The Emergence of Private Sector Manufacturing in the Former Czech and Slovak Federal Republic

A Survey of Firms

Leila M. Webster and Dan Swanson
RECENT WORLD BANK TECHNICAL PAPERS

No. 162 Replogle, Non-Motorized Vehicles in Asian Cities
No. 163 Shilling, editor, Beyond Syndicated Loans: Sources of Credit for Developing Countries
No. 164 Schwartz and Kampen, Agricultural Extension in East Africa
No. 165 Kellaghan and Greaney, Using Examinations to Improve Education: A Study in Fourteen African Countries
No. 166 Ahmad and Kutcher, Irrigation Planning with Environmental Considerations: A Case Study of Pakistan's Indus Basin
No. 167 Liese, Sachdeva, and Cochrane, Organizing and Managing Tropical Disease Control Programs: Case Studies
No. 168 Barlow, McNelis, and Derrick, Solar Pumping: An Introduction and Update on the Technology, Performance, Costs and Economics
No. 169 Westoff, Age at Marriage, Age at First Birth, and Fertility in Africa
No. 170 Sung and Troia, Developments in Debt Conversion Programs and Conversion Activities
No. 171 Brown and Nooter, Successful Small-Scale Irrigation in the Sahel
No. 172 Thomas and Shaw, Issues in the Development of Multigrade Schools
No. 173 Byrnes, Water Users Association in World Bank-Assisted Irrigation Projects in Pakistan
No. 174 Constant and Sheldrick, World Nitrogen Survey
No. 175 Le Moigne and others, editors, Country Experiences with Water Resources Management: Economic, Institutional, Technological and Environmental Issues
No. 177 Adams, The World Bank's Treatment of Employment and Labor Market Issues
No. 178 Le Moigne, Barghouti, and Garbus, editors, Developing and Improving Irrigation and Drainage Systems: Selected Papers from World Bank Seminars
No. 179 Speirs and Olsen, Indigenous Integrated Farming Systems in the Sahel
No. 180 Barghouti, Garbus, and Umali, editors, Trends in Agricultural Diversification: Regional Perspectives
No. 181 Mining Unit, Industry and Energy Division, Strategy for African Mining
No. 182 Land Resources Unit, Asia Technical Department, Strategy for Forest Sector Development in Asia
No. 183 Nájera, Liese, and Hammer, Malaria: New Patterns and Perspectives
No. 184 Crosson and Anderson, Resources and Global Food Prospects: Supply and Demand for Cereals to 2030
No. 185 Frederiksen, Drought Planning and Water Efficiency Implications in Water Resources Management
No. 186 Guislain, Divestiture of State Enterprises: An Overview of the Legal Framework
No. 187 De Geyndt, Zhao, and Liu, From Barefoot Doctor to Village Doctor in Rural China
No. 188 Silverman, Public Sector Decentralization: Economic Policy and Sector Investment Programs
No. 189 Frederick, Balancing Water Demands with Supplies: The Role of Management in a World of Increasing Scarcity
No. 190 Macklin, Agricultural Extension in India
No. 191 Frederiksen, Water Resources Institutions: Some Principles and Practices
No. 192 McMillan, Painter, and Scudder, Settlement and Development in the River Blindness Control Zone
No. 193 Braatz, Conserving Biological Diversity: A Strategy for Protected Areas in the Asia-Pacific Region
No. 194 Saint, Universities in Africa: Strategies for Stabilization and Revitalization
No. 195 Ochs and Bishay, Drainage Guidelines
No. 196 Mabogunje, Perspective on Urban Land and Land Management Policies in Sub-Saharan Africa

(List continues on the inside back cover)
The Emergence of Private Sector Manufacturing in the Former Czech and Slovak Federal Republic

A Survey of Firms

Leila M. Webster and Dan Swanson

The World Bank
Washington, D.C.
The emergence of private sector manufacturing in the former Czech
and Slovak Federal Republic: a survey of firms / Leila M. Webster
and Dan Swanson.

