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**CENTRE FOR CO-OPERATION WITH ECONOMIES IN TRANSITION  
AND  
THE PROGRAMME ON LOCAL ECONOMIC AND EMPLOYMENT DEVELOPMENT**

**THE EMERGENCE OF BUSINESS ASSOCIATIONS AND CHAMBERS  
IN THE ECONOMIES IN TRANSITION:  
EXAMPLES FROM THE CZECH REPUBLIC, HUNGARY, POLAND  
AND THE SLOVAK REPUBLIC**

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

**Paris 1994**

**COMPLETE DOCUMENT AVAILABLE ON OLIS IN ITS ORIGINAL FORMAT**

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## Foreword

This paper presents the results of research conducted for the Local Economic and Employment Development (LEED) Programme as part of an ongoing activity of the Centre for Co-operation with the Economies in Transition (CCET) investigating the development of small and medium enterprises (SMEs) in Central and Eastern European countries (CEECs). It presents an overview of the variety of private sector organisations that have sprung up over the past several years in the Czech Republic, Hungary, Poland, and the Slovak Republic. The paper is written on the basis of detailed background information provided by Judith G. M. Brandsma, Thomas Howells, Anna Iwanowska, Rodine Kirsten, and Jacob Levitsky.

Private sector associations have a role to play in the transition economies in stimulating parliaments and governments to create a business climate conducive to the expansion of 'good' entrepreneurship. This is important because much of the spontaneous entrepreneurship that emerged from the collapse of the command economy has been in the so-called underground and informal sector.

One feature of the business associations is the way in which they have tended to prioritise the lobbying of national governments to the detriment of other activities. While the development of a favourable fiscal, legal and regulatory framework is critical to private sector development, small and start-up businesses, which typically fuel economic growth, confront local issues such as zoning regulations and availability of commercial facilities that must be resolved. Thus, for business associations, the development of long-term positive relations with local government representatives will be at least as important as effective lobbying campaigns.

An economic democracy needs a class of entrepreneurs that has the capacity to promote the culture of enterprise and to define the social role of the entrepreneur. The analysis and information contained in this report is part of the CCET's effort to foster entrepreneurship in the transition economies. As such, it is addressed primarily to policy makers of business Chambers and associations in OECD Member countries who may consider developing their direct relationship with their emerging counterparts in the reforming economies, and perhaps reassess their existing activities in this area, in view of the issues and problems exposed by this survey. The CCET collaborates with the Business and Industry Advisory Committee of the OECD (BIAC) in this effort.

This document is published on the responsibility of the Secretary-General of the OECD.

Salvatore Zecchini  
OECD Assistant Secretary-General  
Director of the CCET

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## INTRODUCTION

Small businesses in market-based economies thrive on a balance of competition and co-operation. Competition between individual enterprises is the basis of a market economy, but at the same time, co-operation between small enterprises in defending the interests of the sector as a whole, and the forging of a network of support services based on 'self help' are crucial factors in the development of a dynamic, small business community.

Co-operation within the small business community usually takes place through representative small business membership associations and bodies. In industrialised countries, these representative organisations take the form of federations, Chambers of Commerce and Industry, business associations, and in some situations, businessmen's clubs or forums -- these are collectively referred to here as business organisations.

There has been a proliferation of business organisations of different types in the economies of Central and Eastern European countries (CEECs) since 1989. This is partly a reaction to the many years of repression under communist rule; even in countries which permitted private businesses to operate during the communist era, business associations were limited to the few government-controlled organisations in which membership was obligatory. After 1989, businesses were eager to exploit the opportunities that were available under the more liberal conditions that prevailed, and they viewed business organisations as an important tool for promoting their interests. Therefore, when it became possible to form associations, a large number were set up quickly.

However, several years into the transition process, the outcome of the reforming economies' experimentation with business representative organisations is a mixed picture. This picture includes highly successful experiences alongside a multitude of organisations which confess a general inability to make progress towards their avowed objectives. This is not to argue that the experience of transition economies with business organisations has been essentially a failure. Some examples of success are included in this survey (e.g., the Nógrádi Enterprise Association in Hungary). Nevertheless, the success stories appear to be surrounded by a large number of organisations that admit a great deal of frustration. Observers who are close to these organisations speak of a 'confused' and 'chaotic' situation.

This paper, based on case studies taken from the Czech Republic, Hungary, Poland, and the Slovak Republic, seeks to throw light on the phenomenon of business organisations in the transition economies and provide some insights into the causes and consequences of their rapid proliferation and unfulfilled expectations. The case studies are close-up illustrations of the actual life stories of individual organisations and are expected to give the reader a sense of the concrete challenges faced by real actors within an economy in transition. This perspective is not usually revealed in macro-level analyses of outcomes. At this stage, the lack of comprehensive surveys of all business organisations in the transition economies hinders attempts at a statistical analysis of their characteristics and performance<sup>1</sup>. However, on the basis of information available -- supplied by experts who are actually closely involved with the creation and/or operation of business organisations, and who have provided the background material for the case studies<sup>2</sup> -- the organisations surveyed do not constitute an atypical sample.

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<sup>1</sup> Collecting such information, though desirable, was beyond the scope of this study, the primary purpose of which was to provide a snapshot view of a rapidly changing situation.

<sup>2</sup> Their names are cited in the Foreword.

## Issues and problems facing the business organisations in the transition economies

The crucial role that is expected to be played by business organisations in the CEECs is that they help shorten these countries' period of apprenticeship in the workings of the market economy.

The importance of small and medium enterprises (SMEs) in job and wealth creation has long been recognised. One of the critical deficiencies of the transition economies at the beginning of the reform process has been the near-total lack of a viable SME sector. Much assistance has since been going to the creation of new firms at the SME scale by public authorities, domestic or foreign.

However, even in market economies, enterprises at small or medium scales are reckoned to have certain types of weaknesses. SMEs are typically disadvantaged in access to capital and information. They suffer from diseconomies of scale in relation to R&D or marketing. In market economies, business organisations play a significant role in alleviating such handicaps by providing advisory services, promotional institutes, networks, consortia etc. There is, therefore, the perception of an urgent need to transfer western experience with business organisations to the reforming economies<sup>3</sup>.

Another major problem faced by new private businesses in the transition economies was, and continues to be in many cases, the lack of an institutional/regulatory environment that is unambiguous and conducive to their development. This adds a unique role to the functions of business organisations in these countries, which consist of lobbying in favour of market economy as an entire concept -- that is, in addition to particular needs that individual businesses or groups of them might have<sup>4</sup>.

All this goes a long way in terms of rationalising the growth of business organisations in the reforming economies. However, many of the organisations that have actually been set up in these economies have been disappointed by their own performance. In addition, and perhaps quite naturally, given the briefness of their experience, the economies in transition have not been able to make conclusive choices concerning what model of private sector representative or self-help organisation they wish to adopt and in what sort of institutional framework these will interact with governmental authorities. Specific issues such as whether to impose compulsory membership in Chambers or whether to institutionalise government's consultation with business organisations on economic decisions remain unsettled. We shall first try to elucidate the range of issues faced by these organisations.

### *Dichotomous functions of business organisations.*

It is useful to make a distinction between two different functions that are performed by organisations representing small business interests. At one level, such organisations are set up by their members as a pool of resources to provide self-help in various matters of common interest (such as assistance with business planning at the start up phase, provision of consultancy services to businesses at various levels of development, or provision of shared facilities for capital equipment that is intermittently needed but is too costly for small businesses to possess on their own). This type of business organisation sometimes plays a role which is not unlike that played by medieval guilds. That is to say, they may be endowed with officially-sanctioned power to regulate businesses with respect to issues such as

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<sup>3</sup> See for instance the paper by the President of the Hungarian Small Business Association, Zoltan Roman, "Strengths and weaknesses of the SME sector in the Central-Eastern European economies" presented at the *Twentieth International Small Business Congress*, Interlaken, Switzerland, September 19-22, 1993.

<sup>4</sup> To be sure, not all seemingly private sector representative organisations in transition economies necessarily promote the case of the market economy. Many may actually be lobbying to obtain regulations that will simply alter relative prices in their favour but will not be socially optimal, or, simply in order to keep communist era favours.

apprenticeship practices or technical standards. In addition, the organisation may also assume wider public functions to foster and provide support for the emergence of new businesses. From this perspective, the activities of the organisation are essentially directed towards its own members (as well as potential ones, when there is a question of fostering the creation of new businesses).

Alternatively, business interests come together to create organisations in order to represent their interests vis-à-vis external entities. This includes *lobbying* or *advocacy* with respect to the governmental processes as well as information activities targeting public opinion in general. In this context, one frequently comes upon assertions that organisations become too 'politicised'. The advocacy function is, by its very nature, a political one, however when organisations of this type, or prominent individuals in them, are closely associated with nationwide political movements, their ability to agglomerate and harness the interest of small businesses may be impeded.

Many business representative organisations actually combine the functions of self-help and advocacy. Nevertheless, in almost every organisation the balance tilts in favour of one or the other function -- and that makes a difference in terms of the potential problems that are faced by the two types of associations<sup>5</sup>. For a business association to be able to play an effective advocacy role vis-à-vis the central government, it has to have considerable resources and must be able to represent a significant number of businesses operating in its field. Self-help organisations can, in principle, be highly localised in geographical or sectoral terms. Organisations playing a self-help function can also come together at the national level in the form of confederations or unions of Chambers. However, in this case, the nation-wide body often focuses on representation and advocacy functions.

