On Monitoring Structural Adjustment at the Microeconomic Level

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The focus of the Africa Region’s new assistance strategy on achieving higher impact from economic reform programs has created a need for better information about how adjustment programs are actually proceeding. To identify the measures that facilitate adjustment and the measures that delay adjustment or render it more difficult, one needs timely feedback of high quality macroeconomic and microeconomic data. Moreover, in order to know when and how to assist governments in making the inevitable course corrections to reform programs when things go wrong or do not work as expected, one needs to monitor the program, collecting these data as the reforms unfold.

The aim of this note is to take a first step in developing a methodology for collecting data to monitor reform programs at the microeconomic level. At the outset, we want to impose several limitations on this exercise. First, while any monitoring scheme would want to assess the impact of reforms on important aspects, like poverty and the growth performance of each of the economic sectors, we take a narrower focus here to make this initial foray tractable. Hence, we restrict our examination to the industrial sector. Second, we need to make some assumptions regarding the nature of the reform program under review in order to focus the data collection: the breadth of the reforms, the sequencing or order of the reforms, and the speed of the reforms. To keep this exercise simple, we will assume a rather standard reform package, one which has been implemented in several African countries (more on this package later). Third, the time frame for the monitoring exercise must be spelled out. Adjustments to changes in incentive structures take time and may proceed at different rates at different points in time. The monitoring exercise must therefore plan to collect data over an extended period of time to capture the process of adjustment. This note concentrates on the details of what might be done in the first three years of such an exercise, which we will call Phase I. We only briefly touch on the factors which might be considered in subsequent years.

The Structural Adjustment Program

In highly regulated African economies, even casual observation indicates that the prevailing restrictions and distorted price incentives make manufacturing firms less efficient. These policy-induced distortions send the wrong signals to investors and managers, and put restrictions on their choice of optimum output and input mixes. In input markets, for example, adjustments in work forces are impeded by labor legislation, and optimal use of credit for working capital or fixed investment is constrained by interest rate controls and government interference in lending decisions. Management of inventories is also complicated by uncertainty about whether and when raw materials and spare parts can be imported. In product markets, a host of barriers to entry often exist, ranging from restrictions on direct foreign investment and officially-sanctioned local
monopolies to capital market problems and price controls. These barriers benefit incumbent firms, giving them the leeway to price products well above marginal costs.

In such an environment, most firms operate inefficiently. They are *technically inefficient* in that they use outmoded technology and operate it badly. They are *scale inefficient* in that they operate at too small a scale. They are *allocatively inefficient* in that they do not equate marginal products of inputs with factor costs. And they are often *price inefficient* in that they price their products above the marginal cost of production. A great deal of heterogeneity in efficiency can also be observed in such situations, along with a great deal of idle capacity and unproductive work forces. In addition, trade policies, like quantitative restrictions that result in exceedingly large rents, induce entrepreneurs to expend much of their efforts appropriating rents rather than engaging in socially productive activities. The overall result is that resources are inefficiently allocated and often under-utilized, and existing market structures are uncompetitive.

The aim of a structural adjustment program is to induce a new long-run equilibrium in which existing resources and investment are better allocated and more efficiently utilized. For the purposes of this note, we assume that the reform program we will monitor has multiple goals of: (1) stabilizing the economy; (2) reducing government intervention in the economy; and (3) increasing the role of market forces and private enterprises. These goals are to be achieved by macroeconomic reforms, such as exchange rate devaluation, fiscal reforms and trade liberalization, as well as microeconomic reforms, such as freeing prices in labor and capital markets and generally freeing the economy of many punitive governmental regulatory constraints. In addition, a privatization program is slated to turn over a number of public enterprises to private hands.

At the microeconomic level, the expected effects of the reform effort are that: (a) production incentives should become much more neutral as between domestic and foreign markets and among consumer goods, intermediate goods and capital goods; (b) the incentive structure should become more stable in that it is no longer subject to erratic changes. Less uncertainty over time should enhance planning for investment and resource allocation should be made easier; (c) foreign exchange restrictions should be eased, along with trade restrictions, facilitating more efficient and less costly inventory management; (d) factor mobility should be enhanced, allowing more efficient input mixes; and (e) product market competition should be increased, reducing barriers to entry and imperfect competition.

