CENTER FOR INSTITUTIONAL REFORM AND THE INFORMAL SECTOR

University of Maryland at College Park

Center Office: IRIS Center, 2105 Morrill Hall, College Park, MD 20742
Telephone (301) 405-3110 • Fax (301) 405-3020

POLAND: SMALL BUSINESS PROJECT
OUTLINE OF RECOMMENDATIONS

March, 1991

Charles Cadwell, Elisabeth Rhyne
and James Boomgard

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Author: Charles Cadwell, Elisabeth Rhyne and James Boomgard, University of Maryland at College Park and GEMINI/Development Alternatives, Inc.

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Outline of Recommendations
March 15, 1991[1]

Section One:
small Enterprise in Poland

The recent liberalization of the Polish economy has dramatically influenced the opportunities for private economic initiative and laid the foundation for a radical restructuring of an economy dominated for the past 40 years by large, state-owned enterprise. Policy reforms have vigorously stirred the economic pot and the currant state of affairs can generously be characterized as in severe disequilibrium. While there is considerable uncertainty about what the Polish economy will look like when the dust settles, it is clear that privatization of the state-owned sector and exposure to foreign and domestic competition will result in restructuring and reorganization across practically all subsectors of the economy. Along with this realignment, the opportunities for small firms will increase, as will the competition they face.

supporting and reinforcing the emergence and growth of small enterprises is of critical importance to the success of the transformation of the Polish economy. A robust, efficient, and equitable market economy requires a widely diversified base of business enterprrses free to test, explore, and exploit opportunities for innovation, business expansion and employment growth. Small firms represent Poland's best chance to rapidly and flexibly respond to the heavy short-run costs of the economic transformation. The process of privatizing large state-owned firms is going to force hundreds of enterprises to liquidate or downsize and require thousands of individuals to find new opportunities. The speed at which a private sector develops will determine whether these individuals are productively re-employed. Small firms will provide jobs, a productive outlet for savings, growth for new industries, and dexterity for the national economy which now operates in a fast-changing world economy.

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[1] This report was prepared by a team fielded from the GEMINI and IRIS Projects of AID/APRE/SMIE, on the basis of a visit to Poland between March 4 and 16, 1991. Team members were Elisabeth Rhyne (AID/APRE/SMIE), James Boomgard (GEMINI/Development Alternatives, Inc.), Arthur Warman (GEMINI/Development Alternatives, Inc.), Charles Cadwell (IRIS/University of Maryland), Robert Thorpe (IRIS/University of Maryland), and Frank Swain (IRIS Consultant/Baker & Daniels). A list of persons interviewed is attached (Appendix 1).

Creating favorable conditions for small business should go hand in hand with privatizing the state sector. The ability of state-owned enterprises to pass a market test, even after privatization, remains open to question. Small private businesses all over Poland have been passing market tests, and have strong prospects for growth. Poland cannot stake its economic well-being only on the ailing state giants. Therefore, small business deserves high priority standing within the national agenda.

Small Enterprise in Poland

From the most informal peddlar selling a few grocery items from a blanket on the street to the Poznan apparel manufacturer building his second plant and employing 200 people, entrepreneurs are taking advantage of new freedoms. Private enterprise was permitted under the communist regime but the size, range of activities and access to markets of firms was severely restricted. Most private activities were concentrated in illegal, black-market trading, or the tightly controlled crafts sector.[1]

Prior to the economic reforms in 1989 and 1990, the non-agricultural Polish economy was, for all practical purposes, equivalent to rhe large state-owned enterprises. At the time of the reforms, and even today, virtually all private business in Poland is small business.

While statistics on the private sector before the reforms are suspect, it is roughly estimated that in 1989 there were just over 824,000 private businesses of which 814,000 were unincorporated. These firms accounted for 15 percent of industrial employment and 10 percent of domestic industrial

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[1] The term "craftsmanship" is an official definition of the communist state referring to limited, independent economic activity in services or manufacturing. The craftsman warked in his own warkshap with his own tools (capitalist). Generally, the craftsman has no employees outside of family members or, at most, a handful number of employees (so he may not exploit the workers). Craftsmen were regulated through Guilds and Cooperatives. These firms were considered essential elements of the industrial structure as they were able to undertake production and perform services that wore necessary complements to the large state enterprises. The National Craftsmen Association (Zwiazek Rzemiosla Polskieco) estimates that in 1989 it represented 500,000 small businesses in services and manufacturing. These firms employed approximately 1,000,000 [illegible]. According to the Association, twenty percent of these firms are larger enterprises, employing between 50 and 100 persons. While this may be illustrative of the mite distribution, these figure8 cannot possibly be accurate.

output. The remainder of output was accounted for by the approximately 7,300 state-owned firms.

The World Bank has compiled data on changes in the private sector by legal status. Most significant are those firms classified as unincorporated sole proprietorships and the incorporated firms which were legalized in 1989. Information on numbers of firms and employment are presented in Table 1.

Table 1
Overview of Small Enterprise in Poland:
Number of Firms and Employment

Year/ Firm Type	Enterprises		Employment		
	Number of Firms	Annual Change	Number of Employees	Annual Change	Per Firm
Unincorporated					
1981	357,000		653,000		1.83
1985	481,411	8%	954) 000	10%	1.98
1988	659,556	11%	1,190,000	8%	1.80
1989	814,462	24%	1,500,000	26%	1.84
Incorporated					
1988	1,275		n.a.		
1989	9,852	672%	141,000		14.31

Source: Adapted from World Bank, 1990.

