Established in 1958

**Activities:** The cooperative builds about 200 apartment units per year which is the primary activity of the society. They also perform services for state institutions such as Warsaw University. Members pay as follows:

Rented apartments: 10 percent of construction costs

Owned apartments: 20 percent of construction costs

**Structure:** Meeting of the Representatives of the Members, General Meeting, Supervisory Board, Board of Directors, and District Administrators. The society is now undergoing reorganization resulting in three new, independent societies.

**Finance:** There is a permanent lack of money. The society uses bank credits, deposits of future inhabitants, and auxiliary commerce and services building to finance construction.

**Contractors:** The Society uses either large state building contractors or private general contractors.

**Competition:** The society is competitive with other apartment companies.

**Land:** After the lack of money, obtaining new sites is the major problem. The society is finishing on sites obtained in previous years. The Act On The Site Economy of December 1990 made it impossible to obtain sites by the way of tenders. Municipalities have had difficulty in taking over sites from the State Office. Legal questions concerning hereditary ownership and long term land leases make obtaining land practically impossible. Because of these issues, one municipality recently canceled construction permits which had already been issued. This was a big investment for the society. All documentation had been submitted and credit had been received (at high interest rates). But the municipality failed in its responsibility to obtain notarial consent so the transaction was canceled.

**Labor:** The cooperative has 620 employees. Another 50 technical administration positions are unfilled because of low salaries--1.3 million zlotys (\$115 U.S.) per month.

**Materials:** The cooperative's contractors use traditional and "Zeran" technology, one of the most expensive construction methods because of the monopoly position of "Falbet". Because of this, the cooperative is looking for new construction approaches. Two buildings are being constructed using the formwork of Peri. The anticipated lower construction costs and shortened building schedule will result in lowered apartment prices. At present, costs are 4.2 million zlotys (\$380 U.S.) per square meter.

## **8. Zakład Budowlano-Remontowy Spółdzielni Mieszkaniowej**

**Type:** Building and Renovation Division of Housing Cooperative

**Size:** 263 employees

**Longevity:** One year

**Organization:** The Renovation Department of the Housing Cooperative was made a separate cooperative in 1990. It was established as a division of the cooperative in about 1975. It works primarily for the cooperative but not exclusively. The company was formed because large building companies were only assembling large blocks of apartments from prefabricated elements. The housing cooperative was not interested in this type of housing, so it started to build with bricks, including supermarkets, nurseries, kindergartens, and schools. It is now the fourth largest construction firm in Siedlce. There is a manager, two deputies and a chief accountant, all with university degrees. There are four managers of building sites, one with a university degree. The manager is satisfied with the skill of his site managers, with or without a degree.

**Investors:** The primary investor is the Housing Cooperative, but the company is also building for the city--for example pavilions which are built on condition of cheaper credit. It picks up business because it uses brick instead of concrete panel construction.

**Ownership:** The company belongs to the cooperative. Work done for the cooperative such as modernization and supplying gas to a settlement is provided at a reduced price. The division makes a profit on work sold outside the cooperative.

**Competition/Cooperation:** Often, the company passes some renovation or building work for the cooperative to private companies offering lower prices. It is profitable and it allows the company to be more active outside the cooperative. There is more competition from private craftsmen but at the same time the company often needs their support.

**Employees:** Employees are motivated through piece work. Pay accounts are settled monthly. Every manager gets a budget and settles bills once a month. Average worker wages in April were 1.8 million zlotys. If the company has orders exceeding the ability of current staff, the company has problems getting skilled employees because some went to partnerships, private

companies and to craftsmen. Therefore, the company has asked permission to hire Russian workers. For example, the company cannot find a skilled bricklayer for 3 million zlotys per month. Another problem is skilled workers employed by state-owned companies get off at 3 p.m. then go to work on the black market, where they don't pay taxes. Because of that work, they are less efficient on their official jobs. But they keep working for the company because of insurance and social benefits.

**Technical Level:** Technical equipment owned by the company is "good enough". It would be possible to invest in new equipment, but it would take a guarantee of 2-3 years of work to make that investment worthwhile. Currently, the company cannot afford new equipment because credit is expensive and for the last two years, profits have gone into a turnover fund. The company prefers to rent a crane from another company than to pay dividends.