#### *Chambers and other self-help organisations.*

Generally speaking, the 'guild' function evoked above is played out at the local level by the so-called Chambers (of Commerce, or Commerce and Industry) which are usually affiliated with a central federation of Chambers, headquartered in the main city of the country. Chambers have developed throughout the transition countries. In Poland, the National Chamber of Commerce and Industry established by Special Act of 1990 has local Chambers throughout the country affiliated to it. The law allows any group of 50 companies - state-owned or private - to establish a Chamber which has led to small, unrepresentative Chambers being set up in different cities - sometimes two or three in the same town. Although it may be presumed that such 'competition' may help improve the quality of service offered by business organisations, because the power of associational enterprises lies in their ability to agglomerate interests, the ultimate effect of competition in this area tends to be a waste of resources devoted to the multitude of organisations.

According to a recent study<sup>6</sup>, the reach of Chambers in the reforming economies has so far been essentially confined to the main metropolitan areas of the countries. In addition, Chambers are thought to be losing their recognition in the eyes of enterprises, which has been leading to a decreasing membership. As a result, Chambers began experiencing financing difficulties, a problem which was reported in many of our case studies, particularly in Hungary. One consequence of this situation has been an intensification of the debate on the imposition of compulsory membership in Chambers.

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<sup>5</sup> Some very large organisations may be able to unite, under the same roof and name, effective advocacy and self-help activities. However, in this case there is a risk that the organisation becomes too unwieldy and bureaucratic to be able to mobilise voluntary participation by small and medium enterprises.

<sup>6</sup> See Rheinisch-Westfälisches Institut für Wirtschaftsforschung, 1994, *Aufbau mittelständischer Strukturen in Polen, Ungarn, der Tschechischen Republik und der Slowakischen Republik*, Essen/Kerpen, May, Volume 1, pp.157-162.

## *Voluntary versus compulsory membership*

In OECD Member countries, Chambers differ considerably with respect to their membership procedures. In Continental European countries such as France, Germany, the Netherlands and Italy, membership in a Chamber is obligatory. These bodies have 'public law status' and are financed by a levy or tax on all businesses. In these countries, all new businesses are required by law to register and become a member of their local Chamber and thus coverage of the business sector is complete. In English speaking countries (Australia, Canada, New Zealand, the UK and the US), Chambers have developed as voluntary associations and there has been strong opposition against imposing obligatory membership. In Japan, membership is not a legal obligation but because of strong social pressures from the 'Societies of Commerce', as they are called, nearly all small firms are members. This high membership is mainly due to the great deal of assistance given by government *through these bodies* to smaller businesses, such as loan guarantees, special financing, preference in government procurement and promotion of sub-contracting arrangements and industrial estates. Therefore, many projects are implemented through these organisations as to make it highly advantageous for small businesses to be members

There are strong arguments for and against obligatory membership. Voluntary membership makes it more difficult for an organisation to develop enough members to finance itself, to adequately represent the business sector, and to provide useful services for its members. Furthermore, the 'public law status' of representative, private sector organisations such as the Chambers in European countries obliges governments to consult with representatives of the private sector before enacting legislation and regulations. This status may lead to the designation of a single, strong organisation to represent the sector, whereas voluntary membership may lead to fragmentation into a number of small and ineffective bodies. Thus, in countries where membership is obligatory, one can ensure that the Chambers represent the entire range of enterprises and their employees.

On the other hand, in some European countries where businesses are legally obliged to become members of business organisations, private enterprises view the organisations as part of the public bureaucracy, and not as independent institutions truly representing the private sector. While obligatory membership may ensure more adequate representation of the sector, as well as a capacity to deliver effective services, some members may feel resentment at being forced to belong to an organisation from which they feel they are deriving little benefit. This is a particularly sensitive issue in countries that have lived through long periods of centralised government and authoritarian rule.

In an effort to overcome the problems of limited or declining membership and enhance the influence of representative business organisations, private sector business interests in the economies in transition have pressed the government for legislation requiring all businesses to become members or to register with specific representative organisations. A law was introduced and approved in the CSFR in 1992 imposing obligatory membership in the Chamber of Economy, but, in April 1993, this law was amended by the legislature of the Czech Republic to make membership voluntary<sup>7</sup>. Apparently, the law was changed because the Parliament did not want the Chambers to become too powerful. The Slovak Republic, on the other hand, maintains a nationwide Chamber of Commerce and Industry, where all but small and agricultural businesses are required to be members. In Hungary too, the parliament has recently approved a law creating a new Chamber where all businesses will be obliged to become members by 1996.

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<sup>7</sup> In the specific case of the CSFR, the decision to make membership of the newly-established Chambers of Economy compulsory was partly fuelled by a desire to end the divide existing between the Chambers of Commerce and Industry, which was a legacy of the communist era, and the Entrepreneurs Association, which stood for the emerging entrepreneurs' interests. This split was responsible for the alienation of many entrepreneurs from the Chambers and made the subject of membership an issue of highest political importance. See Rheinisch-Westfälisches Institut, *op. cit.*

## *Problems of advocacy organisations and politicisation*

Business organisations in the reforming economies are also handicapped in their second function which consists of lobbying/advocacy, but for the opposite reasons. There, the problem can be described as a phenomenon of atomization.

The newly-found freedom to set up private enterprises, a sudden surge in unemployment, coupled with the myriad SME development programmes launched, have all contributed to a spectacular increase in the number of firms that are registered in the reforming economies. But, many of these enterprises are reckoned to be 'second job firms' or phantom firms that exist on paper only. The proliferation of business organisations then represents a higher order derivative of the same phenomenon. One estimate suggests that there are now over 5 000 associations in Poland -- many of them with restricted local and sectoral membership -- and over 3 000 in Hungary. Figures are not available for the Czech Republic and the Slovak Republic, and, although they are probably lower than Poland and Hungary, the number is still high.

Proliferation of business self-help organisations at the local and sectoral level *can* be a positive development, providing their members with faster, closer, and more custom-designed assistance. But the result can be negative when the multitude of organisations compete for influence in a lobbying context, for the simple reason that division of entrepreneurial interests can render the individual movements too weak and ineffective. This problem is especially important during the 'transition' period when an anti-market economy group may still persist within the government machinery.

## **Conclusion**

### *A problem in transferring experience*

Copying from a foreign country often appears as the easiest and most straightforward way to adopt an institution which is entirely new to the body politic of a country. However, the fundamental problem of copying institutions or behaviour from an advanced example is that what is actually being copied is the end result of what must have been an institutional evolution. That end result is taken as the target or the model. The copier is rarely able to have at his disposal the entire evolutionary history of its role model and knows very little about the model's initial structures, the problems that were faced or created by that structure, or how and at what cost it transformed itself to be able to end up as what it is at the moment when it has assumed the mantle of a role model.

The creation of the institutional foundations of market economy in the transition economies has had to rely on the copying of institutions from the existing market economies to a considerable extent. Even when laws or other institutional arrangements were carefully adapted to take into account the specificities of the transition economies, the explicit or implicit model in mind referred to the ultimate or current form the equivalent institution had taken in the advanced market economies (as in tax legislation, a regulatory institution such as an environmental protection agency, or the manner of interaction between government and private bodies). Much of the advice and assistance that went into supporting the institutional transformation in this region may also have suffered from the 'logical problem' described in the preceding paragraph.

This apparent criticism is not meant to argue that what was done was wrong or could easily have been done better. Without a blueprint on 'how to assist transition' in formerly centrally-planned economies, there was no alternative to conceiving transition as a 'shot at a target' rather than as an arduous evolutionary process. In any case, no institution would have been able to sell the idea of a transition that would last almost as long as it took today's market economies to become market economies.

Far from representing a counter-example to this, the advent and rapid proliferation of business Chambers and associations constitutes a phenomenon where a group of institutional arrangements that have proven some validity and usefulness within the advanced market economies have been enthusiastically taken up by the pro-reform party in the transition economies as an example to emulate. The result has been threefold: a) a phenomenal proliferation of business Chambers and associations, which is partly an aspect of the rebirth of associational life after a long period of repression; b) initially, high expectations concerning the role these Chambers and associations could play in terms of assisting their members or influencing governments; c) and, eventually, a growing dissatisfaction, on the part of their members, with the achievements of such organisations.

In the nearly chaotic picture presented by the associational movement in the transition economies, there is some evidence for the perception that countries are moving from the stage of easy copying ('developed market economies have business associations, therefore we should have business associations') to the next stage of re-conceiving the initially copied organisation in the light of their now better understood institutional needs. It is in this context that the 'confused and rapidly changing' picture of business organisations in the CEECs has to be seen.

There may, in fact, be no alternative to this arduous process of learning. It is not enough to conceive institutional transition as a process of emulating OECD Member countries' practices, as these have a large variety of different answers to specific institutional questions such as whether membership in business Chambers should be compulsory. The initial troubles faced by the reforming economies with new institutions are then the only practical process to enable them to understand what they are actually choosing from. This is an aspect of transition that has not been sufficiently well understood at the beginning of the reform process.