Two points deserve special notice:

- First, the structure of economic activity in Poland is highly distorted. The concentration of employment and output in the large-scale, state-owned sect0r and the relative insignificance of small enterprise is striking. This differs from the situation in both developed and developing market economies where a much mare balanced size distrihutian of firms exists.

- Second, the rate of change in the numbers of small enterprises and employment is unprecedented. Growth rates in gross value added of the non-farm private sector increase by 26 percent are estimated by the Government of Poland for 1990.

There is much more change to come. Desprte dramatic growth in the private sector and among small firms, the largest and most telling adjustments remain on the horizon.

Problems Facing Small Business

In addition to the difficulties posed by current macroeconomic conditions, particularly high inflation and severe credit restrictions, small businesses face a number of structural constraints, which stem from the fact that for most of Poland's economy the private enterprise system is still under constructron. Interviews with a wide variety of business groups and others reveal the following urgent problems:

- An unfinished legal and regulatory framework, in areas including taxation, property rights, contract enforcement, export and import licensing, and others. The laws that govern economic activity, and the bureaucracies that administer those laws, remain in many ways the laws and systems of a command economy.

- Distorted and unfinished industrial structure. The Polish economy suffers from an extreme dearth of the kind of enterprises that make markets work well by supporting the productive industries: transportation, distribution, retail, and business services. Moreover, Large, state-owned enterprises exert monopoly power vis a vis small private firms whether they are input suppliers, competitors, or buyers.

- Inadequate infrastructure. Shortages of space and poor performance of utilities, especially telecommunications, raise barriers to entry of new firms and raise costs of existing ones.

- Gaps in knowledse and skills. Three priorities can be identified: 1) business management; 2) information on business opportunities, both inside and outside Poland, particularly regarding trade contacts and current technologies; and 3) an understanding of the structure and operation of the private enterprise system,

- Absence of or dysfunctional financial services. Crucial, basic financial services are not available to the vast majority of small businesses: attractive savings instruments at various maturities, overdraft facilities, check clearing services, international letters of credit, short and long term loans, standing payment orders and others.

These problems reduce the returns on investment and lower the growth rate that small business could otherwise achieve.

Small Business on the National Agenda

Within the government, there has not been focussed attention to many of these small business problems. Decision-making at present is dominated by the efforts to privatize state-owned firms. This means that discussions of reforms of financial services policy, property law, taxation and many other areas tend to go forward with little consideration of how specific reforms will promote or inhibit opportunities for small private firms.

However, in recognition of the importance of small business, a new office has been set up within the Ministry of Industry to serve as an advocate for small business and a coordinator of policy between 11 departments. The individual heading this office -- the Office of Government Plenipotentiary for small and Medium-Sized Firms -- has a very wide mandate to enqaqe in advocacy, research, assistance and outreach activities.

In addition, the private sector itself is organizing to represent its needs. Several different types of private business organization exist. Most are in the process of redefinition. The associations are broadly of two types: 1) longstanding business orqanizations which had been manipulated by the state as means to control the activities of members, or 2) newer organizatrons which played a role in opposing the communist regime. Both now face the daunting job of transforming themselves into service and advocacy organizations. For example, the previous government used the Union of Craftsmen to both assist and control private "craftsmen." Now that the requirement to control has disappeared, the union has had to establish *new* functions and marketrnq skills.

Most business orqanizations are taking steps to represent members in the policy process. However, access is currently dependent on personal relationships with ministers or members of Parliament rather than on an openly functioning decision process, (Some number of members of Parfiament are themselves member of trade groups). Processes to expand participation in the policy debate are not in place. Information and technical ability to provide economic analysis of proposed policies is rudimentary. In *short,* there are small windows of access to the policy process, but organizations have not yet developed sophisticated information gathering, analysis and advocacy programs.

Important social and political attitudes will influence decisions on small business policy issues. Most importantly, Poles both inside the government and in the private sector express eagerness to move their country into the economic mainstream. They are committed to creating a free market economy. They recognize, however, that they lack detailed knowledge of how such *an* economy operates, and are clearly

looking to the West for detailed advice. There is no doubt that they will take that advice, aake their own decisions, and move forward quickly.

For example. there is not a well-developed understanding of where the boundary between the State and private sector ought to se. In market economies, dozens of government policies result in the allocation of risk and access to opportunity, but the appropriate boundary is defined by a series of legal and commercial fence posts. In Poland, the small business sector operates in a field which lacks many of these posts. A number of people expressed a desire for assistance in detailing where the boundaries between the public and private sector ought to be.

On the other hand, many people whom the team met noted a societal distrust of private success, a resentment of wealth. Very often this resentment was focussed on recent nomenklatura who are seen to have cut special deals for themselves in the privatization of specific state properties. Yet the problem appears to extend to a more general suspicion of all successful busrness people. One measure of this may be the report that advertising is felt to reflect a weakness of the product: high quality goods sell themselves. Another glimpse of this "levelling" instinct may account, in part, for the efforts of some trade associations to mandate membership or to advocate eliminating informal business activity. Activity that results in income disparity is not widely acceptable. Thus, it is important that reforms be based on an open process, and that all levels of smail business, including the smallest, be treated fairly.

Section Two:
A.I.D.'s Role -- Reinforcing and Accelerating Changes in the Business Environment

Given the need to increase attention to the system being created for small business in Poland, the team recommends that A.I.D. focus its action in the small business arena on the following high level objective:

- to assist Poland in accelerating steps being taken to create a supportive environment for small bus-- through the removal of existinu obstacles and the creation of functional free market institutions.