p. cm. — (World Bank technical paper, ISSN 0253-7494 ; no.
230)
Includes bibliographical references.
1. Czechoslovakia—Manufactures. 2. Free enterprise—
Czechoslovakia. 3. Entrepreneurship—Czechoslovakia. I. Swanson,
Dan, 1957-. II. Title. III. Series.
HD9735.C952W32 1993
338.4'767'09437—dc20 93-23357
CIP
## CONTENTS

**EXECUTIVE SUMMARY** ................................................................. 1

**INTRODUCTION** .............................................................................. 9

**I. THE PROJECT** ............................................................................. 11

  - Project Objectives ................................................................. 11
  - The Analytical Framework ...................................................... 11
  - Research Methodology .......................................................... 13

**II. BACKGROUND** ........................................................................ 16

  - Economic Transformation ...................................................... 16
  - History of the Private Sector .................................................. 18
  - Current Status of the Private Sector ................................ .... 20

**III. THE ENTREPRENEURS** .......................................................... 24

  - General Characteristics ....................................................... 24
  - Motivations and Personal Qualities ................................ ..... 25
  - Entrepreneurship Development ........................................... 25

**IV. THE FIRMS** ............................................................................. 27

  - General Characteristics ....................................................... 27
  - Capital ................................................................................. 31
  - Labor ................................................................................. 33
  - Land and Buildings ............................................................. 35
  - Intermediate Inputs and Raw Materials ............................. 35
  - Output Markets and Competition ..................................... 36
  - Exports .............................................................................. 38
  - Trends in Output and Profitability ..................................... 39
V. THE BUSINESS ENVIRONMENT: CONSTRAINTS AND PROSPECTS 40

Major Constraints .............................................. 40
Daily Challenges in the Transition Economy .................... 42
Prospects: Strong Firms Versus Weak Firms .................... 44

VI. NEEDS FOR ASSISTANCE AND RECOMMENDATIONS FOR ACTION 47

Entrepreneurs' Requests for Support ........................... 47
Entrepreneurs’ Views on Assistance Programs .................. 49
Recommendations for Action ..................................... 50

VII. CONCLUSIONS .................................................. 54

The Role of Reforms in Stimulating the Private Sector ........ 54
Challenges Ahead for Entrepreneurs ............................. 55
Strategies for Success in a Transition Economy ............... 55
Privatization: Beyond the Transfer of Assets .................. 56

ANNEX I: TABLES .................................................. 57
ANNEX II: QUESTIONNAIRE ....................................... 65
REFERENCES ..................................................... 93

MAP OF SURVEY LOCATIONS
When Communist governments fell in Eastern Europe in 1989 and the new governments embraced capitalism, it was immediately clear that the key to renewed growth would be the transfer of capital from the state to private agents and the transfer of economic planning from bureaucracies to individuals. Questions arose quickly about the speed and the means by which private sectors could be built. Privatization of state enterprises was correctly judged to be a complex and lengthy affair, and many observers doubted that the spirit of entrepreneurship needed to spark large-scale private entry could have survived 40 years of suppression. How quickly could individuals who had grown up in socialist economies adopt the values and behaviors of capitalism and amass the capital needed to invest in private businesses? Many asserted that it would take a generation.

This research confirmed that, contrary to expectations, a great spirit of entrepreneurship sprang forth in Eastern Europe within 18 months of liberalization of entry regulations. By early 1992 when this survey was completed, Czechoslovak business rosters already contained tens of thousands of newly-registered, private firms, hundreds of thousands of sole proprietorships, and thousands of joint ventures—and the numbers have continued to skyrocket. This study also confirms that many of the new Czech and Slovak entrepreneurs are well-qualified to meet the challenges of private enterprise, particularly in terms of their general educational levels and their technical, production knowhow. And experience is quickly teaching them the basics of business management.