**Material Supply:** The company obtains its own materials. It announces an intent to purchase materials and then chooses the most profitable offer. Last year, about 50 percent of the materials were obtained on a barter basis from PROBUD. The company built PROBUD's order office building in exchange for materials. The company often uses such "no-cash" transactions. Not paying for materials and selling labor is very profitable.

**Privatization:** The company is prohibited by law from doing private development. According to the cooperative statute the division has to fulfill the needs of a cooperative first of all.

**Perspective:** The company is a well organized firm which can develop its activities without difficulty. It is very flexible, being able to adjust to market requirements through specialization in traditional construction practices. The company's activities are limited by lack of financing for the turnover fund and by its status of cooperative. On the other hand, it appears that the company can be successful in conditions of a market economy.

## STATE/MUNICIPAL DEVELOPERS

### 1. Management of Gdansk Town Development, Gdansk

*Size:* 70 employees

*Longevity:* Over 40 years old

*Organization:* Originally the organization was called Management of the Town Reconstruction and was connected with the municipality office. Currently, it is a "budget enterprise" which means it works on its own account with a limited salary fund. Salaries are paid from commissions on services provided and range between 1.2 and 6 percent in the case of supervision of general works projects. The organization works without profit. Turnover in 1990 was 80 billion zlotys and will probably reach 130 billion in 1991.

*Staff:* 70 employees, one-half of whom are supervisory inspectors. This post requires current knowledge of building regulations and standards and to that end, the enterprise regularly sends employees to training sessions. This knowledge and training provide the supervisory inspectors with skills that are in demand by private companies. However, if they leave the company, they lose the advantage of inexpensive training. Stability of the staff is of major concern because effective operation requires continuity over the sometimes long investment cycles. Salaries are relatively high compared to the rest of Poland, averaging 1.635 million zlotys per month in 1990.

*Activities:* The company acts "on behalf and for the investors." It organizes contracts and supervises construction, but does not deal with obtaining land.

*Clients:* The Town of Gdansk and entities such as Public Roads Management have traditionally been clients, but there are fears of losing them due to privatization of communal services.

*Company Strengths:* Because of its long presence in the Gdansk market, the company has a strong knowledge of the local market.

**Performance:** Since the middle of 1990, the company has been organizing sales by competitive bid, which, as a rule are won by state companies. Recently the tender for construction of a power network was won by a private company.

**Privatization:** The company is currently discussing privatization internally but the plans are not very advanced. The lack of any clear privatization path from the Ministry for Investment Enterprises make near-term privatization less likely.

## STATE/MUNICIPAL CONSTRUCTION ENTERPRISES

### 1. Poldom, Gdynia (formerly Gdynia Houses Building Factory)

**Type:** State-owned Production and Services Enterprise

**Size:** 60 of 850 employees remained with Poldom following reorganization. Most possess a higher education. It will gradually reduce staff as more of its functions are assimilated into the three offspring companies. Eventually, it will consist only of "an office of winning orders" with only marketing and contract cost estimating teams.

**Longevity:** Over 35 years

**Organization and Privatization:** Poldom was formed from the break-up of a state-owned factory, (Gdynia Houses Building Factory), a kombinat that produced housing in Gdynia, near Gdansk. At the end of 1990, the factory management presented the establishing body, the Town President, with a motion that the factory be changed into a one-person company of the Commune Board. The motion was not considered so the management decided to take another tack.

There were three distinct sectors of the kombinat: construction and assembly, manufacturing or prefabricated materials, and the equipment base. Employees of these units established three limited liability companies with the ex-factory, renamed Poldom, as a 30 percent shareholder. These separate companies lease fixed assets from Poldom which remains a public enterprise. As

the parent company and shareholder, Poldom maintains all formal and legal requirements for the three companies. The trade unions and Workers' Council agreed to the reorganization and the managements of the three companies accepted all workers without reduction in number. Workers were, by and large, supportive of the change which resulted in higher salaries for "company" versus "enterprise" workers.

The rationale for privatization was based on the fact that the poorly paid employees were threatening to leave the kombinat. The average monthly salary was less than one million zlotys. Therefore, management determined that privatization was the logical alternative to mass worker resignations. The financial result of privatization was the raising of worker salaries by about 50 percent. However, because of privatization, the three private companies are subject to popiwek, the excessive income tax. The parent company, Poldom, although a shareholder in the private companies, is excused from popiwek because it remains a state-owned enterprise.