A second level objective follows from and complements the first:

- to assist Polish organizations -- both private associations and government -- to become effective in advocating and solving the major small business issues.

Specific activities should meet both objectives, that is, they should result in improvements in specific aspects of the business environment, and they should be carried out in conjunction with local organizations and government in a way that helps build the service and advocacy capacity of those organizations.

A.I.D. 's Position Vis a Vis the Government of Poland

The GOP has asked A.I.D. to work with the office of the Plenipotentiary for Small and Medium-Sized firms, and indeed, the team's assessment is that the office can play an important role in shaping the small business environment. As a new office, it is still in the process of defining its role more clearly. The course of its self-definition will in many ways be a process of defining the stance of the new government toward small business.

One of the most significant elements of this process is the ability of the Plenipotentiary to maintain its current supportive and facilitating posture towards small business in the face of possrble pressures to become more interventionist and protectionist. The office has functions both to create a positive environment and to serve as a channel. for direct assistance. The former function is particularly important for the growth of small business. In its function as assistance coordinator, the office should be wary of adopting a protectionist posture, such as prevails in a number of countries, which treats small business as weak, and rather than opening opportunities for many, focusses on providing subsidies to a few. The experience of the U.S., other developed market economies, and strong-performing developing countries is that the effective government listens to small business and enables private actors and their associations to understand and address their own problems. In this manner, small business is developed as part of the economic mainstream. A.I.D should argue strongly for such an approach.

In requesting assistance on small business from the United States, the Prime Minister of Poland has given A.I.D. an excellent opportunity to work together with the GOP at a critical time in its thinking on small business -- a time in which the basic stance is being defined, If A.I.D. is to be responsive to this request, it must move quickly. Six months to one year from now those decisions will have been made.

The Role of Other Activities and Donors

Several donors, including U.S. Government agencies, have already started small business programs, and several large new

activities are being planned.[3] Most of these provide direct assistance to enterprises, either training or credit. Training is being provided or planned by A.I.D., the U.S. Department of Labor and Small Business Administration, the European Community, and the World Bank, among others. Lines of credit are planned or provided by the Polish American Enterprise Fund, the World Bank, and others. While these efforts are important, and address real needs, their benefits will be limited by the current business environment. Infusions of credit will be of limited value unless they are complemented by actions to support the development of capable financial institutions. The benefits of training will hot be felt if economic incentives throughout the economy remain skewed. In focusing on improving the environment, A.I.D. will be entering an arena that is currently being relatively overlooked -- an arena in which A.I.D. and the U.S. have strong experience and expertise to draw upon.

Proposed Strategy Areas

In addressing the broad objectives outlined earfier, it is recommended that A.I.D. focus on three of the five major categories of problems listed above: 1) the unfinished legal and regulatory framework, 2) the distorted and unfinished industrial structure, and 3) the absence or dysfunction of financial services. Of the two remaining areas, infrastructure is beyond the scope of this effort, and gaps in knowledge and skills are being addressed by many other small business programs. A discussion follows of the need for attention to each of the three proposed areas of focus.

1) Legal and Regulatory Framework

central planning operated through complex administrative systems. By contrast, functioning market economies work by providing broad rules under which all enterprises can make their own decisions, relatively free of government intervention. Small firms in Poland fared particularly badly under central planning. Access to complex administrative bureaucracies required complex organizational capability. This system placed a premium on size, accumulation of excess capital and political clout with those making administrative decisions. None of these characterizes small business.

The transition from a centrally planned economy to a market economy requires changing the institutions -- the rules of the game. This means eliminating many of the prior command structures as well as putting in place the broad rules which are central to competitive markets, but unnecessary in an

[3] Appendix 4 summarizes U.S. Government and other donor activities relating to small business.

administered economy. In Poland many of the old command structures have been eliminated or at least reduced, price regulation for example. Other institutions upon which private business rely have oniy begun to receive attention.

There are two aspects of this area in which A.I.D. can accelerate the resolution of problems. The first is the area of the legal infrastructure upon which husiness owners rely in order to have confidence in contracts, investments and other business activities. The commercial laws in Poland were written in the 1930's. There is no mechanism for registering a business name. The on-going debate about a property law means that the status of certain real property needed for collateral is uncertain. The utility of leases as collateral is unclear. In short, many of the basic legal rules -- which permit businesses to deal with each other in predictable ways and which provide means of resolving disagreements quickly and according to known standards -- are not yet in place.

The second area of legal and regulatory concern is the left over burden of administrative requirements used in central planning. Decisions about which behavior of firms should be left to market forces and which should be overseen by the government are being addressed in an ad hoc fashion. (For example the Antimonopoly Office is regulating gasoline price margins at the same time that it must advise on the structure of hundreds of state-owned firms being privatized.) The costs of unnecessary interference on the rate of growth in small firms is not widely appreciated, yet interviews with small firm owners provide dozens of examples of rules which cause them to constrain or delay their activity to certain levels in order to avoid rules or comply with requirements. For example, employment law applicable to state-owned firms also applies to the smallest firms. A further example: registering a business involves numerous steps at both Local, regional and national levels.

There is no entity looking at this range of issues in a systematic fashion. One foundation in Poznan hopes to measure permitting hassfes. A trade association is concerned about tax proposals. The office of the Small Business Plenipotentiary has identified labor, customs and restructuring laws, among others,

A.I.D. should capitalize on the effort of currently disparate individuals and groups. It should focus on accelerating the refinement of Polish solutions to institutional issues in those areas which present immediate opportunities. It should test and develop the interest and capacity of a wide number of local or industry advocacy groups, starting with early, visible targets and moving with experience to more complex institutional issues.