**What Should We Monitor?**

The objectives of any effort to monitor the structural adjustment program should be threefold. The first is to assist the Bank and its clients in assessing whether or not the reform program is meeting (or moving toward) its stated goals. That is, the monitoring
program should provide information to *signal* whether or not key objectives of reform and loan conditions are being met. The second is to learn about the structural and institutional factors that might be delaying adjustment or making it more difficult. Any course corrections in the reform program need to be informed by specific information on these matters. Third, as we are learning from experience, policy reforms in Africa can create the necessary preconditions for further growth, but they often do not create sufficient conditions. The data collected in the monitoring effort should also provide some insight into what additional policy mechanisms are entailed in getting sustainable growth going.

To meet these objectives, the monitoring exercise should be designed to collect information on the progress of the reform effort in the following areas:

- Quantify how the reforms are affecting the structure of incentives at the firm level (this should include institutional constraints facing firms);
- Identify the responses firms are undertaking to adjust to the new system of incentives and institutional constraints, and the resultant impact on different types of firm inefficiencies discussed above (this should include new firms and old firms);
- Evaluate the perceptions of entrepreneurs and business managers about the credibility of the reforms, as well as future plans for investment and strategic concerns like assessments of competitive conditions and current business problems.

**Quantification of Incentives on the Ground**

With respect to the system of incentives, the monitoring effort should provide evidence on the outcomes of various aspects of the reforms at the firm level. For example, detailed price comparisons are needed to see how much protection still remains on import-competing firms as trade liberalization progresses. Also, because institutional constraints raise the real costs of doing business and are often targets of the reform package, evidence on the outcomes of changes in these constraints should be included.

Quantification of the progressive changes in incentives and institutional constraints can be carried out using the effective protection coefficient (EPC) calculation together with its cousin, the effective subsidy coefficient (ESC). While a detailed discussion of these methods is beyond the scope of this note, suffice to say that effective protection measures incentives which affect the prices of both outputs and inputs and will give us a measure of the degree to which the structure of tariffs and other trade distortions place producers at a comparative disadvantage in world markets. The EPC, when adjusted for prevailing taxes and subsidies, gives us the ESC indicator, and thus allows us to include the impact of fiscal measures.
Adding the impact of institutional constraints on the structure of incentives facing the firm is more complex. Institutional constraints affect firm costs depending on whether the constraints can be avoided or must be complied with. Avoidance and compliance, in turn, depend on the original cost of the constraint and the extent to which lower cost alternative courses of action are open to the firm. Among the options available to firms are: (1) compliance with laws and regulations without avoidance; (2) compliance with law and regulations with avoidance; (3) influencing discretionary government decisions; and (4) evasion of laws and regulations. Costs may range from direct out-of-pocket expenses to imputed costs that result from tying up resources that otherwise might be put to more productive use. There can also be implicit costs associated with risk and uncertainty.

To illustrate how such costs are estimated, take the example of a firm that fully complies with laws and regulations without avoidance. Some of the direct compliance costs might be:

- fees required for registration of the business or for real or personal property;
- port charges and other fees, such as additional customs charges for import or export;
- legal and accounting fees required to understand and comply with laws and regulations;
- direct costs associated with gaining access to foreign exchange;
- labor compensation that must be paid as a result of laws protecting workers.

Once the nature of the cost is understood and the degree of compliance determined, estimation of these direct costs is straightforward.

In addition, firms may also incur substantial imputed costs in their attempts to comply with laws and regulations. The most important of these are the value of managerial and employee time and the cost of capital tied up awaiting government action. The cost of capital may include inventories and other types of capital, fixed plant and equipment, real estate and various forms of human capital. Some of the actions that cause these imputed costs are:

- registering and putting up as collateral personal, real or intellectual property;
- time to execute sales and other contracts;
- time to obtain bank loans;
- time to obtain approvals for investment by foreign companies;
- time in obtaining trade licenses, clearing customs and product standards approvals;
- time in dealing with foreign exchange requirements;
- advance payment of foreign exchange for imports;
Measurement of such transaction costs requires: (1) ascertaining the nature of the costs; (2) estimating the quantity of resources (management and worker time, capital) tied up; and (3) multiplying the quantity-time by the cost of resources (wages, interest rate).

Institutional constraints also result in increased risk and uncertainty, which can influence many aspects of business activity. The risks generally involve use of discretionary authority by public officials. For example, the tax administration has discretionary authority to close down a business if they "suspect" evasion of taxes. Customs officials can hold up import and export shipments. Such risks can cause businesses to take costly actions to insure against the possibility they may occur. Measuring the cost associated with these risks is difficult, but estimates can be derived by: (1) determining the source of the risk; (2) estimating the magnitude of the risk; and (3) assessing the cost of the firm's actions to insure against this risk.