#### *Some lessons and recommendations*

Conclusive lessons cannot be drawn from this study as to which specific policies should be pursued vis-à-vis business representative organisations in the CEECs. As elucidated above, the organisations which are the subject matter of this survey are just beginning their transition from copying to innovating. Nevertheless, some tentative lessons on what constitutes 'good practice' in a number of issue areas can and should be drawn from the experience studied. As with most social and economic analysis, however, a 'two-handed' approach to lessons and recommendations is necessary.

Concerning the problem of 'atomization', government intervention to produce mergers of associations and Chambers remains a hazardous idea. Furthermore, the resolution of this problem should not be sought outside 'political culture', which normally differs from society to society (as in the propensity to join independent associations). Likewise, introducing compulsory membership for all businesses in a centralised organisation could hamper the development of genuine associations. The development of genuinely private initiatives should remain a priority over the desire to impose 'order' on the apparently chaotic situation.

*On the other hand*, it is necessary to develop public action to guide the myriad of existing associations towards greater efficiency without destroying the potential for grassroots initiatives. Many of the existing initiatives to foster SME development (such as the EC PHARE initiative to create the so-called Regional Advisory and Information Centres) are designed to provide assistance directly to businesses. Government action, whether domestic or foreign, seems to have placed little priority, so far, on channelling such guidance through the associations created by the businesses. In some cases, the associations surveyed thought they were facing competition from the donor-financed SME development initiatives, whose technical and financial standing they could not hope to match. Thus the strengthening of local and spontaneous business support or self-help initiatives should be considered more seriously as a way of

internalising the various private sector development programmes that are under way in the reforming countries.

There is no doubt that there are problems with this. Investing in large numbers of small entities has always been considered difficult and dangerous -- by banks and aid agencies alike. However, new perspectives and possibilities have been emerging in the West on this question. More and more public development assistance is being channelled to recipients via non-governmental intermediaries in the context of aid to developing countries. Innovative ways of mobilising the commitment and energy of those closer to the problems have been developed in the context of structural adjustment issues in OECD Member countries. One type of approach, which is particularly relevant, consists of the 'partnership' arrangements between public and private institutions at the local level, which overcomes the weaknesses of either in enterprise and employment development<sup>8</sup>. Business associations have a dual nature as entities created by (mainly) private firms which, however, fulfil a public function by contributing to the growth of enterprises, hence of employment and incomes. At least one example in this survey (the *PINK* Business Incubator in the Czech Republic) shows that where local public authorities co-operate closely with a business support organisation, the effectiveness of both increases. It is possible to envisage similar partnerships involving local governmental authorities more closely with the operations of local business organisations, by enhancing co-ordination between and the needs of the business sector on the one hand, and the educational establishment, regulatory framework, and local political processes, on the other.

The reviews show that the few examples of associations (again the *PINK* Business Incubator and the N6grádi Enterprise Association in Hungary) that explicitly prioritise the mobilisation of local resources over the search for non-local funding fare better. It is of highest importance to conceive and design public assistance (domestic or foreign) to business associations in a such way that does not induce a culture of dependency. A concrete issue in this context is the question of who should pay for the useful services (consultancy, training, networking, etc.) provided by the associations. To avoid 'free rider' problems, it is often necessary to ask the businesses to make a substantial contribution to the financing of operations, even in a context of emerging businesses. It is conceivable to use 'foreign' (which in this context means non-local) financing to operate a 'vouchers system', whereby businesses pay for services provided by their own association via subsidised vouchers.

Concerning the dichotomy between the 'guild' and advocacy functions of business organisations, the specific political circumstances of transition economies (the existence or not of a determined and sweeping government commitment to pro-market economy reform) may justify an unusual amount of the latter. Nevertheless, there is clearly an urgent need to strengthen the self-help function of associations. This is an area where the business Chambers and associations in OECD Member countries are able to help their emerging counterparts in the reforming economies, by means of establishing direct bi- and multi-lateral contacts, providing role models and networking opportunities, and transferring their 'know how' in self-help and representation operations to them. In concrete terms, organising visits and exchange programmes between the associations of advanced market economies and those of the transition countries may well be a relatively high-return activity.

As has already been pointed out, there is more than one answer to certain questions, and business organisations in OECD Member countries exhibit a great variety in terms of their structure and political/judicial status. It is perhaps not a first best alternative for the reforming countries to let a single institution from the West take a dominant role in the construction of their associational 'style'. In this regard, a priority may be placed on enabling the associations of reforming economies to establish ties simultaneously with a number of Western counterparts from different traditions and contexts. Existing

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<sup>8</sup> See OECD, ILE (French initials of Local Initiatives for Employment Creation) Programme, 1993, *Partnerships: The Key to Job Creation. Experiences from OECD Countries*, Paris.

organisations, such as the International Chamber of Commerce, can be thought of as possible intermediaries in organising such multi-lateral networking.

The detailed contact information and evaluation on selected business organisations in the CEECs which is published at the end of the paper, is provided in the hope that such information will contribute precisely to more diversified contacts between the business representative organisations of the advanced market economies and those of the reforming countries.

## THE CZECH REPUBLIC AND THE SLOVAK REPUBLIC<sup>9</sup>

### Overview

The examples from the Czech Republic and the Slovak Republic provide an illustration of the process of 'searching' by the reforming economies of the most appropriate structure for organising business interests for self-help and representation purposes.

After the 'Velvet Revolution' in November 1989, numerous business associations appeared in what was then Czechoslovakia. Some of these were actually 'reformed' versions of former communist-era associations -- in former times various professions and crafts had been organised into guild-type associations with compulsory membership. At the national level, the most important example that represented such a link to the pre-reform associational and guild structure was the Czechoslovak Chambers of Commerce and Industry, whereas, the 'new' entrepreneurial interests came together under the umbrella of the Entrepreneurs Associations (see below) of the two federated Republics. The parallel existence of two systems, each of which was designed to be a nation-wide umbrella organisation, seems to have led to a splitting of the associational movement in the former CSFR during the initial years of the transition.

The conflict between business organisations representing the legacy of the communist period and those representing the new entrepreneurial class has, in fact, made the regulation of business Chambers and associations an issue of the highest political importance in the former CSFR. The compromise solution which has been found, which was largely favourable to the new entrepreneurial interests, consists in the founding of The Chambers of Economy (*The Chambers*, see below) in 1992 as a super structure bringing together more than one hundred professional or vocational business organisations. The initial law setting up *The Chambers*, in fact, made membership obligatory for all businesses. However, after the split of the CSFR into two republics, the Czech parliament amended the law to make membership voluntary. *The Chambers* have been operational since mid-1993 and there are no obligatory membership organisations in the Czech Republic.

On the other hand, *The Chambers* were never put into action in the Slovak Republic. But, a 'National Act' of 1992 (in what was then the federated republic of Slovakia) established the Slovak Chambers of Commerce and Industry, which is a nationwide 'guild'-type service organisation, where all 'registered businesses' in the Republic (leaving out the smallest enterprises) are required to be members - except businesses in the agricultural and food processing sectors which are required to be members of their own sectoral Chamber.

In both the Czech Republic and the Slovak Republic, there are few local business associations that support SMEs and entrepreneurship directly at the local level (the Entrepreneurs Club of Zilina, which is examined below, being one of the exceptions). The organisations present at the local level are either local branch offices of national organisations that support SMEs indirectly through lobbying, or local small business support initiatives such as small business centres and business incubators, which, in effect, are not associations. However, the reforming economies are populated by unusually large numbers and a percentage (by OECD standards) of businesses at the stage of 'infancy', representing in many cases investments that have not yet reached the stage generating positive economic profit, and which are not yet able to deploy on their own many of the skills and competencies that are necessary for their survival. The difference between agencies that foster small business and associations (of businesses) that provide mutual

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<sup>9</sup> The overview sections for the Czech Republic and the Slovak Republic are combined in order to avoid repetition of information, as the two were part of the Czech and Slovak Federal Republic (CSFR) until the beginning of 1993 (and, prior to 1990, that of Czechoslovakia). As a result, many national and local business associations in the two countries share common origins. Since the split of the two countries, associations in the two countries began experiencing different economic and political environments.

help is less important in an environment where many of the already established businesses may count on the help of associations (or any other public support programme that is channelled through them) for their basic needs. This is the reason why three small business development organisations, which are not associations in the strict sense, are included in the following reviews (Ceske Budejovice Business Incubator, the *PINK* Business Incubator in Komeriz, and the Institute for Business Development in Ostrava).

## I. CZECH REPUBLIC

### 1. Entrepreneurs' Association of the Czech Republic

The Entrepreneurs' Association of the Czech Republic (EACR) was founded in December 1989 less than three weeks after the 'Velvet Revolution' by a group of private businessmen as an employers' union for small- and medium-sized businesses. It has since become one of the largest umbrella organisations of business associations in the Czech Republic. In addition to a number of regional Associations of Entrepreneurs (Prague, Moravia, and Silesia) and over a hundred craft associations, the membership of the EACR includes over a 100 000 individual entrepreneurs.