2) Distorted and Unfinished Industrial Structure

Many critical opportunities and constraints facing small firms center on their efforts to compete for a profitable market niche within their industry. Even when there is a relatively neutral policy and regulatory environment and relatively well developed vertical and horizontal industry structures there are often bottlenecks and constraints that work to the disadvantage of small firms. The incomplete policy and regulatory environment and highly distorted industry structures in Poland magnify the influence of such bottlenecks. Examples of the types of bottlenecks identified as important in the Polish context include high transactions costs, limited information, undeveloped intra-industry markets, misguided interventions, and the absence of models and examples of competitive market structure and conduct,

The organization of industrial subsectors will gradually move towards a more rational and efficient structure as entrepreneurs identify unfilled market niches, and enter markets now dominated by monopolistic but unprofitable state enterprises. This process can be accelerated if industry participants are able to identify and work to remove existing bottlenecks. Moreover, focusing on constraints that influence relatively large numbers of small firms (leverage), is a necessary complement to "supply-side" Lnterventicns that do little by themselves to improve tha ability of small firms to effectively compete for a profitable market share.

Focusing attention and *resources* on selected industrial subsectors --- that is, the entire collection of firms, large and small, involved in transforming raw materials into final goods in the hands of consumers -- provides a context for identifying, documenting, and acting on:

- common firm-level problems in the industry -- management practices, technical weaknesses, uneconomic behavioral patterns;
- systemic problems of industry structure and organization that limit participation by small firms (undeveloped or distorted input or output markets, dysfunctional inter-firm markets, excessive vertical integration, mission industry functions);
- common or specific problems of complementary input markets such as financial services, markets for technical advice, and information; and,
- industry-specific or cross-cutting constraints in the policy and regulatory environment.

These specific findings can be used as input into the agendas of representative bodies, assistance institutions, the government, or for donor programming. A.I.D. can focus on industries of strategic importance to the development of the private sector as a whole, and work together with industry-groups to increase their ability to diagnose and bust such bottlenecks.

3) Lack of Financial services

Poland is creating a financial system essentially from scratch. Despite important progress, at present basic financial services are not widely available to small private businesses -- or are only available on prohibitive terms. At the most basic level, banks do not provide attractive savings and deposit services. Deposit services are costly and inconvenient, both for businesses and individuals. Neither are banks adept at facilitating transactions: checks, both domestic and foreign, take weeks to clear, international letters of credit are unavailable without full cash cover, etc. Overdraft facilities are not available. Short and medium term finance is generally available only to firms with tangible assets well in excess of loan amounts, and legal issues prevent many valuable assets from serving as collateral. As a result, private businesses use cash in as many aspects of their operations as they can; and rely on informal sources of credit. This is costly and inefficient.

The major response to small business financial needs proposed by donors and government to date has been to establish lines of credit for medium and long term lending. This presumes that lack of investment capital is the main problem. However, basic financial services are at least as important. Moreover, lines of credit do not contribute greatly to the development of strong, self-reliant financial institutions.

Major restructuring of the financial sector is now underway, with high-level assistance from the U.S. Treasury, among others. It is important that the decisions regarding those reforms be informed by a clear understanding of the priority financial needs of small business. Thus, what is proposed here is that A.I.D. take a bottom-up approach to complement the activities underway at higher levels. A.I.D.'s efforts should focus on ensuring that small business finance is treated as part of financial sector development, *not* as an isolated issue warranting special subsidies. A.I.D. has important contributions to make by bringing key ideas from both the U.S. and A.I.D.'s own experience in developing countries into the current debate on small business finance.

4) Other Strategic Areas

Though outside the scope of the concept proposed here, the team identified several other opportunities for A.I.D.

contribution to small business development in Poland. These are:

- Assistance to Peace Corps small business volunteers.
- Assistance to local government in dealing with small privatization and creating a positive local business climate; and,
- Assistance to the Antimonopoly Office.

These ideas are described in Appendix 3.

Relationship to Other A.I.D. and U.S. Government Activities

The concept proposed here complements the wide range of A.I.D. and USG activities that touch upon small business issues, The small business effort will both draw upon and feed into many of these activities, in ways that will improve the performance of each.

- Individuals here under A.I.D. funding will provide specific personal contacts, and possible action channels in each of the proposed areas. These incfude: Peace Corps volunteers, IESC, the International Team on Company Assistance, and the Polish American Enterprise Fund.
- Actions taken through this effort will provide valuable information on small business needs to inform U.S.-assisted efforts in legal and regulatory reform, housing finance, and financial sector development.
- A focus on the business environment will complement the training efforts of DOL, SEA, and A.I.D.'s management training program.

Section Three: Immediate Action Plan

This paper has stressed how important it is to move quickly to put a program in place. Key decisions will be made in the next six months to a year. Accordingly, a set of specific activities are proposed to begin within two months and to extend over the next year.

Each of the proposed activities addresses the higher-level objective of creating a supportive environment for small business, and the second level objective of assisting Polish organizations to become effective in advocating and solving small business issues. The main objectives of these tasks are:

- To undertake immediate Steps to focus government and private sector attention on key small business issues, and, where possrble, to assist in change of commercial or legal practices and rules.

- To initiate a process for working with a variety of local groups to enhance their own representational capability and involvement in the policy dialogue,

- To use these steps to identify issues and more specific needs for later A.I.D.-sponsored action by this team and others over the longer term.