In practical applications, including the cost of institutional constraints in assessments of the structure of incentives facing the firm has been a matter of making adjustments to effective protection and effective subsidy coefficients. What has been done is to calculate the EPC and ESC indicators first in the manner in which they are conventionally estimated, and then to make adjustments for any additional institutional distortions. Export and import transactions have received most of the attention.

For example, adjustments for institutional constraints are made to include the implicit export taxes that result from unnecessary labor involved in processing export shipments, unnecessary cash costs involved in processing exports (including fees paid to individuals who render services), the cost of having to convert a percentage of foreign exchange earnings through the banking system (which often uses a rate of exchange that is lower than the going rate), and so on. The implicit taxes on imports have been calculated on the basis of imputed costs of unnecessary labor involved in processing import shipments, the unnecessary cash costs involved in processing imports and the imputed capital costs resulting because of delays in processing imports.

**Identification of Firm Adjustments**

In assessing the progress of structural adjustment, the monitoring exercise should collect information on the steps firms are taking to respond to the policy reforms. The questions of major concern would be:

- Are resources shifting from activities with high domestic resource cost to activities with low domestic resource cost as adjustment proceeds?
- Is efficiency and product quality increasing in existing firms?
Focusing on resource shifts, the monitoring exercise would seek information on where investment is taking place in the economy. In what sectors are firms entering and growing? How are product mixes of firms changing? Are the sectors where entry and growth are occurring low domestic resource cost activities? Is export production increasing and in what sector? One would also be interested in any early signs that the adjustment process is causing problems; that is, causing resource shifts which could be considered permanent distortions, e.g., problems of de-industrialization. In the short run, it will be quite difficult to assess this kind of problem because one expects large and costly adjustments in response to reforms in highly distorted African economies. An analysis of plant closings and new entrants would be a first step here.

A firm-level investigation of change in efficiency would require the monitoring exercise to look at a number of issues. First, we would be interested in the progress of total factor productivity (TFP) in existing enterprises; that is, are firms taking actions to move closer to the best practice efficiency frontier? A host of considerations are important here, particularly in the short run, before time-series data are available to measure changes in TFP. Interviews with firms would solicit information on:

Production:
- changes in production activity and capacity utilization;
- the nature and extent of new investments;
- changes in plant layouts and lines of production;
- changes in competition in product markets;
- changes in product mixes;
- inventory policy changes;
- changes in product quality;
- changes in the extent of vertical integration;

Labor Practices:
- less union activity;
- training methods;
- changes in composition of work force;
- reduction in work force;

Raw Materials:
- substituting domestic raw materials for foreign;
- buying inputs from local producers;
- extent of change in input markets;

Financial:
- changes in the access, cost and amount of credit obtained (bank loans and overdrafts, trade credit and other informal finance);
- changes in the links and interactions between the real and financial sectors.
In the longer run, the ability of firms to raise productivity and grow will also depend importantly on the extent to which they can access a host of learning mechanisms. These mechanisms, both private and collective, regulate the amount of technical knowledge and information available to the firm. For example, firms learn via private business contacts with foreign buyers and suppliers, via hiring expatriate expertise, via internal and external training, and via buying technical license agreements. An assessment of the effects on the incentives for enhanced inflow of know-how to firms via such mechanisms will be crucial in assessing the future impact of adjustment on growth.

**Evaluation of Perceptions of Business Managers and Entrepreneurs**

Credibility of the reform process is crucial to its success. If entrepreneurs and managers perceive that government is not committed to the reforms, they will hold back on any response to the new structure of incentives. Accordingly, it would be important in the monitoring exercise to solicit information from these business leaders on their perceptions of the structural adjustment program and the actions they plan to take in response.

In addition, information should be gathered on businesspeople’s perceptions about the impact of reforms on their operations. Questions would cover areas where reforms would be expected to have an effect, such as labor market regulations, trade and exchange rate practices, operation of product and financial markets, and so on. The purpose of the questions would be to elicit from entrepreneurs and managers their perceptions about the most favorable and unfavorable effects of the reforms for their business operations.