EACR exemplifies an association that tries to maintain a high regional profile without deploying a sizable structure and resources, and essentially by means of providing a network for its members. The Association has representatives in 72 localities. However, most of these 'district offices' are in effect individual entrepreneurs who provide information on EACR to potential or existing members but are not in a position to provide the full range of business support services. For this kind of support, entrepreneurs can turn to Regional Advisory and Information Centres (*RPICs*)<sup>10</sup> Business Information Centres (BICs), Chambers of Commerce, or other organisations that are active in the area. The EACR maintains close links with these organisations by having EACR representatives on their boards.

The main thrust of EACR's activity consists in lobbying the national government and the Association claims to have influenced laws on privatisation, registration of entrepreneurs, and tax and social security. In addition, it has also worked to improve public perception of entrepreneurs.

Among the concrete results of the Association's lobbying efforts, the leadership cites their role in various amendments to the privatisation legislation, such as the increase in the period of initial title to (use) the privatised small scale enterprises from two to five years. Concerning the privatisation of large-scale, state-owned enterprises, EACR's lobbying efforts enabled private entities and sub-units of large companies to develop privatisation proposals in competition with top managements' proposals, by obtaining more time for the submission of such offers. Also, in early 1993, the EACR lobbied successfully for changes and amendments to create tax holidays, investment exemptions etc., to a new tax law that envisaged an increase in profit taxes and social contributions of employers.

EACR's focus on a political approach is manifest in its inclusion among the six employers' associations represented on the Tripartite Council under whose auspices official discussions between employers, employees, and government take place. In the first half of 1993, the EACR chaired the

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<sup>10</sup> *RPIC* is the abbreviation of the Czech and Slovak equivalents of Regional Advisory and Information Centres. We use italicized abbreviations in the home country language of institutions in the reforming economies, wherever there is an established abbreviation, recognisable to the country specialists.

Employers Coordination Board of the Tripartite Council. In this role, it seems to have been instrumental in obtaining changes in the social security and tax laws.

While the main focus of EACR's activity is likely to remain lobbying, the Association plans to enhance its capacity to deliver direct services to its members by establishing a Foundation for Entrepreneurial Education with funding provided by the Center for International Private Enterprise (CIPE, located in Washington, D.C., USA), an American foundation which supports the development of entrepreneurship in Central and Eastern Europe. The Foundation will begin by training eight entrepreneurial trainers in the US. These trainers will then travel around the country giving short training seminars for entrepreneurs in cooperation with the 72 regional offices of the EACR. There is certainly a need to expand and generalise this type of capacity building (as in 'training the trainers') activities, particularly in the context of the Czech Republic which is rapidly graduating out of the transition status, and where continuing donor involvement will not be justifiable in the long term.

### ***EACR-Ostrava Branch***

The Ostrava Branch Office of the EACR represents a typical example of how the Association operates at the local level. The Ostrava branch was founded in 1990 as an independent legal entity fully financed by fees paid by its membership (as is the case for all branches of EACR) which consists of several hundred local SMEs.

The Association provides general information on starting and running a business and on legal and tax issues. It also hosts seminars on the tax system which became operational on January 1, 1993, arranges meetings between entrepreneurs working in similar sectors, and organises meetings between city authorities and local entrepreneurs. Such services are available to both members and non-members, which suggests that it has an important function in terms of disseminating the case of the parent Association (EACR) at the local level and bolstering the basis of its lobbying at the grassroots. As is the case with EACR as a whole, for more intensive support services, such as writing a business plan, starting up a business, etc., the association refers entrepreneurs to the local *Institute for Business Development* (also reviewed in this report). The close cooperation between the EACR Branch Office and the Institute is facilitated to no small extent by the location of both in the same building.

## **2. Chambers of Economy**

Established by law in 1992, and operational since late 1993, *The Chambers* is primarily a service organisation, providing assistance to businesses of all sizes, including state-owned enterprises. The formation of *The Chambers* represents the end of the tension between the Chambers of Commerce and Industry, which embodied the legacy of communist era associations and the Entrepreneurs Association of the Czech Republic (EACR) which brought together the emerging entrepreneurial interests. The EACR was one of the principal driving forces behind the formation of *The Chambers*, and has become one of its member organisations. The Chambers of Commerce and Industry, on the other hand, has been incorporated into *The Chambers* together with its physical facilities, where it concentrates its activities on promoting international business, which is considered to be its strong point, and has two representatives on the 50-member board of *The Chambers*.

*The Chambers* incorporates 130 professional groups, e.g., vocational organisations, guilds and industry associations. Each of the 77 districts of the Czech Republic is to have either an office or a representative of *The Chambers* at the local level. Each Chapter of the organisation is registered as an independent legal entity and each is responsible for generating its own activities and supporting itself financially. All profits the Chapters make are returned to the organisation.

The other activities of *The Chambers* include distribution of information to members, especially about new legislation, establishing business contacts within the Czech Republic and internationally, providing members with subsidised consultant services, and helping with placement of students and trainees in businesses in co-operation with institutions for vocational training. It also acts as legal arbitrator in commercial disputes among members or member associations.

As *The Chambers* has been in operation for no more than a year, it is difficult to draw conclusions about its effectiveness. Nevertheless, its regional Chapters have a potential to become focal points for regional restructuring and development in the Czech Republic. Given the fact that these include small as well as large, and private as well as publicly-owned enterprises, and that they have local authorities sitting on their local Boards, they can be appropriate platforms for development policy formulation at the regional level -- regions corresponding to the 77 districts of the Czech Republic.

### **3. Ceske Budejovice Business Incubator**

The Ceske Budejovice Business Incubator specialises in helping small and start-up businesses working in environmental fields (biological waste-management, alternative energy sources, environmentally-friendly farming methods, landscape architecture, etc.). It was jointly founded in December 1991 by a private company, the University of Ceske Budejovice, and the Academy of Science. The Incubator is currently managed by the private company, which uses revenues from its sales and its client fees to support the Incubator, and in return, benefits from the improved networking and innovation opportunities provided by this arrangement. In the past the EU has hired the Incubator's scientists and other experts for short-term consultancies.

The Incubator provides its clients with information (for free) and consultancy services (for a small fee) on legal, economic and environmental issues, and where necessary, refers them to a network of specialised law firms on these matters. It assists entrepreneurs with the preparation of their business plans and in gaining access to financial assistance; the private company refers clients to banks which are 'entrepreneur friendly' and also itself offers loan guarantees for start-up companies -- in return for a commission. Some of the Incubator's clients rent office space in the same building as the Incubator, creating an informal network in the building itself.

The Incubator cooperates with national and international research institutes on environmental research projects such as developing methods for efficient use of animal waste. It also organises seminars and publishes materials on business issues and on environmentally protective production. It is a member of the Chambers of Commerce and Industry (which has been absorbed by the new Chambers of the Economy), and of the Association of Science and Technology Parks. It works closely with the European Business and Innovation Centre Network (EBN) through which the private company has access to Incubators all over Europe. It will, also, soon be linked by a computer network to other incubators and Science Parks in the Czech Republic and internationally.

Ceske Budejovice Business Incubator is one of the more successful initiatives of its kind, and, as such it adds strength to the claim that local, self-sustainable initiatives to support SMEs are achievable. The agency seems to derive its strength from a combination of (a) a geographically and functionally (on environmental business) well-focused target group; and, (b) a comprehensive support service that is designed to address the full range of entrepreneurs' needs, including finance. This success has so far been achieved without funding from the government or foreign donor agencies, and with continuing willingness of clients to pay for services. The private company is planning to build on this success by establishing 'satellite' Incubators in the towns of Trebon, Ceske Velenice and Pisek.

#### 4. *PINK* Business and Innovation Centre

*PINK* Business and Innovation Centre illustrates an example of an initiative taken by local governmental authorities (in this case the city government of Komeriz), that is motivated by a desire to create jobs, in promoting and helping small businesses to prosper. The Centre was established in November 1991 by the city of Kromeriz as a limited liability company whose purpose was to create jobs and support entrepreneurs in ecology-related affairs.

*PINK* clients are small and start-up businesses, most of which are active in environmental businesses. *PINK* offers its services both to businesses located in the Centre and to those outside. *PINK* offers an initial consultancy to its clients free of charge. For additional assistance, *PINK* either charges an hourly fee, negotiates a fixed price for a project, or takes a 10 - 15 per cent stake in the project. *PINK* provides its clients with the typical panoply of Business Centre services such as assistance with legal registration, help with business and marketing plans, development courses in taxes, accounting, and patents (*PINK* organises the courses, and uses external experts as lecturers), and general legal consulting, including, in this case, consulting on ecological planning. Businesses located in the Centre have free access to a full range of business machines. *PINK* also prepares ecological plans for cities and villages.

A major activity which *PINK* has established, in cooperation with city authorities, is a loan guarantee fund through which city-owned buildings may be used as collateral by businesses seeking credit from the banks. Entrepreneurs wishing to use the fund must submit a business plan and a marketing plan for review by a special committee. The application must also be approved by the city council and the mayor. In this way, about 10 guarantees per year were made under this system, and the city plans to make 8 - 10 per cent of its property available for use as collateral.

*PINK* has also established relations with the European Business Innovation Centre Network (which has helped *PINK* with training and has donated a computer to *PINK*), Chambers of Commerce in France, Italy and Switzerland, Regional Advisory and Information Centres in the Czech Republic, and the Czech Ministry of Labour.