Each of the first four activities utilizes a similar iterative process. Very brief preliminary work to identify key players and specify current states of knowledge will be followed by actions to focus those affected by policy and those with authority to make it on both the problem and solutions. At this stage in the process, a variety of vehicles will be used to focus the dialogue, including introduction of specialized expertise from abroad, summit meetings, and analytical information. Follow-on work will pursue the specifics. The target in each case is to identrfy and achieve near term reforms and to discover which problems and which groups can form the basis for longer term work. Specific proposals for early action are described below.

Task force on small business finance -- To elevate understanding among key players on the financial needs of small business, and the steps needed to secure those needs. Convene a small business finance working group; put together several working sessions, bringing in expertise from the U.S. and elsewhere, on issues including: savings and deposit services, provision of short term credit services, non-credit services, credit for the smallest enterprises, and solving the collateral problem.

Regulatory Simplification -- Action to eliminate and reduce burdensome government permits, paperwork. Conduct a regulatory reform and advocacy program similar to that of the Institute for Liberty and Democracy focussed on permit and reporting requirements. Base the effort in two non-Warsaw cities (tentatively, Cracow and Poznan). Starting with local group, document what is required and what people actually do. Provide external help to the local group to estimate number of entities subject to requirements, cost of compliance. Collect qualitative information on impact on firms. Assist local group to publicize findings, coordinate with the Plenipotentiary's office, draft remedial simplification steps.

Legal Infrastructure for Small Firms -- A series of coalition-organizing summit aeetinqs to initiate reforms in a set of topics such as property rights, taxation, employment laws, commercial and civil codes. Specific topics will emerge as the other parts of this small business proqram are conducted (subsector action program, regulatory srmpiification etc). First topic area will be intellectual property rights.

Strategic Industry Action Program -- It is proposed that GEMINI work with Polish institutions to conduct subsector action programs in two industries. The objective of the work is to enable firms, associations, and the GOP to better articulate strategies for actions, services, and interventions to promote small enterprise interests. The proqram will identify gaps in the structure and organization of industries that limit participation by small firms, identify key dynamic forces acting on the industry, and identify and follow-up on opportunities for cost effective intervention.

Advisor in the Office of the Small Business Plenipotentiary -- A long term (up to one year) advisor: would be made available in the Office of the Plenipotentiary. This person would be responsible for advising and channelling information to the Plenipotentiary, for coordinating with the other AID small business projects to assure access and priority for those issues, for assisting tne Plenipotentiary with outreach to small business organizations and to facilitate information flows in an out of the bureaucracy. This individual would focus on the advocacy aspects of the Plenipotentiary's function rather than detailed technical help in the design of assistance programs.

These initial activities have been selected because they combine potential high impact on important problems with quick start-up. They respond directly to GOP's need to show a pattern of success in its transformation program. These activities can also make a substantial difference in the way other assistance efforts proceed, both other U.S.. initiatives and those of other donors. Moreover, these initial activities will provide the working knowledge of small business problems and the experience with Polish small business organizations that will pave the way for A.I.D. to develop its larger, longer term program in this area.

Appendix 1: List of Interviews

Coordinator for Foreign Aid Office
Mr. Pawel Samecki, Director of the Office,
Ms. Krystyna Gurbiel
Mr. Kozak, Advisors to Minister
Council of Ministers, Al. Ujazdowskie 1/312:30

Polish-American Enterprise Fund
Mr. Richard Turner (South Shore Bank)

Cooperation Fund
Mr. Hubert Szlaszewski, Director General
Ms. Anna Iwanowska
Ms. Krystyna Gurbiel
Mr. Charles De Smet, EC Consultant
Mr. Tom Brunsveld, EC Consultant
Mr. Mart Nugteren, EC Consultant
Mr. Jan Szewc (Director, Council of Ministers)
Zurawia 4 A, VII floor, r. #700

Ministry of Ownership Changes
Minister Janusz Lewandowski
Deputy Minister Grzegorz Jedrzejczak
Mysia 5, r. #108

Small Business and Restructurization of Enterprises Office
Deputy Minister Krzysztof Białowolski
Ministry of Industry
Wspólna 4, II floor, r. #207

Industrial Development Agency
Mr. Marek Krawczyk, Director
Ministry of Industry
Wspólna 4, V floor, r. #5010

Market Bank of Poznan
Mr. Eryk Wojciechowski, President
Ms. Charlene Soby, Advisor from First National Bank of Chicago
Stary Rynek 74, Poznan

Task Force on Company Assistance
Kevin McDonald, International Coordinator
Steve Buckley
Jim van Bergh
Żurawia 4 A

U.S. Peace Corps
Michael Honegger
Obserwatorów 5

Ministry of Ownership Changes -- Small Privatization
Asst to Deputy Minister
Jay Madigan
Tom Lawson
Tiffany Barnard
Mysia 5, r. #108

Chamber of Craftsmen
Ms. Oręziak
Robert Popiolek
Miodowa 14, III floor, r.# 306

Polish Chamber of Commerce
Foreign Promotion Bureau
Mr. Andrzej Gerhardt, Director
Marian Makiela, Area Manager
Trębacka 4 , II floor

3ank for Social and Economic Initiatives
Ms. Natalie Bolqert, Advisor to the Director
Bank PKO Building, III floor, r. #389

parliamentary Commrssion on Economic Policy, Budget and Finance
Mr. Ryszard Bugaj, Chalrman
The Sejm, Wiejska 4

Foundation for the Development of Polish Agriculture:
Greg Vaut, Executive Director