**Relationships:** Contracts for construction of apartment buildings are completely underwritten by Poldom. It also has the task of gaining large investors. This does not exclude independent activities such as obtaining smaller clients for the three companies. Poldom also manages the property of the ex-factory, collecting rent from the companies. Rent income covers expenses on the state-owned building and fixed assets. The contract between Poldom and the three private companies binds all parties to cooperative handling of the interests of current apartment building investors. The contract does not prevent any party from widening the range of activities. The management of the companies also believe that privatization will result in better relations with foreign partners and investors.

**Risks:** Theoretically, the Town President, as the founding body of a state enterprise, has the legal authority to liquidate any state enterprise that leases or divests 50 percent or more of its assets. Using his authority, he could liquidate Poldom, take over its contracts, and appoint an administrator. The three private companies would continue to operate. However, the divesture of the kombinat and formation of the private companies was done with the agreement and blessing of the Town President, so it is unlikely he will assume control of Poldom.

**Competition:** In the Gdansk area, there are four large state-owned building enterprises that compete with each other. Private contracts also compete on projects where large capital resources are not needed. Although incapable of constructing entire districts, private companies are competitive on smaller projects.

**Clients:** The primary clients are housing societies. More and more often they base their bid offer on the ability of the bidder to provide complex services and the bidder's reputation for quality, performance, and on-time delivery. Because of its ability to meet or exceed tender requirements, the enterprise has enjoyed considerable success. The backlog of orders now under implementation carries Poldom and the three private companies through the end of 1991.

In addition to housing societies, the factory exports to Germany which has proven to be very profitable. Exports orders are arranged through a State agent, Polnord. Because it is too demanding for most companies, independent foreign marketing is not yet possible. However, the factory sends its staff to Germany to erect housing units using the client's equipment.

Poldom has a preliminary agreement for construction of flats in the Soviet Union for soldiers returning from Central Europe. Financing was to come from Germany. However, because Turkish competitors have recently entered the market, the fate of the project is in doubt.

**Current Situation:** In light of the reorganization, Poldom must justify its existence. Within a year, the three private companies should be able to operate without Poldom. As yet, official operational plans to make the companies completely independent do not exist but the companies are exploring avenues such as continued export of services through excellent contacts with Polnord, streamlining marketing procedures and taking orders, and strengthening of legal and financial situations.

**Financing:** Financial liabilities continue to be a problem. Of the 14.1 billion zlotys gross profit in 1990, the firm retained only 3 billion zlotys after payment of obligations. This amount is insufficient for substantial investments. Gross profit in the first quarter of 1991 was 2 billion zlotys, a substantial decrease from the first quarter of 1990.

## **2. Gdansk Houses Building Factory, Gdansk**

**Type:** Housing factory/general contractor

**Size:** In 1990, the kombinat had 581 employees, down from 1024 in 1987. Total turnover for 1990 was 103.4 billion zlotys (\$9.4 million U.S.) from three types of services: construction and assembly - 62 billion; auxiliary production - 34.1 billion; and services - 7.3 billion. Net profit in 1990 was 6.55 billion zlotys (\$600,000 U.S.).

**Organization:** Computerization has resulted in a reduction of administration personnel. Factory managers are relatively young. Average age is about 45. The factory is planning on establishing a marketing department in the future based on advice from an outside consulting firm. At present, the factory does not have serious marketing problems.

**Subcontractors:** About 60 percent of all completion work is done by small private companies. Recently there has been a tendency for construction managers to do as much of this work as possible. It is sometimes necessary to own equipment even though hiring would be more economical because rental services are not fully developed.

**Technology:** The "Szczecin" slab, the most commonly used technology, has been redesigned in order to meet heat loss standards. Accounting, material usage, and cost control have been computerized.

**Clients:** The factory has a backlog of orders through 1991. Preliminary contracts indicate that there will be ample work in the years to come. The primary clients are housing societies. The enterprise uses agents such as the Investment Services Enterprise or DRMG for securing contracts. These "deputy investor" agents arrange tenders, and since they represent the "old order," they have been around for a long time. Because of traditional connections, they invite the four big state-owned companies to compete. A recent major problem is the investors' lack of funds and they are insisting on guarantees for correction of defects. This is encouraging for

the larger state-owned enterprises because they have the ability to service such warranties while smaller private companies may not have this capability.

**Materials:** Although the general opinion is that large concrete slab construction is expensive, the company is able to compete with attractive prices because of lower costs of raw materials delivered to the factory in large quantities.