**How Should These Data Be Collected?**

The data collection instruments used in the monitoring exercise should be firm surveys and a series of flexible, well-targeted case studies. The surveys should be administered to a panel of representative firms selected randomly based on a sample frame drawn from the national enterprise census and/or from other census surveys. The case studies should be carried out using a small, stratified sub-sample of the panel enterprises. The case studies would be structured to gather important, but more qualitative, information than is feasible in a large panel survey. A great deal of value-added will be gained by combining this qualitative information with the quantitative data obtained in the larger panel survey.

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1 In some countries, nationwide industrial censuses are unavailable. In such cases, the sample frame must be created by gathering basic information on firms available in government ministries dealing with enterprise registration, in business associations and chambers of commerce and so on. For smaller firms, enumerations of enterprises in various sections of larger cities and towns may have to be carried out to develop a sample.
The randomly-selected panel of firms should aim to be representative of the population of interest. In most industry studies, one selects a panel of firms to be representative of the manufacturing work force. That is, firms are selected in such a way that each worker has an equal probability of being included in the sample. If one were to select a sample on the basis of the number of firms (i.e., each firm has an equal probability of being selected), the sample would probably be biased too much toward small enterprises. The representative panel should be observed throughout the adjustment process (or the portion of the adjustment process that is of interest). As the study proceeds from year to year, the panel can be (and should be) “renewed” somewhat by adding a few new firms or by replacing some firms to make it more representative of the changes taking place in the enterprise environment as adjustment proceeds.

It is recommended that the monitoring effort be implemented in two phases. The first phase would run for three years. In the first year (Year 1 of the reform for countries just beginning structural adjustment, or just before the reforms are announced), the major objective of data collection would be to develop a baseline or benchmark by which progress of the adjustment program would be measured. In year one, the surveys would also collect some retrospective data to see where firms have come from. In measuring the impact of reforms, it will be important to answer the counterfactual question: What would the performance of firms be if there had been no reform program? These retrospective data can help in providing approximate answers to such questions. Baseline data on business perceptions about the reforms should also be gathered. Lastly, about six months after the first (or major new) reforms have been implemented, a case study, directed at a small group of firms, can be conducted to gather some “quick-turnaround” information to signal how the reforms are impacting at the firm level. The central aim of the case study would be to assess things like: (a) whether or not compliance costs caused by the regulatory regime are actually changing after regulations have been reformed; (b) whether or not transaction costs of dealing with government institutions are actually declining after announced institutional reforms; or (c) whether or not “shoe leather” costs of getting access to bank finance are beginning to change after financial reforms. In addition, one would like to get an early reading on the perceptions of businesspersons about the credibility of the reform effort.

In year two and year three, the monitoring exercise would begin to measure the impact of the reform process. The second panel survey would provide the initial quantitative information to begin the process of measuring enterprise responses compared with the baseline survey of a year earlier. Year-to-year changes in enterprise growth and sectoral resource shifts can be gauged, changes in investment and employment can be monitored, and responses, such as changes in exports and domestic sales, can be measured. In addition, changes in enterprise productivity can be assessed. Several narrowly focused case studies should also be carried out in years two and three. The objectives of these case studies should remain somewhat flexible to respond to the changing environment brought on by the adjustment process. However, a principal goal would be to gather additional qualitative information on the reform process. For example, the panel survey will tell us whether or not firms are getting credit or duty
drawbacks, but not whether it is getting easier to obtain them. Similarly, the panel survey will tell us something about entrepreneurial responses to the reforms, particularly quantitative responses, but not about the why behind them. To have an informed policy dialogue with the government regarding the progress of reforms, this type of qualitative information is invaluable.

After the three years of phase one, one or two years could be skipped in the survey process. Thereafter, a survey of the panel enterprises could be carried out every other year or every two years. Case studies on selected important topics should continue to cover specific aspects of reform progress.

In this second phase of the monitoring effort, several factors should be considered in designing the survey and case studies:

- Course corrections in the structural adjustment program may be instituted and monitoring of these changes should be incorporated.
- New policy reforms may be undertaken as part of the phased set of reforms under the adjustment program and these new reforms should be monitored.
- Firm-level programs may be initiated by government, NGOs or donors to address constraints to supply response made evident by reforms. One might want to evaluate such interventions.
- As a response to policy reform, new sectors of economic activity may spring up and the monitoring effort would want to capture such changes. For example, firms operating in these new sectors should be added to the survey panel.

Furthermore, the information-gathering and analysis completed in the first phase of the monitoring program will be providing guidance on where and how to alleviate firm-level bottlenecks in the adjustment process. This information will be useful in devising operational programs in these latter years of monitoring to facilitate the growth process.

