Private Sector Manufacturing in Czech and Slovak Federal Republic:
A Survey of Firms

December 1992
PRIVATE SECTOR MANUFACTURING IN
THE CZECH AND SLOVAK FEDERAL REPUBLIC:
A SURVEY OF FIRMS

Dan Swanson
Leila Webster

December 1992

Industry Development Division
Industry and Energy Department
The World Bank
ACKNOWLEDGEMENTS

This project is particularly indebted to Alena Zemplinerova of the Institute of Economics at the Czechoslovak Academy of Sciences who served as the local project manager, to Vit Barta of the Institute who also assisted, and to a number of economics graduate students in Prague who interpreted for survey teams. We are also indebted to Mr. Jaroslav Kux, Director of the Department of Social Statistics at the Federal Statistical Office, for his assistance in selecting the sample and assembling the aggregate statistics in the report. Sharad Bhandari processed the data with care and speed. Survey teams were led by: Leila Webster, Dan Swanson, Wallace Kaufman, Katherine Whitmore and Judith Brandsma. Comments from Ulrich Hewer, Caryl McNeilly, Mark Schaffer, Judith Brandsma, Kate Whitmore and Jaroslav Kux were very useful. Guidance throughout this project was provided by Howard Pack and David Kemme. Amy Chan produced the report.
# TABLE OF CONTENTS

## EXECUTIVE SUMMARY

## INTRODUCTION

### I. THE PROJECT

A. Project Objectives .................................................. 1  
B. The Analytical Framework .......................................... 1  
C. Research Methodology ............................................... 4  

### II. BACKGROUND

A. Economic Reform ...................................................... 7  
B. History of the Private Sector ....................................... 10  
C. Current Status of the Private Sector .............................. 11  

### III. THE ENTREPRENEURS

A. General Characteristics ............................................ 16  
B. Motivations and Personal Qualities ............................... 17  
C. Entrepreneurship Development ..................................... 17  

### IV. THE FIRMS

A. General Characteristics ............................................ 20  
B. Capital ........................................................................ 25  
C. Labor .......................................................................... 28  
D. Land and Buildings .................................................. 30  
E. Intermediate Inputs and Raw Materials ............................ 31  
F. Output Markets and Competition .................................... 32  
G. Exports ........................................................................ 35  
H. Trends in Output and Profitability .................................. 36  

### V. THE BUSINESS ENVIRONMENT: CONSTRAINTS AND PROSPECTS

A. Major Constraints ....................................................... 37  
B. Daily Challenges in the Transition Economy ..................... 40  
C. Prospects: Strong Firms Versus Weak Firms ....................... 43  

### VI. NEEDS FOR ASSISTANCE AND RECOMMENDATIONS FOR ACTION

A. Entrepreneurs' Requests for Support ............................... 46  
B. Entrepreneurs' Views on Assistance Programs .................... 49  
C. Recommendations for Action .......................................... 50  

### VII. CONCLUSIONS

A. The Role of Reforms in Stimulating the Private Sector ........ 55  
B. Challenges Ahead for Entrepreneurs ................................ 56  
C. Strategies for Success in a Transition Economy ................ 57  
D. Privatization: Beyond the Transfer of Assets .................... 58  

## REFERENCES

ANNEX I: TABLES  
ANNEX II: QUESTIONNAIRE  
ANNEX III: MAP OF SURVEY LOCATIONS  

The views expressed in this report are those of the authors and should not be attributed to the World Bank.
EXECUTIVE SUMMARY

The Project

i. The central objective of this research was to document the characteristics and problems of private sector manufacturers in the Czech and Slovak Federal Republic (CSFR) so that they can be supported as effectively as possible. This project also produces an historical record of the status of private sector manufacturing eighteen months into CSFR's transformation program. The research had three specific objectives: to develop a profile of entrepreneurs and their firms; to assess firms' prospects through evaluating the impact of reform policies on firm-level operations and identifying constraints to further growth; and to formulate recommendations for actions to support private sector manufacturers.

ii. The heart of the research was a firm-level survey of 121 firms carried out in CSFR in January 1992. Firms were drawn randomly from the population of registered, majority privately- and domestically-owned manufacturers with seven or more employees. The large self-employed sector, firms engaged in trade or services, and joint ventures were excluded. Each entrepreneur was interviewed for about three hours by one of five research teams using a standardized questionnaire devised to elicit quantitative and qualitative information.

Background

iii. When this survey was conducted in January 1992, the Czechoslovak economy had stabilized and structural changes were well underway. After an initial round of sharp price increases in early 1991, inflation had nearly ceased. Most prices were market-determined. Wages had fallen sharply but appeared to have stabilized. The shock of the collapse of the CMEA market had been sustained and survived. The small privatization program had transferred thousands of small enterprises into private hands, and coupon privatization of large enterprises had been initiated. Foreign investment was pouring into the country at a rate equal to that of Hungary.

iv. Following passage of the Entrepreneurial Law in April 1990, entrepreneurs flocked to form new companies. By end-1991, nearly one million sole proprietorships (many inactive) and 40,000 registered companies were counted in official statistics—up from a handful two years previously. Small firms had passed to private hands via 25,000 sales in auctions, and the restitution program had resulted in some 50,000 properties returned to their original owners by the end of 1991. During the same period, the private sector share of GDP rose from about 3 to 8 percent, and the share of private sector employment grew from about 1 to 16 percent.

---

1/ This study of CSFR is part of a three-country study of private sector manufacturing in Poland, Hungary and CSFR financed by the Research Committee of The World Bank.