On the whole, *PINK* seems to be on its way to becoming another good example of a self-sustaining initiative to support business development which is *neither private nor public* in the traditional sense of the terms. Interestingly enough, the relatively well functioning *partnership* between the city authorities and *PINK* may, in large measure, have been made possible by the fact the Executive Manager of *PINK* has previously worked for the city government as the chief of small business department.

## 5. Institute for Business Development, Ostrava

The Institute for Business Development was established as limited liability company in 1992 by three small consulting companies. It has been selected as one of the new Regional Advisory and Information Centres (*RPICs*) in the Czech Republic. The *RPICs*<sup>11</sup>, which are funded by the EU PHARE Programme, are a network of private companies, selected by competitive tendering, which will provide advice and services to start-up businesses and existing small businesses.

The Institute serves three primary groups: unemployed people interested in starting a business; employed people considering starting a business or in the process of starting a business; and, small existing businesses that need help to grow or to survive. Often unemployed people are referred to the Institute by the local labour office, which also subsidises the fees of clients it refers. In addition, the Institute advises large (state-owned) companies and works with commercial banks in evaluating business plans.

The Institute offers business courses on accounting (the most popular subject sought), management, marketing, finance and other subjects to high school students and to entrepreneurs running new, small companies. Students may choose between a full-time programme which requires students to attend classes every day and which lasts a year, and a part-time programme which requires students to attend classes once a week (and to complete the rest of their studies at home) and which lasts a year and a half. The full-time programme currently has about 50 students. Most of the part-time students are entrepreneurs. In the past, about 20 per cent of graduates have established their own businesses, and another 10 to 20 per cent went into formal studies in a business school, the remainder finding jobs in SMEs. The Institute co-operates with the Labour Office in offering re-qualification courses to unemployed people who wish to start businesses. All students are obliged to take a one-week course which covers the basics of starting a business. After completing this course, students can choose from a variety of optional courses. Every month, about 30 people take the one-week course. The Institute also provides a variety of consulting services on starting and managing a business. It also advises large state-owned companies on how to privatise, which, in many cases, means how to liquidate themselves. One of its priorities has been instilling the concept of strategic management among its client entrepreneurs who are used to interpreting their businesses' problems in terms of a shortage of funds.

The Ostrava Institute constitutes an interesting case because it is an entirely spontaneous private initiative which has built itself into the position of a public-private partnership for employment development, in a heavily industrialised region (Ostrava, Karvina, Opava) of the Czech Republic which is undergoing rapid structural change. The Institute seems to have played a modest but exemplary part in the region's relative success in adjusting its employment structure. Unemployment in Ostrava itself currently stands at about 5-6 per cent.

The Ceske Budejovice Business Incubator, *PINK* Business and Innovation Centre, and the Ostrava Institute for Business Development, are local, largely non-governmental (though, in partnership with local authorities), non-philanthropic, and self-sustaining initiatives that provide small businesses in their localities with assistance and consultancy services that are largely analogous to those provided by associations of businesses that operate in a self-help mode. As such, they represent role models for potential business associations that may seek to set up similar support operations locally.

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<sup>11</sup> *RPICs* are independent institutions which have been initiated by the EC PHARE programme for both the Czech Republic and the Slovak Republic and are expected to become a crucial pillar in the two countries' infrastructure for small business support. The *RPICs* in both countries have also established an Association of *RPICs*, which intends to lobby the national governments as well as the European Commission itself.

## II. THE SLOVAK REPUBLIC

### 1. Entrepreneurs' Association of the Slovak Republic

The Entrepreneurs Association of the Slovak Republic was founded in December 1990. It was the first entrepreneurial association in the Slovak Republic. The Association has 15 000 members. Membership is voluntary and is reported to be apolitical, which means that it is not exclusively associated with any particular slice of the Slovak Republic's political spectrum. Otherwise, the Association is actively engaged in lobbying. The Association is financed essentially by members' fees and voluntary contributions. It has never asked for nor received state funding, and remains fairly independent. It has, however, received some financial support from the Centre for International Private Enterprise based in Washington.

Nevertheless, The Association maintains a high profile in policy circles. It participates in multi-partite negotiations on labour, social, and enterprise affairs, along with the government and the organisation of employers (plus unions). It represents the private sector in various governmental and 'semi-governmental' institutions such as the Economic Council of the Slovak government, the Slovak National Agency for Small and Medium Enterprises, the National Property Fund, and the National Fund for Employment. Its vigorous lobbying seems to have been instrumental in the revision of the Law on Social Insurance.

Like the network established by the Entrepreneurs Association of the Czech Republic (reviewed above), the regional network of the Entrepreneurs Association of the Slovak Republic is run by private entrepreneurs who are members of the Association. These private business people represent the association at the regional level. They report to the national organization (some of them represent their regions on the National Board) and they respond to requests from members and potential members in their regions. In most cases, the local branch does not have an office with full-time, permanent staff; instead, the regional representative uses the facilities and staff of his/her company as the local secretariat of the Association. In general, the regional associations do not support small businesses or entrepreneurs directly. They do so indirectly, by sitting on the Boards of organizations that provide direct services to small business. For example, the regional associations in Poprad (high Tatra mountains) and in Martin (60 kilometres north-east of Bratislava) are on the Board of Directors of the *RPICs* of their respective areas.

The Entrepreneurs Association of the Slovak Republic has established a broad network within the Republic. It has also been able to equip itself with specialised staff who are knowledgeable and possess the requisite skills for lobbying and other activities of the Association. However, the Associations's limited ability to provide direct support services at regional level remains an area where further development is desirable, possibly along the lines of recommendations in the Introduction above.

## **2. SLOVEX Association**

The Slovex Association consists of The Slovak Society for Foreign Enterprise, which is a membership association of entrepreneurs interested in foreign business, and the Slovex Business Club, which is a high profile business forum. There is also a third related component which is the Slovex Business Corporation which actually carries out foreign trade (which is outside the scope of this survey). There is no doubt that this close relationship between associations and a for-profit company has been conducive to a lot of synergy and has strengthened (not least financially) the associational components of this 'interest group'.

### **A. Slovak Society for Foreign Enterprise**

The development of the Slovak Society for Foreign Enterprise gives a penetrating illustration of the immense importance of networking, individual action, and improvisation in the making of institutions in the economies in transition. One example of that is the relationship the Society enjoys with the CIPE (Center for International Private Enterprise), which, in large measure, has been built thanks to determined networking efforts of individual Society members and their ability (or pure luck) to capture the attention of several high-ranking US government figures. This relationship has proven to be very valuable for the Society. For example, CIPE has provided financial and technical support to the Society. The CIPE aid has been instrumental in strengthening the internal structure of the Society and in assisting entrepreneurs with the preparation of business plans.

Again with financial support from CIPE, Slovex helped produce a television-series promoting small businesses called 'Private Club'. Each episode ran for 30 minutes and included stories on entrepreneurs (filmed on location); interviews with representatives of government, banks, and support organizations; and a business law update. The series was broadcast on both Slovak television, and Czech and Slovak Federal television. The Society has acquired the image of a highly effective organisation, certainly in part as a result of such bold utilisation of media.

Since then the membership of the Society has grown to about 150 members, but the Society does not plan to become a large organization. Membership, which is voluntary, is drawn from the entire Slovak Republic and includes large as well as small enterprises. Its activities are financed through membership fees, which represent important sums of money, as well as advertising revenue from the member catalogue it publishes twice-a-year.

The catalogue, which is published in English, includes a description of the activities and area of interest of each member business, and is circulated in the Republic's main trading partner countries via embassies, Chambers and entrepreneurial associations. It has proven to be a useful tool for business contracts and has been attracting advertising from non-members.

Another useful service delivered by the Society has been the organisation of 'trade missions' to foreign countries, with the collaboration of the Slovex Business Corporation. The missions have involved entrepreneurs from the Slovak Republic, the Czech Republic, Austria and Italy and have included Kiev, Minsk, and Saint Petersburg among their destinations. In 1992, Slovex hosted an Overseas Private Investment Company (a US Government agency) mission to the Slovak Republic and it plans to maintain and develop this contact, which was also made during the 1990 visit to the US mentioned above.

The Slovex Society, which is somewhere between an entrepreneurs association and a private Chambers of commerce, is an active organisation with a well focused membership and mandate which have contributed to its being perceived as an effective organisation.

## **B. Slovex Business Club**

The Slovex Business Club, founded in January 1993, seems to constitute the relatively more informal offshoot of the Slovex Society that brings together entrepreneurs in an environment that is conducive to lobbying. Its elitism is reflected by the small number of members (kept under 100) and the substantial membership fees. In addition to some very successful, well known Slovak entrepreneurs, its membership includes Istrochem, one of the largest (State-owned) chemical companies, and Chirana, a large (State-owned) pharmaceutical company.

The principal operational instrument of the Club seems to be monthly meetings featuring guest speakers followed by a cocktail/dinner providing opportunity for informal networking and discussion. Speakers at meetings have been drawn from the government, Bratislava Stock Exchange, foreign banks and embassies. The Club pursues its goal of lobbying assertively. It actually considers organising meetings called 'lobby-parties' with the government. Slovex is one example of the many spontaneous pro-entrepreneurial initiatives that have come into being in the transition countries.