National Bank of Poland
Departnent of Finanacial Policy and Credits
Mr. Witold Żółtkowski
Swiętokrzyska 12, r. #516

British Know-How Fund
Ms. Teresa Scholtz
Assistant Representative
British Council
Al. Jerozolimskie 59

National Council of Economic Societies
Mr. Opawski, Deputy
Trebacka 4, reception room 11 floor

SMG-KRC Poland
Krzysztof Nowak, President
Krzysztof Kruszewski
Bednarska, 27, aptm. 7

Texas Poland Foundation: Maria Lunderius, Poznan

Project, Ltd.: Dr. Alfred Janc, Dr. Tadeusz Kowaiski: Academy of Economics Institute of Planning, 60-967 Poznan al. Niedpodleglosci 10

Ministry of Labor and Social Policy, Employment Department
Anatol Szurmak, Deputy Director. ul Nowoqrodzka 1/3 00-513

Antimonopoly office
Anna Fornalczyk, President
Janusz Swiekocki, Advisor to the President
Plac. Powstancow Warszawy 1
Polish Development Bank
Piotr Czarnecki, Manager - Credit Departslent

cracow Industrial Society
Leslaw Kuzaj, Vice Chairman
ul. Starowisnla 13/20
Krakow

Kazimierz Lodzinski
Manager
Firma Handlowa Lodzinscy
Kracow

Krakowska Konqreqacja Kupiecka
Mieczyslaw Banas, President
Jacek Gruszka, Vice President
Leszek Mikos
Roman Konrk, Vice President
Krakow

U.S. Consulate -- Krakow
Algis Avizienis
Economic/Political Officer

U.S. Peace Corps Volunteers, Krakow
Pat Creighton
Bill Grant

Bank Rozwoju Rzemiosla "Market" Bank
Eryk Wojciechowski
Charfene Soby (First National Bank of Chicago)
Poznan

DRT Poland
Jan Maciejewicz

Polish Academy of sciences
Institute of Economics
Prof. Marek Dabrowski
Prof. Cezary Jozefiak, Director

Hogan & Hartson, Attorneys at Law
Pitor Kochanski
Joseph C. Sell

Appendix 2: Immediate Actions Proposed through IRIS and GEMINI Buy-Ins

1. Small Business Finance Action Program

Why? The financial service requirements of small are best served when treated in the context of the development of effective and efficient financial intermediaries. Consideration of small busrness finance in isolation from financial system development is counterproductive because it does not contribute to the expansion of deposit facilities and efficient intermediation. The greatest number of small firms in Poland will depend on non-subsidized credit and commercial financial services. While direct assistance to individual firms will be helpful to those firms which receive it, the broadest and greatest impact will flow from specific steps to create functioning markets for private credit and financial services.

It is important that those concerned with small business finance recognize that the interests of small business are best served by healthy financial institutions that serve a wide variety of needs, without dependence on external infusions of capital. These needs are not limited to longer term loans, but include: 1) savings and deposit services; 2) transactions supports of many kinds; and 3) short term and overdraft credit. The purpose of this activity is to reinforce this understanding among government, banks, business representatives and others in the small business community, through both articulating the need and working to solve specific problems. Because this perspective is not widely understood within Poland, it will be important to bring in views of those who have worked on small busrness finance issues both in the U.S. and in the developing countries where A.I.3. has a great Seal of experience.

What? The action program will focus on the following issues: savings and deposrt services, provision of short term credit services, non-credit services, credit for the smallest enterprises, and solving the collateral problem. The process will be:

- Identify status of these issues and key organizations/individuals.
- Convene a working group to develop a plan of action.
- Bring in Polish and U.S. experts on the priority areas identified by the working group for both broad and focused discussion; at the same time, prepare estimates of the cost to small business of inadequate financial services.

- The working group will identify specific actions that can be taken by members. These actions may be supported by technical assistance resources for obtaining specific expertise.

Who? This activity will be closely identified with the office of the Plenipotentiary, and closely coordinated with the acivrsor in this office which is identified in item 5, below. The working group will include small business association representatives. Individual entrepreneurs, private bankers, state banks, and donor groups.

Measures of Success will depend on evidence in policy decisions that GOP was approaching small business finance from a financial system perspective rather than an assistance perspective. Progress on any of the specific issues listed above .

Possible Follow-on activities include identification of the issues most important to pursue, organizations most capable of pursuing them, and provision of technical assistance in support.

2. Regulatory Simplification -- Action to eliminate and reduce burdensome government permits and paperwork.

way? Different groups and individuals have identified a wide variety of national and local permits and reports which are obstacles. There is no road map to the level or nature of existing burdens of this sort. A consensus of local support needs building and specific steps need identification. At the local and at the national level businesses and government officials will benefit from greater capability and interest in weighing the costs , in addition to the benefits, of particular requirements.

What? Conduct an advocacy program similar to that of the Peruvian Institute for Liberty and Democracy focussed on permit and reporting requirements. Base the effort in two non-Warsaw cities (tentatively, Cracow and Poznan). Starting with local group, document what is required and what people actually do. provide external help to the local group to estimate number of entities subject to requirements, cost of compliance. Collect qualitative information on impact on firms. Assist local group to publicize findings, coordinate with plenipotentiary office, draft remedial simplification steps.

Who? Options include Cracow Industrial Society coordinates effort with Poznan lawyer and Texas-Poland Foundation. IRIS supplies de Soto veteran and quality control.

Measures of Success: a) Procedures get eliminated or simplified; b) Simplification steps are introduced and debated;

c) Process will be replicated by others; d) Local groups develop stronger advocacy capability; e) Industry specific issues are identified for larger effort.