**Building Local Capability: An Additional Goal**

The panel surveys and case studies should be carried out by joint teams of African researchers and experienced Bank experts. One of the objectives of the monitoring exercise would be to build up local capacity over time to carry out the surveys and case studies with minimum input from the Bank. The time it will take to hand over management of the exercise to local researchers will, of course, depend on the country's initial capability.

An important aspect of the process of institutionalizing the monitoring program locally will be to include stakeholders in the exercise. Joint collaboration between policymakers, business associations, university researchers and the Bank would: (a) facilitate access and interaction with firms; (b) initiate a useful dialogue on policy issues
among these groups; (c) build up capability in each of these local groups to collect and analyze information; and (d) create joint institutional ownership of the monitoring program among stakeholders. Probably the best place to administer and implement data collection and analysis initially would be at a local university, where researchers are familiar with such exercises and computers are available. Ministry officials and representatives of business associations and other groups could then collaborate on the surveys and case studies with technical assistance from the Bank. To initiate the monitoring program, the Bank would contract for local and foreign services, and administer the effort. In Phase II of the exercise, when local researchers and officials are familiar with the program, administration would move more to local institutions.

See Attachments
Attachments

Attached are a sample budget for a monitoring program of this sort and a sample of the questionnaire modules for (1) baseline assessment of firms' production operations; (2) compliance costs of selected regulations; and (3) future perceptions regarding firm investment.

Note that these sample questions are provided for illustrative purposes only: actual questionnaire design would respond to the specifics of the monitoring program being implemented.
Budget

Phase I

Year 1
- Survey of 200 panel firms $225,000
- One case study to signal progress of reform effort 50,000
- Core project support for administration and analysis 50,000

Year 2
- Survey of 200 panel firms $135,000
- Two case studies on particular elements of reform process 100,000
- Core support for administration and analysis 50,000

Year 3
- Survey of 200 panel firms $135,000
- Two case studies on particular elements of reform process 100,000
- Core support for administration and analysis 50,000

Phase II

Year 5
- Survey of 200 panel firms $135,000
- One case study 100,000
- Core support for administration and analysis 50,000

Year 7
- Survey of 200 panel firms $135,000
- Core support for administration and analysis 50,000

Seven-year total: $1,365,000
5. When the firm started, what was the . . .
(a) total number of full-time paid employees? (excluding apprentices)*
(b) total number of apprentices?
(c) What were your annual sales? Kshs.

8. How was the startup financed?
(A) OWN SAVINGS:
(B) BORROWING FROM FRIENDS OR RELATIVES:
(C) LOAN FROM A FOREIGN BANK OR DONOR AGENCY:
(D) LOAN FROM A LOCAL BANK:
(E) LOAN FROM A MONEY LENDER:
(F) LOAN FROM SUPPLIER:
(G) OTHER (SPECIFY): (%)

6. And in 1981, what was the . . .
(a) total number of full-time paid employees? (excluding apprentices)
(b) total number of apprentices?
(c) What were your annual sales? Kshs.

7. And in 1986, what was the . . .
(a) total number of paid employees? (excluding apprentices)
(b) total number of apprentices?
(c) What were your annual sales? Kshs.

Note: This should not include peak season labour
2. GENERAL FIRM QUESTIONNAIRE

1. Does your firm keep accounts on an annual basis?
   Yes .................................. 1
   No ................................... 2

DISCUSS WITH ENTREPRENEUR WORKING FROM ONE YEAR DOWN:

2. What is the easiest time period for you to use in discussing the inputs and outputs related to your production process?
   1 YEAR ................................ 1
   6 MONTHS ................................ 2
   1 MONTH ................................. 3
   2 WEEKS .................................. 4
   1 WEEK ................................... 5
   OTHER .................................... 6
   (SPECIFY) ................................

2a. If 1, specify what year.