## **3. Entrepreneurs Club of Zilina**

The Entrepreneur's Club of Zilina was initiated by the founders of *Poradce Podnikatele*, an association which publishes material on developments in law and other areas affecting entrepreneurs. The Entrepreneurs Club is an independent, private club. It constitutes an example of a rather modest but genuine, entirely private, and local initiative that strives to assist nascent businesses by providing some of their basic needs. As such, it is a rare example of its kind. That is precisely why it is included in this survey.

The Entrepreneurship Club operates from a restaurant/cafe where members have access to essential business facilities such as phones, fax machines, a photocopier, computers, and certain secretarial services. The Club may be used by entrepreneurs for business meetings and appointments as well as for seminars and lectures arranged by the Club. It obviously provides a convenient hub for networking as well. It has approximately 50 members from the Zilina area. Non-members are also invited to lectures and seminars, and are able to use services provided by the Club. The courses cover a range of topics such as legislation, economics, taxes, personnel management, development of a business plan, study of foreign languages, and personal development. Most of the Club's clients are entrepreneurs who have been running a business for 2 - 3 years. The Club also assists individuals who are trying to start businesses.

The Club distributes business literature such as *Poradce Podnikatele* and *Trend*, and commentary on new laws; it maintains a database on cities in the Slovak Republic and the Czech Republic for use in market research or direct mail advertising. It runs a consulting service using a network of 30 - 40 external lawyers, accountants, auditors, and other experts. It also co-operates with the craftsmen's association, other entrepreneurial associations, and private companies located in the Zilina region.

## HUNGARY

### Overview

In comparison to the other European economies in transition, Hungary has a longer history of experimentation with the institutions of market economy and small and medium sized enterprises were already a non-negligible part of the Hungarian economic landscape during the 1980s. The most important Hungarian business organisation, *VOSZ*, which will be examined below, has its origins in this period, and, by 1988, could publicly proclaim its goal 'to represent and defend the interests of enterprise based on private capital'. This lead of several years vis-à-vis its neighbours has contributed to the formation of a vast number of business representative and self-help organisations. One estimate for 1993 places the number of such organisations at above 3 000, in comparison to the 5 000 or 6 000 in Poland, which has 3.5 times as many people.

The problem of 'atomization', already evoked in the Introduction, is applicable to Hungary. It is suggested that business associations, which often duplicate each others' lobbying towards the government, could form more powerful pressure groups only if they could carry out their advocacy on common platforms. However, institutional aggregation alone may not remedy this situation, because, research has revealed that, even within a seemingly united organisation such as *VOSZ*, it is possible that regional chapters and the headquarters are engaged in lobbying for the same goal and without co-ordination or synergy. Nevertheless, atomization has been perceived as a problem in Hungary, and as elsewhere, one solution that has been proposed is the institution of compulsory membership of all businesses in some nation-wide organisation. *IPOSZ*, which is reviewed below, has been a proponent of such a measure, while the *VOSZ* has lobbied against it. In fact, at the beginning of its Autumn 1994 sitting, the Hungarian Parliament has adopted the proposed law that imposes obligatory membership for all Hungarian businesses for a nationwide Chamber, the exact structure of which is to be formulated during 1995, and which will come into effect as of the beginning of 1996.

The rest of this chapter reviews two large and fairly effective organisations focused on small businesses and entrepreneurs (*VOSZ* and *IPOSZ*). Based on their own claims, these two organisations represent the majority SMEs and artisans respectively. Both are explicitly political and their membership has cultivated great expectations on what could be achieved by their action. The eventual success or failure of these organisations in terms of developing and maintaining a feasible and effective role for themselves within the economic landscape of Hungary is of great importance for the idea that nation-wide business representative organisations are crucial ingredients in economic transition.

What is even more consequential are the travails of local business self-help organisations and the emergence in the reforming economies of the idea that many handicaps of small-scale enterprises can be alleviated by an agglomeration of individual efforts at the local level and without dependency on hand-outs and programmes designed far away. The Nógrádi Enterprise Association is one of the organisations that comes closest to this model in this survey. The Pest County Merchants Association, on the other hand, represents a small organisation that privileges the lobbying role vis-à-vis the central government, and suffers from unfulfilled expectations on the part of its members.

## 1. National Association of Entrepreneurs

The National Association of Entrepreneurs (*VOSZ*) was created in 1988 as the successor to the Small Entrepreneurs Section (SES) of the Hungarian Chamber of Commerce. The SES was established in 1982, but by 1988, tensions between the small business interests it represented and the state enterprises which dominated the rest of the Chamber led to a rupture and the establishment of *VOSZ* as an independent association. Since then, *VOSZ* has become the most visible and well-known private organisation representing Hungarian entrepreneurs.

*VOSZ* falls into the category of business organisations which provide their services in a non-intensive way over a vast outreach. The Association has regional offices in all of the 19 counties and four metropolitan areas (besides the capital) of Hungary. These offices are run with minimal staff who organise local lectures/training programmes and who are capable of answering most inquiries. When local staff need additional expertise, to respond to inquiries or to deliver a lecture or run a training programme, they turn to local professionals. Almost all members are connected to the Association via one of the professional chapters. These chapters cover a broad range of professions including medical, retail, tourism, accounting, design, construction, textile, transport, agriculture, catering, chemical, and 'inventions'. *VOSZ* offers its members guidance, advice, and some training on such topics as taxation, social security, accounting, but does not provide extensive in-house training services. It refers members seeking additional training to other institutions, some of which *VOSZ* has helped to establish -- e.g. the *VOSZ* Foundation to Support the Development of Private Enterprise, or the *VOSZ* International Enterprise and Commercial Centre. Likewise, for finance, the Association helps its members by directing them to appropriate financial institutions which have already worked with other *VOSZ* members.

Typical among the concrete actions of *VOSZ* is an annual competition for the most outstanding Hungarian entrepreneur. This competition is widely-publicized in order to offer models of success and excellence. *VOSZ* also prepares business training courses jointly with high schools and universities, whereby the Association provides funding for the salaries of several business professors. The Association is involved in the establishment of Local Enterprise Agency programmes, sometimes in co-operation with the EU PHARE Programme. *VOSZ* also represents Hungary in the International Organisation of Employers where it is the first participant from the reforming countries.

However, the principal thrust of *VOSZ*'s action is focused on lobbying the national government and the public opinion. The Association takes high-profile positions on a wide range of economic issues. In this regard, it has been lobbying hard for the setting up of a consultation mechanism between the parliament and interest groups on economic and social legislation. Its advocacy is also thought to have helped dispel the parliament's reservations about the organisation of a 'World Exposition' in Hungary in 1996.

The *VOSZ* is a successful association in many respects. The organisation claims that its membership of 3 000 (as of the Fall of 1994) accounts for a large majority of private sector output in the country -- though, that is in part due to the fact that membership is biased towards more prosperous businesses and includes few at the start-up phase. Its board consists of practising entrepreneurs, and most of its income is derived from membership fees. The implication that entrepreneurs highly value membership in the organisation appears to be confirmed by the fact that membership is still growing. However, one result of *VOSZ*'s high-profile involvement in Hungarian politics may have been that, increasingly, its members, and especially its managers, came to hold unrealistic expectations about what can be achieved by lobbying. While there has been rapid membership growth and a reasonable level of membership satisfaction with *VOSZ* advocacy and information services, *VOSZ* management appears to be more concerned with its perceived lack of influence on government policy towards private business. In order to increase the influence of the entrepreneurial sector, *VOSZ* leaders actually created a political party, which, however, made a very poor showing in the Spring 1994 election, obtaining no more than three per cent of the vote.

## 2. The Hungarian Chamber of Artisans

The Hungarian Chamber of Artisans (*IPOSZ*) was founded in 1989. It replaced an earlier, mandatory artisans' organisation, *KIOSZ*, the main purpose of which was to provide the government with a means of controlling and restraining the growth of the small business and artisanal sectors. *IPOSZ*'s primary goal is to develop the small-scale, artisan sector, by providing professional training, business support, and representing the sector's interests to governmental bodies. Membership in *IPOSZ* is voluntary and the organisation is independent of the Hungarian government. *IPOSZ* has over 130 000 members affiliated with some 300 branches throughout the country, and gets most of its funding through membership fees, with some support from donations.

Since its foundation, *IPOSZ* has struggled with the government's perceived lack of cooperation and the diverging demands of potential sources of funds. While its activities are not as extensive as first planned, *IPOSZ* has concentrated a lot of resources on lobbying for the readjustment of tax, credit, customs, foreign exchange, and social security systems, and to enable artisans greater access to assets undergoing privatisation. But, so far, the organisation has been frustrated by its perceived lack of influence on these matters.

Another area where *IPOSZ* is active is the provision of subsidised professional training. This includes business training and specific professional courses for tradesmen. These programmes are organised regionally in conjunction with the local or professional chapters, and *IPOSZ* members assist with the training. *IPOSZ* founding members sought to create a Chamber in order to influence the regulations hindering small businesses, offer business know-how assistance services, and potentially establish a system of artisan certification modelled on the German system. In fact, since 1990 the German government provided financial assistance for a training programme for tradespeople. So far the German-funded programme trained over 1 500 participants at facilities in Germany from 1990 - 1993. *IPOSZ* management complains that the lack of training facilities in Hungary has seriously limited its ability to conduct training programmes at home. Since the Hungarian government has been unable to assume financial responsibility for the programme, *IPOSZ* expects that the Germans will continue to fund the programme.