**Competition:** Although the factory is increasing production from 600 to 850 completed housing units, competition and the pressure from the investor to lower prices mean that there is no improvement in the factory's financial situation. It is currently operating with no profit which prevents further development of the factory's resources. Machinery is overused and attempts to lower costs require considerable effort.

**Financing:** The enterprise enjoys the confidence of the creditor bank.

**Privatization:** Advantages of change on the basis of current regulations and financial possibilities are met with skepticism. The enterprise submitted an application to be reorganized as a one-person company of the Commune Board. There doesn't seem to be a strong worker interest in purchase of the shares in the company. One company manager believes the only reasonable way of privatization is for known private persons to purchase the enterprise. Then they would be free to manage the enterprise by their own methods.

**Perspective:** The firm's Manager for Development created a team that has proposed a new business for the enterprise: traditionally designed single-family houses built of prefabricated materials that can be quickly erected and competitively priced. The firm can offer the houses either assembled or unassembled. This business would be marketed to individual buyers rather than housing societies. The company intends to erect a model home and make it easy for potential buyers to observe the construction. A professional advertising company will likely be retained to promote the system.

The firm is concerned with offering higher quality but when given a choice, investors are concerned with lower costs and decline higher quality features. Present quality is not bad -- costs of repair claims are about 0.5 percent. In general, defect claims concern woodwork.

### 3. Kombinat Budowlany, Torun

*Type:* Building Factory

*Longevity:* Since 1961

*Size:*

*Management Structure:* The factory is a state enterprise with a Horizontal-and-team structure. That is, it involves management, departments and divisions, and institutes which work for their own account. The establishing body was the Ministry of Construction and Construction Materials Industry. In the early 1980s, the enterprise was renamed the Building Factory with the establishing body the President of the Town of Torun.

*Personnel:* 1,600 employees. Engineering personnel possess the appropriate educational background. Data on salaries are not available, but somewhat near the national average. Some production and auxiliary workers are concerned about their job security.

*Financial:* The factory is financed by its own means except for small amount of credit from central and district credit sources for the "Mastix" plate factory. The factory does not yet use foreign capital but talks have begun concerning foreign investment in the factory. The factory's turnover in 1990 was about 200 billion zlotys. Factory profit is sufficient for proper maintenance. The factory is an investing enterprise and is currently building a "Mastix" plate factory. Expansion of the factory is also being planned but is on hold until a course of privatization is resolved.

**Land:** The factory has possession of appropriate building sites so does not need to spend time obtaining land from the municipality.

**Contractors and Cooperating Companies:** The factory deals with various contractors, commission contractors, and cooperating units, including state and private companies, depending on the scale and type of work. Market laws and fulfillment of customer expectations demands such cooperation.

**Competition:** The company dominates the construction market in Torun. Other companies include various state and private enterprises that employ from a few to several dozen people. The competitive situation is beginning to change. State enterprises still dominate with a 80 to 90 percent share of construction. Currently, competition between private companies is very intense with attempts to eliminate competitors from the market. There is some evidence that, although tenders are made, the result has been predetermined based on "special acquaintances" and the possibility that payoff money is involved.

**Clients:** The factory provides services to housing societies and to the Town of Torun. As a rule, it does not deal with private persons or companies although the possibility of providing services for them in the future is not excluded.

**Equipment:** The factory's production equipment is good, but cooperating company's equipment can only be rated from poor to medium.

**Material:** The factory usually provides its own materials. However, it also uses other sources such as industrial factories such as steelworks, cement plants, gravel mines, and foreign trade central offices. For example, gas cocks and warm water valves come from France, insulated pipe from Sweden, and reinforcing steel from Czechoslovakia. The factory currently builds with "large-slab" technology but will have to change to other technology in the near future because fewer people are willing to live in blocks of units built of large concrete slabs.

**Labor:** The factory does not have problems hiring labor, but the best go to private companies. Since the factory is located a considerable distance from town and public transportation for workers to the plant is bad.

**Difficulties:** The high credit interest rate prevents the factory from accepting credit and the factory's customers have difficulty in paying for completed work. Financial and organizational problems prevent investing in research into new technology.

**Perspective:** Overall, the factory's situation is good. Work on restructure has begun. A breakup of the enterprise is not foreseen, but rather a movement to greater departmental independence and self-financing. In the beginning, the factory will become a "treasury company" then, in the second phase, issue shares. From there, everything will depend upon the value of the shares and demand for the factory's products.