USE THIS WORKSHEET (QUESTIONS 3-5) TO GET AGGREGATE PRODUCT DATA FROM SMALL FIRMS THAT DO NOT HAVE ANNUAL ACCOUNTS TO ANSWER QUESTIONS 6-12 ON THE NEXT PAGE. FOR LARGE FIRMS THAT DO HAVE ANNUAL ACCOUNTS, ONLY FILL OUT THE FIVE MOST IMPORTANT PRODUCTS IN THE FIRST COLUMN OF THIS WORKSHEET (TO OBTAIN DATA ON EXTENT OF DIVERSIFICATION) AND THEN SKIP TO QUESTION 8.

| FOR THE LAST PERIOD OF ACTIVITY, LIST THE 5 MOST IMPORTANT PRODUCTS AND THEN ASK QUESTIONS 3 TO 5 ABOUT EACH PRODUCT | 3. What was the quantity sold of [PRODUCT] in the last period? | 4. What was the value of that [PRODUCT] sold last period? | 5. What was the cost of the raw material used to produce [PRODUCT] last period? |
|---|---|---|
| | Quantity | Unit Used (Kilos, Dozens, etc.) | Kshs | Kshs |
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |

NOTE: TRY TO AGGREGATE PRODUCTS. WE DON'T NEED RED SHIRTS AND BLUE SHIRTS; JUST SHIRTS. WE ARE TRYING TO GET A SENSE HERE OF HOW DIVERSIFIED THE FIRM IS.
2. GENERAL FIRM QUESTIONNAIRE

6. What was the value of sales last [period]?  
Kshs: 

15. What are the indirect costs of your business, for example, rent and utilities, in the last [period]?
   (a) Rent  
   Kshs: 
   (b) Electricity  
   Kshs: 
   (c) Water  
   Kshs: 
   (d) Telephone  
   Kshs: 
   (e) Liquid fuel (excluding electricity)  
   Kshs: 
   (f) Solid fuel and gas  
   Kshs: 

7. What was your income from trading (value of sales), if any, last [period]?  
Kshs: 

8. What was your income from services (value of sales), if any, last [period]?  
Kshs: 

9. What was the value of output last [period]?  
Kshs: 

10. What was the value of the inventories of your raw materials at the end of the last [period]?  
   Kshs: 

11. What was the total cost of raw materials used, excluding energy, last [period]?  
   Kshs: 

12. What proportion of your raw materials was imported?  
   (%)  

13. What proportion of your raw materials were sourced from businesses you own?  
   (%)  

14. What was your total wage bill last [period]?  
   Kshs: 

16. What were your profits last [period] (after depreciation; before tax)?  
   Kshs: 

//
17. What did you spend on promotion and advertising last [period]?
   
   Kaia: 

18. What did you spend on investment in plant and equipment in 1992 (excluding maintenance)?
   
   Kaia: 

19. What is the book value of your equipment?
   
   Kaia: 

20. What is the current sale or rental value (per year) of the land and buildings?
   
   Kaia: 

21. What is the replacement value of your equipment?
   
   Kaia: 

22. What is the total horsepower installed?
   
   Horsepower: 

FOR SMALL FIRMS THAT DON'T HAVE AGGREGATE NUMBERS, USE THE WORKSHEET (23-25) TO GET INFORMATION ON INDIVIDUAL ITEMS OF EQUIPMENT SO THAT YOU CAN CALCULATE AGGREGATE VALUES.

<table>
<thead>
<tr>
<th>LIST THE FIRM'S MAJOR PIECES OF EQUIPMENT AND ASK</th>
<th>What would it cost to replace Equipment No. [ ]?</th>
<th>What could you sell Equipment No. [ ] for today?</th>
<th>What is the total horsepower of Equipment No. [ ]?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment No. 1</td>
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<td></td>
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<tr>
<td>Equipment No. 2</td>
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<tr>
<td>Equipment No. 3</td>
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</tr>
<tr>
<td>Equipment No. 4</td>
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<tr>
<td>Equipment No. 5</td>
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<td></td>
<td></td>
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<tr>
<td>Remaining Equipment</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

23. What is your usual mode of operation?
   
   One-shift.............1
   Two-shift................2
   Three-shift..........3
   Other................4

(Specify: 

24. In this mode, how much more compared to now could you produce with existing equipment?
   
   (%)

ALTERNATIVE WAYS TO ELICIT INFORMATION FROM THE FIRM:

ASK THEM: HOW MUCH COULD YOU PRODUCE IF YOU HAD ENOUGH ORDERS AND ALL INPUTS WITHOUT MORE EQUIPMENT? SUBTRACT TOTAL OUTPUT (THE ANSWER TO QUESTION 9) FROM THIS FIGURE, THEN DIVIDE THIS DIFFERENCE BY TOTAL OUTPUT TO GET THE PERCENTAGE BY WHICH PRODUCTION WOULD INCREASE.
26. What percent of your production is exported? (%)