Potential Follow On. Creation by local group of a Guide to Business Permits and Reporting; Involvement with substantive issues which underlie various reporting or record keeping requirements.

3. Legal Infrastructure for small firms

Why? There is only general recognition by Polish small business representatives of specific legal institutions or rules which are essential to a working, open market economy. The larger debate on these issues is occurring without small firm input...if it is happening at all.

What? A series of summit meetings to initiate reforms in a set of topics such as property rights, taxation, employment laws, commercial and civil codes. Specific topics will emerge as the other parts of this small business program are conducted (subsector action program, regulatory simplification etc). First topic area will be intellectual property rights. The team is aware that Poland's attention to international intellectual property conventions is the subject of current discussion. This project proposes to focus on the very practical interests that Polish small firms have in establishing a better domestic system of tradename, trademark and other legal protections for intellectual property. The recognition by Polish firms of the value of a system which secures property rights should contribute positively to the broader discussion,

The ability to register a business name and protect the investment which will be represented by that name are a key aspect of economic property which lacks an effective mechanism for small business in Poland. (There is no place to even register the name of a store and keep another from calling his store the same.)

Actions will begin with a short brief on status of current law and practice, general estimates of current and prospective cost of inaction, then convening of business representatives with legal community. Follow with provision of technical assistance to private and government persons needed to clarify status and characteristics of this type of property.

who? American Bar Assn. Eastern Europe initiative is not active in any of these areas. Thus we will organize a small group of Polish and US legal and economic experts to work with small business representatives.

Measures of success: a) System of registering business names is established. Broader intellectual property reforms are implemented; b) Specific legislation is introduced and supported by small business organizations; c) "Summit" aechanrsm succeeds in organizing disparate snail business groups and establishes a model for small firms and the aovernment to meet with experts to develop specific solutions.

Potential follow on: Specific action to help groups with adoption Of laws on intellectual property; longer term use of same or similar necnanism to address tax, commercial law, labor law issues.

4. Strategic Industry Action Program

Khy? Many critical opportunities and constraints facing small firms center on their efforts to compete for a profitable market niche within their industry. Adjustment to fundamental changes in the competitive environment is inhibited by the absence of fully developed vertical and horizontal industry structures and inter-industry markets and coordinating mechanisms. In addition, the information, models, and examples required to reduce the cost of initiatives by individual entrepreneurs, business associations, and local and national government is not available and too costly for any individual participant to collect and analyze. Industry- or subsector-specific action programs will assist entrepreneurs, associations, and government identify and prioritize cost-effective courses of action and assist, on a pilot basis, several specific interventions.

What? GEMINI work with selected Polish institutions to design and carry out subsector action programs in two industries,

(a) Industrres will be selected on the basis of several considerations, including: the growth potential for small firms in the industry; the size of the industry; its importance in supporting growth in other, related industries: ability to generalize finding to other industries; or, the insight it may provide into particular classes of problems that bear on other subsectors. candidates which appear particularly interesting at this juncture include housing related industries, distribution, metal industries, and furniture. Final selection will be made in consultation with A.I.D., the GOP, and other important actors at the first stage of implementation.

(b) In cooperation with a local consulting firm and key institutional actors in the selected industry, GEMINI advisors will undertake structural, organizational, and system-level analyses required for the identification of a

priority action agenda for the industry. A key feature of this stage of the program will be the use of panel focus group techniques to promote group interaction and action. The process of bringing together groups of similar firms in focus groups provides an opportunity and context for action by firms or groups. Bringing together small firms with larger counterparts opens opportunities for developing market-based interfirm linkages. Bringing industry participants together with development or representative institutions and the government opens channels for direct: advocacy anti program development.

(c) Concrete information generated at this stage will be made available to individual firms (through the focus groups), associations, the government, and donors to: improve their understanding of the structure, organization, and operations of industries; undersrand the changes occurring in the sub-sector and the dynamic forces acting on the subsector; concretely understand the opportunities and constraints that influence the development and performance of different groups of firms within an industry; and, to prioritize opportunities for cost-effective action and intervention.

(d) on the basis of the priorities identified, resources will be available to support from two to four specific interventions by associations other groups of businesses, or other support institutions: Priority will be placed on technical assistance and information functions.

Who? The initial work will be conducted by GEMINI advisors in cooperation with a Local consulting firm. The Plenipotentiary will be invited to participate and during the design stage of the program relevant industry association and groups will be enlisted.

Measures of Success: There are several levels of success of the subsector action program.

(a) Cost-effective action is taken by firms, associations, or the government that results in improved industry performance.

(b) subsector analyses is institutionalized within an industry.

(c) The capacity of local consultants to practice subsector analysis is developed.

Possible Follow-on: The pilot action program should result in a prioritized list of actions that may be supported by follow-

on project activities. In addition, additional industries may be targeted for subsector action proqrams. Information may be use to feed into cross - industry assistance agendas -- legal and regulatory reform, financial sector reform, and so on.

5. Advisor in the office of the Small Business Plenipotentiary

why? The office has been set up as a focal point for consideration of policy affecting small business. It has responsrbility for advocacy, coordination of policy of eleven ministries and conduct of data collection and legal reform efforts related to items such as labor codes, competition policy, small firm privatization etc. The success of this office will occur as it becomes a leader in both the substantive areas of interest and in establishing mechanisms for the democratization of the Polish policy process. There is in the U.S. and other countries considerable available information and experience on both the substance of small business aspects of these issues as there is on the democratization of the policy process.