**Privatization:** Introductory analyses toward privatization have begun. The first phase will be enterprise commercialization which means diverging from the definition of a state enterprise. The second phase will consist of restructuring. The current structure has been in place for about 20 years, so restructuring should attempt to preserve functional ties to company with private ownership a cooperating element. In the opinion of the factory's chief manager, division of the company during privatization would weaken the company and, therefore, be a mistake. He believes that research might be neglected resulting in a lack of technological progress. He believes in maintaining one strong company, equipped with appropriate infrastructure, and possessed with influence in the apartment construction market. However, he also believes in the development of competition and organizational changes that will make the factory more efficient. Without the factory, he believes there would be no apartment building industry.

#### 4. Warsaw Construction Enterprise, Ltd. (Warsaw)

**Type:** Construction/manufacturing and repair factory

**Size:** 603 employees

**Production:** In 1991, the company will built 300 apartment units.

**Longevity:** Since 1987 under present name and organization.

**Organization:** The company's organization is somewhat unusual. Neither a state nor private enterprise, it is a public company called "a public economy unit." A holding company - the "mother" company - consists of about 27 persons from the board of directors and satellite companies with participation from the employees. The majority of the employees are shareholders - the minimum contribution is 500 thousand zlotys - and this creates initiative, willingness to work, and decreasing construction site theft. Cost reduction is of primary importance to the company.

**Activities:** Construction, trade and services, construction of fair sites, earthworks.

**Clients:** Housing cooperatives, state enterprises, and private customers.

**Equipment:** In the Wyszow plant, equipment is several years old and in medium condition. There are no means nor likelihood of replacement. Basic on-site production heavy equipment belongs to Apartment Management Enterprise. Transportation equipment is not very modern.

**Finance:** Self financing and bank credit. They company managed a profit in 1990 but none is expected in 1991. The company does not need to be relieved from taxes, but feels its activities should not be blocked by salary standards.

**Materials:** Monopolies are finished. The factory purchases materials and services at the lowest prices, directly from the manufacturer or from central offices. The company is starting to build with new monolithic technology based on the "Peri" company's form system rather than large precast concrete slabs. The old technology uses too much material and increases the amount of finish work required. The new monolithic technology reduces rough construction time by 40 percent and the finish work cycle is also shortened. The system also modernizes plumbing and electrical installation, making it possible to install electrical wiring without drilling. Peri is

an Austrian licensed system with a 50 year guarantee. It is no more expensive than the Polish technology which provides a 5 year guarantee.

**Land:** Land is the investor's problem. However, the factory is considering buying land for the future.

**Labor:** The company is having difficulty finding workers. It is attempting to hire 30 workers immediately, but none come from the job intermediation offices or from newspaper advertisements. Those who have shown up demand extremely high salaries. Professional construction workers are lacking. The company is negotiating with an agent from Leningrad for Soviet workers who will work for almost one-half the Polish worker's salary. Average Polish worker salary is between 12 and 14 thousand zlotys per hour. Average monthly salary is 1.72 million zlotys.

**Subcontractors:** The company is flexible toward the use of subcontractors. Private contractors are employed for finish work as commission contractors.

**Taxes:** Paid only to the commune.

**Competition:** There is no reason to compete. There are not many genuinely professional private contractors. The majority of the private contractors do not have skilled people.

**Problems:**

- Site ownership is not settled. Previous owners are lodging claims so all verification of localizations has stopped.
- The division into communes has brought confusion as to who is responsible for what.
- There are problems connected with the tax on salaries. The company has managed to avoid paying the tax but are unsure of what is ahead. A new resolution now being prepared provides that the value of all donations made by the enterprise to its employees, such as holidays, tickets, hotels, etc., must be added to the employees' salary for tax purposes.

- Nothing can be planned for 1992 because of the lack of a tax and legal policy for 1992.
- Investors (both Polish and foreign) are only interested in finishing construction at the present price of 3 million zlotys per square meter.
- Investors are short of money and there are problems with incurring credit.
- Salaries must become related to work.
- Introduction of a tax on the hereditary utilization of land.

##### **5. Industrial Building Enterprise, Formerly Apartment Building Factory, Warsaw**

*Type:* General Contractor

*Size:* 776 persons

*Longevity:*

*Organization:* The company is undergoing restructuring. It would like to create companies on the basis of management to avoid the high salary tax. Forty-nine percent of the company would remain the enterprise and 51 percent would become private companies.