*IPOSZ* management blames two gaps in Hungarian legislation for blocking *IPOSZ*'s growth. First is the lack of Chamber law. This legislation would require all businesses registered in Hungary to register with a business Chamber, although it is not clear which Chambers or association would be chosen for this role. *IPOSZ* hopes that this process would increase their influence over the government. Nonetheless, as discussed in the Introduction above, compulsory membership does not necessarily lead to a better representation of small businesses interests. Secondly, the lack of local training centres is an obstacle to development of the small artisan sector. *IPOSZ* itself plans to develop eight of its regional offices to make them complete resource centres for artisan businesses, but needs additional funding to do so. *IPOSZ* is looking for external assistance to establish a loan guarantee programme, and a central re-guarantee system, ensuring that the risk for the loans does not rest with *IPOSZ*. The organisation also believes that it could benefit from foreign technical assistance for the design and funding of loans targeted to artisans.

*IPOSZ* typifies the category business organisations in the reforming economies that would like to operate in the 'guild' mode that was advanced in the Introduction, and has so far deployed considerable resources to convince the government to entrust that semi-official role to them. While *IPOSZ* members are pleased with the quality of the general services that organisation provides, they are critical of its lobbying efforts. *IPOSZ* management agrees with this evaluation, and is frustrated with their lack of influence since lobbying is proclaimed to be one of *IPOSZ*'s primary activities. Management does not expect that it will be able to resolve this problem in the near future.

### 3. Pest County Merchants Association

Pest County Merchants Association (PCMA) was established by the National Retailers Association (*KIOSZ*) in 1989 as an independent organisation to represent the collective interests of retailers of Pest County which is the county surrounding the Budapest metropolitan area. The Association represents about 10-12 per cent of retailers in its region. It is an example of the large population of small and relatively weak business associations in Hungary that are trying to pursue somewhat ambitious goals with limited means at their disposal. PCMA's efforts to become a lobbying organisation, which contradicts with its local nature, are hampered by its small size. And yet, both its management as well as its membership seem to consider the lobbying effort to be more important than direct services, and are frustrated by lack of success in this area.

PCMA provides a range of business services to its members including management training (e.g., on how to run a restaurant), training on workplace safety (which is mandatory for shopkeepers), or networking. PCMA does not offer in-house financing, nor does it maintain direct relationships with financial institutions. But it informs its members about options for financial assistance and advises them on the preparation of business plans. The Association also provides consulting services to its members on topics such as accounting, taxes, preparation of loan applications, marketing, and store layout and product presentation. Consulting services are provided by PCMA management and staff, who may not be specialists in all cases. PCMA's management claims that retailer quality control is very low in Hungary, and that the government should therefore establish a minimum standard of retailing know-how. This view is heavily influenced by the stiff competition PCMA members face from street vendors, many of whom operate illegally, are poorly-educated, and are not ethnically Hungarian.

PCMA believes that its lobbying at the national level is its most important activity, despite the local mandate of the association. PCMA management believes that communication between law makers and business groups remains poor. In some cases PCMA has become aware of new legislation only after it has been ratified by parliament. PCMA cites the recent law which made evading social security tax punishable by imprisonment as a clear case of government's lack of support for business. Since PCMA has been unable to influence lawmakers through its lobbying efforts, its management is now considering the possibility of forming a separate political party to represent retailers' interests -- in a way that is reminiscent of *VOSZ*'s motivations to form a political party (see above). An increasing number of PCMA members, as well as the board, support this step.

Members criticise PCMA's performance in lobbying. They are particularly unhappy with its inability to alter the government's imposition of high tax rates, the passage of the law concerning evasion of social security tax, and regulations affecting retailers. This is the main explanation PCMA offers for the drop in membership from 2 400 in 1989 to 1 200 in 1993. The government's attitude is largely due to the chronic tax evasion in Hungary which exacerbates the already large budget deficit. In view of the situation, strong anti-tax evasion laws are to be expected.

Despite its locally-based mandate, the Pest County Merchants Association seems to embody certain characteristics of a 'top-down' initiative to organise and guide retailers at the local level and as a conduit for channelling certain public functions towards them. It is set up by *KIOSZ* which is a centralised organisation, rather than by a spontaneous union of businesses. A case in point which reinforces the impression that the PCMA is attempting to apply advanced techniques, but is having difficulty in terms of internalising practices (which is frequently encountered by top-down approaches), is the computerised database run by the Association in order to disseminate information about goods and services provided by members. The database is grossly under-utilised, which implies that either it is a service that members do not need (and yet is provided) or the Association is not able to play its leadership role in instilling the utilisation of advanced techniques and know-how.

#### 4. Nógrádi Enterprise Association

Nógrádi Enterprise Association (NEA) was founded in June 1990 as a community-based business assistance organisation. Located in Salgótarján, chief locality of Nógrád County, a poor region in Northern Hungary, the NEA is possibly the most successful of the Hungarian business associations reviewed in terms of mobilizing resources to promote and support small enterprises. Key to its success is its willingness to focus on utilizing locally available resources to accomplish its objectives rather than longing for funding from central government or foreign donors<sup>12</sup>. Another interesting aspect of the Association is that it originated as a sort of public-private partnership arrangement. NEA's founding members were six local businesses, two agricultural co-operatives, and the local government. In effect, the Association combines the functions of an organisation created to assist its existing members with those of a business development agency. In addition NEA is a business associations that is actually managed by successful businessmen, who can devote themselves to the Association's activities only part-time. The management team hires support staff as needed.

The founders of NEA started the Association with a relatively modest capital ( 5 million HuF or Hungarian Forints; approximately US\$60 000) which has been matched by donations of the same amount. NEA has since successfully competed for funds from the government for specific projects, especially training/retraining courses, and has funded many of its courses this way. Most of the government funding comes from a national programme to assist the development of Hungary's less developed regions, which provides funding to organisations and projects on a competitive basis. The association has also been able to generate income by charging other organisations fees for providing assistance in preparing bids for government grants, which illustrates its competence in such matters.

NEA provides training programmes to its member businesses as well as to would-be entrepreneurs. It operates training targeted to the unemployed, job-searching and introduction to business courses for high school students, and business-at-home training for specific groups such as the handicapped and housewives. These programmes have generally been carefully planned and targeted which has facilitated their application for government funding. As a result, such training has been given free-of-charge. Admission to business training requires an interview, supervised by a psychiatrist who screens applicants on the basis of aptitude and attitude (with respect to entrepreneurial behaviour), with the latter being the determining factor. In all of its activities, NEA places a heavy emphasis on participants' attitudes.

NEA assists in networking by providing its members with a regional data bank on enterprises. However, as in the case of the Pest County Merchants Association reviewed above, the data bank is believed to be under-utilised. NEA also provides consultancy and, in some cases, detailed assistance in accounting/taxes, law, marketing, finance, and business planning, all free-of-charge. Another useful service provided by the NEA are micro-loans to start-up companies and to existing companies creating new jobs. The average loan is HuF250 000 (approximately US\$3 000), but, loans range from HuF50 000 to HuF500 000 (US\$600 to 6 000), with a subsidised interest rate for projects targeting the handicapped. Loan appraisal procedures are fairly discretionary, with NEA's principal objectives (community development, job creation) playing an important role in decisions.

What is perhaps most revealing is that the association is not involved in high-visibility lobbying, and does not list influencing politicians among its objectives. Nevertheless, several of the business people on NEA's Board and management team maintain close contact with the local government for the purpose of transmitting to them their opinions on perceived problems. NEA reports that while the environment in Hungary for business creation is mostly positive, the organisation has experienced some difficulties due to certain provisions in existing legislation on associations, which is ambiguous and incomplete, notably the

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<sup>12</sup> NEA is interested in international co-operation, and particularly technical assistance, but does not consider it a priority.

provision which prevents non-profit organisations from raising more than 10 per cent of their income from service fees. This seems to have limited NEA's ability to offer micro-credits or to provide consulting. NEA management emphasizes the need to change this law.

NEA stresses that business associations should work with the local community and should set goals which complement the priorities of the community. Business associations should not become impatient if they do not obtain immediate results. Although NEA recognises that local politicians will always want to influence business issues, NEA management hopes to separate business from politics. Nonetheless, NEA recognises that it needs good connections locally, as well as national and international contacts. The organisation seems to have found and so far maintained a balance between these diverging needs. Over all, NEA members are satisfied with NEA's performance, and the Association is credited with having created 500 jobs per year in Nógrád County.

## POLAND

### Overview

The Polish business associations that are surveyed below are all bottom-up initiatives that have come into being in order to defend genuinely entrepreneurial interests or pro-market economy initiatives. However, their 'grass-roots' characteristic have been as much a handicap as a blessing. The expansion in associational activity following the political liberalisation of the late 1980s has occurred in earnest in Poland. The thousands of business representative organisations that have sprung up have since been competing for the relatively limited funds that businesses are willing to contribute to them. Four or five years into the process, the associational 'fervour' seems to be on the ebb, and the associations (and many of the business consultancy firms which operate on roughly the same field) that remain active continue to be severely constrained financially and technologically.