What? A long term (up to on8 year) advisor would be made available in the Office of the Plenipotentiary. This person would be responsible for advising and channellinq information to the Plenipotentiary, for coordinating with the other AID small business projects to assure access and priority tor those issues, for assisting the Plenipotentiary with outreach to small business organizations and to facilitate information flows in an out of the bureaucracy. This individual would focus on the advocacy aspects of the Plenipotentiary's function rather than detailed technical help in the desrqn of assistance programs.

Who? An American, ideally with some Polish language capability, and economics understanding and small business policy experience.

Measures of Success: a) Plenipotentate takes over this function on his own budget; b) Identifiable policy changes result from assistance; c) Plenipotentate's Office is recognized as a legitimate source of sound economic and legal input by other ministries, Parliament; d) Outside groups utilize Plenipotentate for access, visibility and coordination: e) Office develops its own analytic capability; f) Plenipotentiary involves the advisor in his core agenda.

Potential Follow On: Assistance with specific issues of interest to Plenipotentate by making available experts in specific areas, assistance with establishment of outreach mechanisms, more formal contacts with counterparts in Other countries.

Appendix 3: Additional Ideas for Action

1. Increasing the Impact of Peace carps volunteers on Small Business

Why? The Peace Corps program in Poland has a strong small business thrust, with 28 small business volunteers in the first round. and a larger number expected next year. These volunteers have impressive qualifications for their postings, many of them having MBA degrees and years of experience in U.S. businesses or banks. They have found an important niche for themselves in working with local governments and business organizations, particularly in poorer sections of Poland, that are difficult to include in assistance efforts. The impact these volunteers can have on thsir localities will be enhanced if: 1) the volunteers participate as resource peopfe in some of the A.I.D.-sponsored small business activities presented in this papers, and 2) volunteers have a source of funds to use to address specific opportunities.

What? Provide a source of funds for Peace Corps volunteers to draw upon to address specific opportunities related to small busrness. These funds would resemble the small project assistance funds which are provided by USAID to Peace Corps programs around the world. Volunteers would obtain the funds on the basis of brief, written proposals to the Peace Corps office in Warsaw. Chief criteria would include clear demonstration of local need for and interest in the proposed activity, its expected impact on small business, and evidence that the funds were leveraging resources committed on a voluntary basis. For example, one current volunteer has identified a need for certain banking skills among organizations he works with. Through contacts with U.S. bankers, he has won agreement for them to provrde short term assistance free of charge, provided Peace Corps can cover transportation costs. This is an example of the kind of leverage that would be expected.

Who? Peace Carps small business volunteers would use the funds, and the Peace corps office in Warsaw would manage them on a very simple basis. In each case, the counterpart organization of the volunteer would he directly involved in the proposed activity.

Measures of success. Each activity would be measured on its own ability ta achieve the objectives it proposes to address. In general, the impact of the volunteers 'on their localities will-increase.

Cost. As not all small business volunteers will use these funds, and as the cost of the activities will be very low, the funding required would be in the range of $100,000 to $150,000 per year.

2. Local Government Privatization and Small Firms

Why? Hundreds of small firms, especially retail outlets, are being privatized by local governments, their "founding bodies." There is no standard mechanism for such privatizations, so local governments have employed a wide variety of techniques. This decentralized authority has resulted in quick action in many cases and provided needed revenue to local government. The relationship of local governments to both newly privatized and always-private firms will be important to the long term development of a healthy business climate. Choices by local governments about whether to lease or sell outright both the business and the real estate Will very directly affect the viability of firms (apparently banks will not take 99 year leases as collateral.) The regulatory and financial relationship of local governments to all firms, but particularly to those which it has privatized, is ripe for attention by both Polish interests and USAID.

What? Identify up to five local governments which have made significant progress in privatizinq small firms. Document their successes and failures and produce a toolbox of ideas and options for other local governments. Assist in identification of other country models of local government businesses policy and promotion efforts. Recommend steps needed to establish data collection to permit organized look at the nature and n-going cost of incompletely privatized (i.e. leased or government financed privatizations) and to analyze costs and benefits of various privatization strategies.

who? Select a small number of local governments, perhaps of various sizes and location. Utilize experts in local government business policy and government decentralization, along with local business groups, if they exist in the cities chosen.

Measures of Success: a) Changes in practices and policies in the specific local jurisdictions selected; b) Extension of lessons and expertise to other Polish jurisdictions, and/or other nations: c) Identification of additional local government bottlenecks to success of businesses, for feedback to local business groups and Plenipotentiary.

potential Follow On: Training for local government officials, focussed assistance to national/local officials needing to sort out areas of responsibility, identification of specific tasks for USAID privatization contractors, analysis for further USAID technical assistance.

3. Assistance to the Anti-Monopoly Office

The Antimonopoly Office has wide-ranging responsibility and authority in the areas traditionally thought of as antitrust as

well as in the area of regulation of pricing and practices of industries with limited competition. In effect, this 100-person office has responsibilities for both the competition policy aspects of the transition, but also as a regulator of competition within industries which art? not yet, or may never be, competitive (such as electricity generation). The President of this office is very aware of the impact of policy emanating from her office on SME's and feels an acute lack of analytical resources given the pressure to be involved in hundreds of decisions about the structure of privatized firms and also to conduct a nascent enforcement program. Development of policies and enforcement practices will affect the conduct of business across many industries and constitutes one of the key institutions affecting the opportunities for business formation and expansion. Further discussion with this office and coordination with earlier USG short term visitors will permit more detailed specification of the most useful areas of cooperation.