*Clients:* Primarily the Ministry of National Defense and housing societies. Because investors are now choosing contractors by tender, contractors must offer better contract conditions.

*Equipment:* Equipment is satisfactory with a long remaining useful life but investors must be found.

*Finance:* Money from sales and periodical bank credit. The company is offering fixed assets for sale by tender because of reduced production.

**Materials:** State suppliers, specialist companies, branch manufacturers, directly from manufacturers, and suppliers' central offices. The company purchases where the price is lowest or where it is possible to pay by transfer because of they are short of money.

**Labor:** The labor force is becoming more and more of a problem because of the taxation system and low salaries. Of the 300 white collar workers, 100 have already left for other companies. Because of financial problems, managers are paying worker salaries out of their own pockets. Popiwiek, the high salary tax is absurd. Instead, the company should issue shares to the employees.

**Relationships:** The ministry seems to be nonexistent. City authorities are only interested in finding sources of revenue for the town, usually through high taxes. Nobody has money so the company must fend for itself. The factory is building for the Army which has no money and already owes about 15 billion zlotys. However, the company cannot leave the construction unfinished because they would lose a large, old investor. The company director maintains contact with other kombinat directors. They are working together on mutually beneficial plans.

**Competition:** The company is competing by lowering costs to keep payments competitive with others. Also, it is a company with a good reputation and with good contacts. "Private companies are in a better position because they can act informally, they cheat authorities, they bribe factory workers, and they exist only because big factories employ them as commission contractors. But they create no competition yet because they are lacking in professional knowledge."

**Export:** The construction and assembly works has direct export contracts with Austria and Czechoslovakia. A contract with Moscow through Budimex has been halted because of Ruble disputes.

**Foreign Investment:** The company is very interested in private or foreign investors.

**Problems:** Investors have no money. The enterprise has contracts for two more years but the future past that point is uncertain. Investors are not paying for completed work which prevents

increasing workers' salaries. Workers are leaving the company. The company is using outdated technologies but the financial means are not available for investing in new technologies.

## 6. PBM Poludnie (Urban Building Enterprise South), Warsaw

**Type:** A Municipally Owned General Contracting Company

**Size:** 1,000 employees

**Method of Operation:** Concludes a contract with the investor; takes over the construction site; performs site development and construction; and turns over the building for use.

**Equipment:** The enterprise owns a prefabrication "houses" factory with very old equipment. The technical level is outdated and even if money was available to modernize the factory it would still be a drag on the enterprise. Therefore, the enterprise is looking for new solutions.

**Foreign Investment:** The enterprise is conducting talks with a Western firm aimed at foreign investors but so far have not concluded a contract. "The Western party is not interested in contacts with such a shattered and huge formation."

**Export:** The company has exported services, mainly to Czechoslovakia and Bulgaria. They have built about 400 hotels in these two countries. This export business saved the enterprise which was in severe decline a few years ago.

**Materials:** The Kombinat uses all available cheap sources. They also buy directly from the manufacturer.

**Labor:** Labor is a big problem. A complete stagnation is prevailing. The enterprise must shorten the construction schedule because of a lack of skilled workers. It is looking into importation of Soviet workers.

**Privatization:** As an urban building enterprise, the company feels it has no chance for survival. It has no new investors and those that they do have owe 5 billion zlotys. The Municipality and Ministry have had no interest in the enterprise's plans and activities for a year. Therefore, it is necessary to introduce partial privatization by establishing limited liability companies with the participation of the employees and the Board members. The latter will act as an intermediary during talks with the investors. Already, as PBM is making contacts with private companies that are headed by people that were PBM partners. Also, construction managers are organizing themselves into private companies. Some employees are convinced that someone will buy the housing factory and modernize it.

**Finance:** The kombinat receives income only by settling accounts with customers who are almost always in arrears. Most of the customers are also state enterprises who are out of funds.

**Perspective:** Factories that are still in existence rely on old contracts and the fact that there is still considerable distrust of private contractors in some quarters. Housing societies often do not receive permission from their directors to deal with private contractors despite the fact that it might be a very profitable relationship for themselves as well as the contractor. Directors of state enterprises argue that private contractors do poor work or do not have a long tradition of doing good work. However, many construction professionals have left to join these "bad" private companies which pay them a lot of money. Nobody, from the janitor to the director of the enterprise, can make plans for the near future.