Observers in the country point out that, while business associations still deploy considerable efforts in the areas of lobbying or provision of services, they often achieve frustrating results because they are lacking the techniques necessary. 'They want to lobby; but they don't know how to lobby', points out one observer. There has also been little public effort to harness the efforts of atomistic organisations within a wider, publicly-sanctioned institutional structure (like the Czech Chambers of Economy)<sup>13</sup>. Nor has there been a clear tendency towards mergers or agglomeration of small associations in order to surmount the limitations of the small size. This situation appears not to be the smoothest way to bring about the emergence of a better and stronger association. It is only hoped that in the end competition will lead to some form of consolidation.

The Polish survey begins with the Economic Societies which began as 'intelligenza' organisations, but have been transforming themselves into business associations in the traditional sense.

### 1. Economic Societies

The Economic Societies grew out of informal groups of intellectuals, journalists, scientists and businessmen who met to discuss ways to promote the private sector in Poland in the early 1980s. Their goals were to foster private economic initiatives, to protect private business, to overcome bureaucratic barriers, and to increase understanding of business values. After the lifting of martial law, the Polish government restored the Civil and Commercial Code of 1934, which allowed the formation of limited liability companies. Shortly thereafter, 15 - 20 Economic Societies sprang up around the country, mainly in large cities such as Warsaw, Poznan, and Gdansk, but also in smaller cities such as Grajewo. The membership of the societies continued to include many journalists, scientists, economists, and private entrepreneurs, many of whom were involved in other opposition activities.

During this early stage, the Societies were quite active. They held meetings for their members on topics such as new regulations affecting business, business opportunities, and tax laws, and they invited foreign experts and entrepreneurs to speak on a variety of topics. In addition to producing 'underground' publications, members of the Economic Societies wrote letters to the Polish government lobbying against socialist policies and calling for the restoration of the private sector. They pressed the government to create more favourable conditions for the development of the private sector. In keeping with its efforts to appear more flexible, the government did not prosecute Economic Societies even though they were engaged in what was an illegal activity.

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<sup>13</sup> This is not necessarily a preferable over all solution, and the imposition from above of an institutional structure for business representation may be deplored by some (as in Hungary very recently -- see above). However, the question remains that some solution has to be found to the problem of atomization.

By 1989, membership in the Economic Societies had grown enormously. That year, activists illegally established a national organisation called Economic Action. In September 1989, the Economic Society of Krakow was registered as the first legal Economic Society in Poland. After the installation of the Solidarity-led government, the Economic Society movement lost momentum, as many of its members joined the new government as elected or appointed officials. In 1991, a National Council of Economic Societies was formed, but it has not been very active.

There are currently 17 regional Economic Societies with about 4 000 members. The level of activity varies a great deal among the different Societies, depending on the level of financial support the Societies receive and the amount of time their members contribute. Many of the Societies have expressed their interest in lobbying on behalf of private business but are constrained by limited experience with and knowledge of lobbying. Financially too weak to fulfil all their avowed objectives, these Societies nevertheless reflect well the dynamism and particularity of institutions in the transition environment, which are caught in a process of constant searching and transformation to find the right way to attain these objectives.

The flexibility with which these organisations are able to operate is well illustrated by one practice of *the Economic Society of Warsaw*. Like many of the small business associations that populate the institutional landscape of post-communist Poland, the Warsaw Society is experiencing difficulty in funding its activities. To raise additional funds, it has been renting some of its office space to a consulting company. The arrangement benefits the Society's members, who have access to the consulting services provided by the company; increases the Society's resources; and, brings in new members since customers of the consulting company are invited to join the Society.

## **2. Society for the Promotion of Economic Initiatives**

The Society for the Promotion of Economic Initiatives typifies a small association that grapples with most of the problems besetting such organisations in the particularly atomistic environment of Polish business associations. It is in the business of providing consultancy services to a clientele which is not used to paying for information. It is facing a lot of competition from a swarm of organisations, not necessarily because these are providing a significantly better service, but because they are simply there and are pushing the 'prices' down.

The Society was founded in 1988. In contrast to many of the other associations linked to the underground opposition, it had no difficulties in registering with the government. It has been able to establish regional offices in 32 towns. The Society's goal is to support the establishment of innovative, small enterprises in Poland. It provides the usual panoply of counselling and information services. It also runs its own consultancy businesses for non-members, the income from which, in effect, accounts for the majority of its revenue.

During the first few years of the Society's existence, most of the regional offices were sufficiently successful to be able to pay 15 per cent of their income to the national office. But, as the population of business associations has grown in Poland, the Society began to experience competition from organisations offering similar services, which led to fewer members and financial difficulties. The Warsaw office has been unable to provide funds to help the regional offices stop the decline in membership and programming. As a result, many of the regional offices closed down. Of the original 32 regional offices, there were 15 left by the middle of 1993 and only seven as of September 1994.

*Płock Office of The Society For The Promotion of Economic Initiatives*

In 1989, with the support of the *Voivod* (provincial administration), the Society established a regional office in Płock, a small town near Warsaw. The Płock office serves as a good example of what activities are conducted at this level and the travails encountered.

The Płock office has been very active since it was established, although the number of clients has been decreasing. It has run a counselling service. In 1989 it established a School for Young Managers which trains about 30 people per year, and which continues to attract interest. It has tried to establish a monthly bulletin which has been discontinued after six months due to lack of interest.

The Płock office has also developed a mineral water bottling plant where 20 of its members are employed; set up a workshop to produce metal tiles; and established several limited companies in which it holds large shares, e.g., a plastics business and import-export and wholesale businesses. These activities, which are rather untypical for a business associations, represent the lengths to which the organisation had to go in order to strengthen its financial position.

The Płock office has worked hard to publicise its accomplishments, and has succeeded in getting local press and TV stations to cover its activities. At the same time, the Society thinks that, the activities of this local office have been facing stiff competition from the operations of more powerful organisations such as EC PHARE Programme which operates in the Płock area on similar issues but can deploy more resources and better technology to do it. An interesting question, in this context, is how such assistance programmes can use the existing local associations of businesses as a vehicle for the transmission of know-how, and, thereby, help internalise the techniques of business self-help better in the recipient locality and country.

**LIST OF CONTACTS IN SELECTED BUSINESS ASSOCIATIONS AND CHAMBERS  
IN CEECs**

**THE CZECH REPUBLIC**

• **Entrepreneurs Association of the Czech Republic** (*Sdruzeni Podnikatelu Ceske Republiky*)

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Ing. Pavel Dvorak, First Vice-President  
Jan Mazachek, Secretary-General  
Kristina Valterova, Deputy General Secretary  
Ing. Vaclav Smolak, Director, Foreign Trade Department

• **Entrepreneurs Association of the Czech Republic - Regional Branch Ostrava**

Dum Kultury Nove Huti, 704 00 Ostrava Zabreh

Tel: (+42-69) 375 241 to 3, ext. 215

*Contacts:* Ing. Polasek, Director, and Mrs Haniasova

• **Chambers of Economy of the Czech Republic**

Argentinska 38, 170 00 Prague 7

Tel: (+42-2) 66 79 41 11 (switchboard)

*Contact:* Mr. Safarik, Secretary-General  
Tel: (+42-2) 66 79 48 80; Fax: (+42-2) 80 25 77  
Mr. Prokop, Head of Foreign Relations Department  
Tel: (+42-2) 87 53 44; Fax: (+42-2) 80 48 94

• **Ceske Budejovice Business Incubator (managed by Agrien spol s.r.o.)**

Bransikova 31, 370 05 Ceske Budejovice

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*Contact:* Jaroslav Lakomy, Director

• **PINK, spol, s.r.o., Business and Innovation Centre**

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*Contact:* Dipl. Ing. Jiri Vlk, Executive Manager

• **Institute for Business Development, spol. s.r.o.**

Dum kultury Nove huti, Namesti SNP, 704 00 Ostrava Zabreh

*Contact:* Dr. Josef Junger, CSc., Director  
Tel/Fax: (+42-69) 37 34 80

**THE SLOVAK REPUBLIC**

• **Slovak Chambers of Commerce and Industry** (*Slovenska Obchodna a Priemyselna Komora*)  
Gorkeho 9, 816 03 Bratislava

(Regional Branch offices in the towns of Banska Bystrica, Kosice, Michalovce, Nitra, Presov, Trencin, and Zilina)

*Contact:* Peter Mihók  
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• **Entrepreneurs Association of the Slovak Republic**

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• **Contacts for both the Slovak Society for Foreign Enterprise and the Slovex Business Club**

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*Contact:* Otto Burian, President; Agnes Klocokova, Vice-President

• **Entrepreneurs Club of Zilina** (*Klub Podnikatelov*)

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**HUNGARY**

• **The National Association of Entrepreneurs** (*Vallalkozok Orszagos Szovetsege-VOSZ*)

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• **Hungarian Association of Artisans (IPOSZ)**

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*Contacts:* László OLAH, General Manager  
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• **Nógrádi Enterprise Association (HID Nógrádi Vállalkozásszervezési Alapítvány)**

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• **Economic Society of Warsaw (Towarzystwo Gospodarcza Wrashawy)**

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