29. What proportion/fraction of your exports are sold through the following marketing channels?

(a) Direct to foreign buyer? (%)

(b) Through government trading agency? (%)

(c) Through private trading agency? (%)

(d) Other? (SPECIFY: ) (%)

30. Is any of your export sold within the PTA (Preferential Trade Agreement)?

Yes No (**32)

31. Have there been delays in payment within the PTA system?

Yes No (2)

32. What proportion/fraction of your product do you sell domestically through the following marketing channels?

(a) End user, private? (%)

(b) End user, public? (%)

(c) Retailer or wholesaler, private? (%)

(d) Retailer or wholesaler, public? (%)

(e) Other? (SPECIFY: )

33. What is your main source of competition in the markets where you sell?

NONE DOMESTIC FIRMS FOREIGN COMPETITOR IN EXPORT MARKETS IMPORTS

34. How do you set prices for your products? Give the two most important factors.

I always take the market price as given I set my price as a markup over costs
I adjust my price to keep it in line with the I charge different prices for the same
price of imports I keep my product price high to signal
I tend to follow the lead of one or two I keep my product price high to signal
product in different markets high quality
The government sets my price I negotiate my price with the buyer
The Association sets the price Other

SPECIFY: (___________)

35. How many times did your price change last year?

NO. OF TIMES

13
36. Why did you choose your current premises? Give the two most important factors:

- Availability of land .................. 1
- Availability of infrastructure .... 2
- Access to workers .................. 3
- Access to raw materials .......... 4
- Close to clients .................. 5
- Close to family .................. 6
- Government regulations .......... 7
- Location of competitors ........... 8
- Other .................................. 9

SPECIFY: (________________________)
### Part E: Licenses and Registrations

#### ASK QUESTIONS 30 TO 33 ABOUT EACH LICENSE LISTED:

<table>
<thead>
<tr>
<th>Question</th>
<th>YES</th>
<th>NO</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>30. What licenses have you obtained?</td>
<td></td>
<td></td>
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<tr>
<td>31. How much does the government charge for this license?</td>
<td></td>
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<tr>
<td>32. How long did it take to acquire...</td>
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<tr>
<td>33. How often do you have to renew...</td>
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</tr>
<tr>
<td>34. Old you have to pay for the assistance of an agent or anyone else to help you with...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35. How much did you pay in total for the licenses if you include fees for assistance, agents' fees and any extraordinary payments?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>License</th>
<th>Kaisha</th>
<th>WEEKS</th>
<th>DAYS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Registrar of Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Manufacturer's Registration (Min. of Industry)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>3. NSSF</td>
<td></td>
<td></td>
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<tr>
<td>4. Occupational Health (Min. of Labor)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Trade Licences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. General Import Licenses</td>
<td></td>
<td></td>
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<tr>
<td>7. Specific Import License</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Export License</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Local Licenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Other (Specify)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Other (Specify)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Other (Specify)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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69
Part F: Price Controls

36. Is your business affected by any of the following?

YES ................................................................. 1
NO ................................................................. 2

(a) Price controls on inputs?

(b) Price controls on outputs?

(IF NO ON BOTH THEN ⇒ 40, OTHERWISE CONTINUE)

37. How often are your output prices reviewed?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

38. How long does approval take?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

39. In the last 2 years, what proportion of your requests for price increases were approved?

(%)  

70
Part G  Firm Expansion

40. How severe are the problems created by foreign exchange controls? Rank using the following scale:

No Problem........................................1
Very severe problem................................5

(a) Delays in obtaining foreign exchange?

(b) Availability of foreign exchange?

(c) Paperwork required?

(d) Other? (Specify__________________________)

41. How severe is each of the following problems as an obstacle to expansion of your firm? (On a scale of 1 to 5)

NOT AT ALL........................................1
MODERATE OBSTACLE............................3
SEVERE OBSTACLE.................................5

(a) Ownership regulations?

(b) Taxes?

(c) Gaining Investment benefits?

(d) Government restrictions on activities?

(e) Labor regulations?

(f) Difficulty in obtaining licenses?

(g) Price controls?

(h) Foreign exchange controls?

(i) Lack of business support services?

(j) Lack of infrastructure?

(k) Utility prices?

(l) Lack of credit?

(m) No demand?

(n) Location regulations?

(o) Competition from Imports?