## **7. Municipal Construction Enterprise, Siedlce**

**Type:** Construction enterprise

**Longevity:** Since 1951

**Size:** 244 employees



**Organization and Personnel:** This is a city-owned enterprise. In 1990, the enterprise was managed by four directors and 25 middle level managers. There were 27 other white collar workers, 108 skilled workers, and 80 unskilled workers. The director is willing to reduce staff but a labor law requires keeping work specialists who are unemployed on the payroll. Some workers leave because pay is not competitive with private companies. The director applied to local authorities for permission to hire Russian workers. "Russians already work for private employers for lower wages and without taxes, which is illegal but profitable."

**Technology:** The enterprise uses more and more subcontractors, especially in the finishing trades. Technology is changing from large concrete panels to brick construction.

**Finance:** Net profit in 1990 was 1.958 million zlotys. Wages represent 22 percent of total costs. Generally, financing is the investor's problem. The company uses short-term, high interest credit when contracts are signed. Delays in payments are quite common. When this occurs, the investor is charged interest.

**Clients:** Clients are usually state-owned enterprises, housing cooperatives, the city of Siedlce (e.g. schools), and others. The company does no work for small private companies. 15 projects are now in progress. The company does no foreign work. It sometimes works outside Siedlce, but usually within the Siedlce region. It has built projects as far away as 100 km. When out of the region, a project manager and heavy equipment goes to the site but local workers and small subcontractors are hired as needed.

**Competition:** Competition is growing, but the company is in a very strong position. Known for its good quality, it has old clients and has very good relationships with local authorities. The general director of the company is also on the City Council, which helps. The company's competitive advantages include: know-how, especially on complex projects; a design team; and large machinery.

**Privatization:** The primary problem is the excess wage tax, imposed on state-owned enterprises for the purpose of halting inflation. The company is increasing wages and must pay the tax

which amounts to about 168 million zlotys per month. The solution is privatization. Privatized companies do not have to pay the excess wage tax. A privatization initiative has been undertaken by the director and workers' council. The application has been prepared and submitted to City Hall, which is the owner. The plan is for the enterprise to be turned into a joint stock company. Employees want to buy assets but the problem is capital. The director wants to sell small stock packages to the employees and their families. Also, a program of partial privatization is being worked out. This plan would consist of selling one of the work plants that usually leases its equipment to private subcontractors.

**Relationships:** The enterprise cooperates with several other firms to jointly complete projects: a factory which prefabricates building elements; a general construction enterprise; a building material enterprise; a private subcontractor for finish work; a craftsmen cooperative consisting of small private businesses; a privately owned concrete mixing plant; and a state-owned equipment firm which leases equipment to the private subcontractors.

**Materials:** The enterprise is not bound to one source of material supply. It buys from several sources depending on price and availability.

**Perspective:** The company appears to be well organized and is managed by individuals who care. The general manager identifies strongly with the company and seems to enjoy the esteem of the workers. Management is efficient and flexible and responds positively to the changing situation. The company works well with private subcontractors to the benefit of all. Small private firms are efficient and inexpensive. The company is able to act as a general contractor for both large and small projects.

## **8. Siedlce Company for Industrial Construction, Siedlce**

**Type:** A Municipality-Owned Construction Firm

**Longevity:** Since 1976

**Size:** About 300 employees.

**Activities:** The company is building a voivodship hospital, a student hostel, a fruits and vegetable warehouse, and a deep freezing plant for fruits and vegetables for a Dutch-Italian company. The company is also building a school in Zbuczyn, but will be forced to stop work because of no money.

**Organization:** Established in 1976 by the Voivoda of Siedlce, the company was part of a plan to create a large building industry in Siedlce, serving the entire eastern region of Poland. It originated from a state-owned building company located in Pulawy which was building housing in Siedlce. Company is 100 percent state property. There are two managers and five engineers with college degrees. Altogether, about 80 people have college degrees. Between 60 and 70 people work in administration. The company tried to reduce the number of administration personnel but there is a law that requires the company to pay a high tax after reductions in personnel. Therefore, reduction in administration staff has yet to be done.

**Competition:** The Director of the company believes it is able to compete with any other firm on any project. However, they recently lost a tender for a large contract to a private company. They company has only a few projects now. Last year, it had 20. Private companies have emerged and are winning contracts based on lower price. According to the Director, these private firms are unable to complete larger projects and are stopping work. The lack of projects has as its source the general crisis in Poland. The Director believes his enterprise is best equipped to build industrial projects in Siedlce. The only competition is from private enterprises, but the interviewee believes there is ideological prejudice involved. He believes that investors are prejudiced against large state-owned enterprises. Other than this, the company is in good standing with other state-owned enterprises.