The business environment in the former CSFR in January 1992 was mostly favorable for the fledgling private sector. Most entrepreneurs included in the survey were spared the initial shock of price liberalization as they started up after prices had stabilized. The small privatization program, which in the former CSFR included small factories, was well underway and many entrepreneurs had managed to purchase their factories—due also to the banks' willingness to extend long-term credits. Finally, private producers in the former CSFR enjoyed a degree of protection through undervaluation of the Czech crown and through some restrictions on access to foreign exchange. To the extent that similar conditions prevail today, Czech and Slovak private manufacturers should continue to develop rapidly.

Magdi Iskander
Director
Private Sector Development Department
Finance and Private Sector Development
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.
ABSTRACT

The central objective of the research that is summarized in this report was to document the characteristics and problems of private sector manufacturers in the former Czech and Slovak Federal Republic eighteen months into the transformation program. Specifically, this project had three objectives: (i) to develop a profile of entrepreneurs and their firms; (ii) to evaluate firms’ prospects, assessing the impact of the reform program on their operations and identifying constraints to growth; and (iii) to formulate recommendations for action, including policy and regulatory changes and initiation of business support programs.

The heart of the research was a firm-level survey of 121 businesses carried out in the former CSFR in January 1992 by teams of researchers. Firms were randomly drawn from the population of registered, majority privately- and domestically-owned manufacturers with seven or more employees. Excluded were the large self-employed sector, firms engaged in trade or services, and joint ventures. Interviews lasting 3-4 hours were held with each entrepreneur.

Chapter I lays out project objectives, an analytical framework, research issues and the research methodology. Chapter II describes the macroeconomic setting in the former CSFR in January 1992 and presents an historical and current picture of the Czech and Slovak private sectors. Chapters III and IV summarize the characteristics of sample entrepreneurs and their firms. Chapter V analyzes firm-level constraints and presents a profile of successful firms. Chapter VI presents entrepreneurs’ requests for assistance and makes a number of recommendations for action, and Chapter VII sums up research findings in the context of research questions raised in Chapter I.

This survey is part of a comparative study of private sector manufacturing in Eastern Europe financed by the Research Committee of the World Bank in December 1990. The project included comparable surveys implemented in Poland in May 1991, and in Hungary in September 1991. An additional survey, financed jointly by the former Industry Development Division of the World Bank and the Chief Economist’s Office of the EBRD, was carried out in St. Petersburg, Russia in November 1992. A final project document synthesizing findings from all four surveys will be completed in late 1993 or early 1994.
The Project

The central objective of this research was to document the characteristics and problems of private sector manufacturers in the former Czech and Slovak Federal Republic (CSFR) so that they can be supported as effectively as possible.\(^1\) This project also produces an historical record of the status of private sector manufacturing eighteen months into the former 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.

The heart of the research was a firm-level survey of 121 firms carried out in the former 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

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.

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.

The Entrepreneurs

Entrepreneurs interviewed in this survey were well-educated, middle-aged and overwhelmingly male. Almost two-thirds previously held posts as presidents, directors, and other high-level positions in state enterprises or government. About half had college or university diplomas with most of the

---

\(^1\) This study is part of a three-country study of private sector manufacturing in Poland, Hungary and The Czech and Slovak Federal Republic financed by the Research Committee of The World Bank. The two republics became independent countries following this research and accordingly, this report refers to the Former CSFR.
remainder graduating from technical or commercial secondary schools. Few had trained or travelled abroad. Most chose to make use of their existing skills by manufacturing products that were the same or similar to products made in previous jobs. At a personal level, entrepreneurs described themselves as "practical" and "disciplined," with a preference to "feel in control of what is going on."

For a number of reasons, this first wave of entrepreneurs appeared well-positioned for success in the long term. Most had selected their products and markets wisely, producing at the high end of the product market where profits were maximized and where they would be able to undersell imports based on lower labor costs. Others filled local niche markets where they could avoid competition from state enterprises and imports. Half were exporting, and most were actively seeking foreign buyers to secure their sales abroad. Many had good initial footholds in their markets and were systematically expanding their products and markets. Their commitment to the future was evident in their willingness to take long-term loans and to purchase land and buildings.