(p) Other? (SPECIFY:__________________________)
**ASK THE FOLLOWING TWO QUESTIONS ABOUT THE BUSINESS FACTORS LISTED BELOW**

<table>
<thead>
<tr>
<th>How have the following things changed in the last year?</th>
<th>How severe a problem are these factors for your firm?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved ............... 1</td>
<td>Not a problem ............... 1</td>
</tr>
<tr>
<td>Worsened ............... 2</td>
<td>Slight problem ............... 2</td>
</tr>
<tr>
<td>No Change ............... 0</td>
<td>Moderate problem ............... 3</td>
</tr>
<tr>
<td>Improved ............... 4</td>
<td>Large Problem ............... 4</td>
</tr>
<tr>
<td>Worsened ............... 5</td>
<td>Severe Problem ............... 5</td>
</tr>
</tbody>
</table>

(a) Export opportunities
(b) Access to foreign exchange
(c) Cost of foreign exchange
(d) Competition from imports
(e) Competition from local firms
(f) Access to imported raw materials
(g) Cost of imported raw materials
(h) Opportunities to buy foreign machinery and equipment not available before the reform program
(i) Business support services
(j) Infrastructure
(k) Utility Prices
(l) Demand for product
(m) Other

*SPECIFY_ ___*

**ADJUSTMENT QUESTIONNAIRE**

PAGE 42
2. What are your three biggest problems this year?

**NOTE:** DO NOT READ OFF THESE CATEGORIES. LET THE RESPONDENT ANSWER, THEN CODE. IF RESPONDENT CANNOT ANSWER, HAVE A DISCUSSION.

<table>
<thead>
<tr>
<th>Ownership Regulations</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>2</td>
</tr>
<tr>
<td>Government Restrictions on Activities</td>
<td>3</td>
</tr>
<tr>
<td>Gaining Investment Benefits</td>
<td>4</td>
</tr>
<tr>
<td>Labor Regulations</td>
<td>5</td>
</tr>
<tr>
<td>Difficulty in Obtaining Licenses</td>
<td>6</td>
</tr>
<tr>
<td>Corruption</td>
<td>7</td>
</tr>
<tr>
<td>Price Controls</td>
<td>8</td>
</tr>
<tr>
<td>Lack of Business Support Services</td>
<td>9</td>
</tr>
<tr>
<td>Lack of Infrastructure</td>
<td>10</td>
</tr>
<tr>
<td>Utility Prices</td>
<td>11</td>
</tr>
<tr>
<td>Credit</td>
<td>12</td>
</tr>
<tr>
<td>No Demand</td>
<td>13</td>
</tr>
<tr>
<td>Access to Foreign Exchange</td>
<td>14</td>
</tr>
<tr>
<td>Competition from Imports</td>
<td>15</td>
</tr>
<tr>
<td>Uncertainty about Govt Industry Policies</td>
<td>16</td>
</tr>
<tr>
<td>Lack of Skilled Labor</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
</tr>
</tbody>
</table>

(Specify: ____________________________)

<table>
<thead>
<tr>
<th>FIRST</th>
<th>SECOND</th>
<th>THIRD</th>
</tr>
</thead>
</table>

ADJUSTMENT QUESTIONNAIRE
EXPLAIN TO THE RESPONDENT THAT WE ARE INTERESTED IN HIS EXPECTATIONS FOR THE FUTURE.
IF THE RESPONDENT DOES NOT KNOW, DK SHOULD BE WRITTEN AS THE ANSWER.

1. What do you expect your firm's sales to be compared with today?
   - Lower than today: __________
   - Same as today: __________
   - Higher than today: __________

   One year from now: _________  Three years from now: _________

2. What do you expect your firm's access to credit to be compared with today?
   - Lower than today: __________
   - Same as today: __________
   - Higher than today: __________

   One year from now: _________  Three years from now: _________

3. What do you expect the cost of credit to be compared with today?
   - Lower than today: __________
   - Same as today: __________
   - Higher than today: __________

   One year from now: _________  Three years from now: _________

4. What do you expect access to foreign exchange to be compared with today?
   - Lower than today: __________
   - Same as today: __________
   - Higher than today: __________
   - Not applicable: __________

   One year from now: _________  Three years from now: _________

5. What do you expect the cost of foreign currencies to be compared with today?
   - Lower than today: __________
   - Same as today: __________
   - Higher than today: __________
   - Not applicable: __________

   One year from now: _________  Three years from now: _________

INVESTOR CONFIDENCE QUESTIONNAIRE
For further information or papers, please contact the Regional Program on Enterprise Development (RPED) Core Team:

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