**Clients:** 80 percent of the companies orders are from the State. Some work is done for cooperatives. Investors have no money, so the company has no new contracts. In the most recent bids, private companies have won the contracts "because they paid bribes."

**Finance:** The company is completely self-supporting. One interviewee claimed that the excessive administrative staff is the source of the company's financial burden. Investors are behind in payments. The company "looks good on paper but in the bank it is very poor." It has no cash is unable to make payments. Investors on four building sites are not paying.

**Labor:** The labor force is not a problem. The average wage is 1.2 million zlotys per month, below average for this type of enterprise. Although there is no unemployment now, there will be unless investors come forward soon. In fact, with no investors, the company will soon be out of business.

**Technical Level:** About 99 percent of the company's equipment is new but is not being used. Monthly payments on this equipment amount to 140 million zlotys.

**Risk:** The company does not take risks.

**Connections with City Authorities:** The company is municipal property.

**Equipment:** The company has recently purchased expensive new equipment, primarily from Germany, based on the expectation of a large contract. However, a private building firm won the contract based on price. The private firm then leased equipment from the state-owned companies.

**Partners:** The company does not joint venture with other firms. They do use subcontractors, all of which are large state-owned firms. To date, the company has not used private subcontractors.

**Materials:** The company has a "Provision Department" which purchases materials from all over Poland. Although the company holds shares in PROBUD, a building materials firm, the company does not use its services. Sometimes "non-payment" deals are worked out. For example, recently the company traded some equipment for bricks.

**Perspective:** The lack of projects is the major problem. The company has no new orders. On those projects underway, investors run out of money before completion but the company continues the job on credit. The company is not taking special steps to find new clients.

**Privatization:** According to the interviewer, it will be necessary to divide the company into smaller units or fall into bankruptcy. Management doesn't take steps to adjust the company to a market economy. The company has enormous production potential but requires reorganization and change in ownership. But it will not change itself. Intervention from the outside is necessary but it is not likely that one investor would want to purchase the entire company. This is one of the reasons why breaking into at least two smaller companies. According to one interviewee, a request for privatization has already been formed, but the employees are so poor that any kind of share participation is unlikely. The new equipment, purchased in 1990, is a heavy burden for the company because of dividends, a tax that state-owned companies pay on their assets. By separating the equipment from the company, the tax burden goes with the equipment. By transforming into a one-person joint stock company of the state treasury, high dividends paid for land and equipment can be avoided.

## **JOINT-STOCK MATERIAL SUPPLY FIRM**

### **1. PROBUD, Building Materials Center of Siedlce, Siedlce**

**Type:** Building Materials Supply

**Size:** About 80 employees

**Longevity:** In existence for 4 years

**Organization:** The company started as an enterprise of production and services and then transformed into "Building Materials Center of Siedlce", a joint stock company. 53 percent of the shares are held by the "Voivoda" (District Governor) and the rest by building companies. This is a typical "nomenclature" company, based on old connections and supported in its actions by

local authorities. They are very confident in a market economy and are already among the leading private companies.

**Competition:** Decisively, private firms are winning. The company has its own market of customers.

**Clients:** The company serves the market of craftsmen, private contractors, retailers, and small investors from Siedlce and neighboring voivodships, including Warsaw. State enterprises supply themselves.

**Technical Equipment:** The company has its own railway siding in Siedlce and rented trucks. There are two modern, heated stores - one in Siedlce and the other in Lukow.

**Finance:** PROBUD has its own capital assets worth over 6 billion zlotys and 2.7 billion zlotys in bank credit. Turnover is occurring constantly. Except for shareholders, there are no outside investors.

**Suppliers:** The company buys materials from manufacturers from all over Poland. In addition, about 10 to 15 percent of the materials are purchased from abroad. It has no problem purchasing construction materials.

**Staff:** There is no problem with staff except for a shortage of managers with a knowledge of foreign languages.

**Perspective:** PROBUD is developing. It is trying to keep prices low and volume high. Company wages are high.

**Relationship with City Authorities:** Relations are very good. City has 53 percent of the shares. The Chief Manager of PROBUD is on the city council.