The Firms

General characteristics. Regardless of their origins, nearly all firms interviewed had registered as private, limited liability companies since mid-1990 following passage of the Entrepreneurial Law in April 1990. Registration dates included: 3 in 1989, 24 in 1990 and 94 in 1991. One-third were newborns, registering only in the second half of 1991. Fifty-five percent had fully private origins, mostly new start-ups and a few pre-reform craftsmen. The remainder originated as state enterprises or cooperatives, about 10 percent of which had lineage to the interwar period and before.

Most firms were small. Gross monthly sales averaged US$56,000. Two-thirds were engaged in five sectors pre-selected by stratifying the sample: knitting, clothing, plastics, metal-working and machinery. Approximating the population distribution, 38 percent of firms were located in cities, 34 percent in towns, and 28 percent in villages. Bohemia and Moravia held nearly 40 percent each of the firms, and Slovakia accounted for just over 20 percent.

Capital. Three quarters of all entrepreneurs had received at least one bank loan since start-up. Only 9 percent applied for loans and were turned down. Four of five loans had terms of more than one year, in contrast to Poland and Hungary where investment loans were rare among sample entrepreneurs.

The sale of property through the small privatization program and the widespread availability of long-term credit allowed nearly half the entrepreneurs to own (rather than lease) their plant and property. This is a much higher share of private ownership than in Hungary and Poland where only 28 and 12 percent of entrepreneurs, respectively, owned their factory buildings. Most property sold through the privatization program was in poor condition, and entrepreneurs were undertaking extensive renovation and repair.

Two thirds of production equipment used by entrepreneurs was produced domestically, with most of the balance originating in the West. The average value-weighted age of equipment was eight years; half was less than three years old. Most entrepreneurs were highly adept at exploiting the full potential of their machinery, and no links were found between the age of equipment and the performance of firms. Some older equipment lost value quickly in 1991 when energy costs increased sharply.

Labor. The average full-time labor force was 42 workers per firm, with roughly equal numbers of men and women. Women worked mostly in lower-paying sectors like textiles and food processing.
Where present, women managers were found in accounting and sales. Men worked in all sectors and positions, but they dominated almost completely in wood products, metal working and machinery. The average salary was US$151 per month, lower than in Hungary and Poland. Bonuses and other cash and in-kind allowances averaged only about US$10 per worker per month, far lower than average monthly benefits in Poland ($50) and Hungary ($40). Entrepreneurs reported pervasive problems with poor attitudes among workers.

Product markets. Almost all entrepreneurs purchased the bulk of their intermediate inputs and raw materials from the state sector. Relations were strained as managers in state firms were not always willing to sell to private producers who needed small quantities of fairly specialized inputs. Almost 40 percent of entrepreneurs reported problems in obtaining domestic inputs. On the output side, competition was minimal. Only 4 percent of entrepreneurs cited imports were major competitors (compared with 11% in Hungary and 35% in Poland).

Researchers were amazed at the high level of exports among sample firms given their short time in business. Forty-two percent of firms were exporting some portion of their production, and one third of the value of all sales was exported. Ninety-nine percent of exports were in hard currency, and major trading partners were in Austria and Germany. Exporters were broadly distributed: 47 percent in Bohemia, 32 percent in Moravia and 21 percent in Slovakia. Thirty-three percent of exporters sold through intermediaries, usually state trading companies. Roughly one-fifth were subcontractors for Western European firms, mainly from Germany, Switzerland, Austria and Italy.

Trends. Most Czech and Slovak entrepreneurs reported rising output, sales and profits. Specifically, two-thirds reported increasing output within the past three months. Output had fallen in only 11 percent of firms. Fifty-seven percent of respondents reported rising sales, while only 17 percent reported declines. Similarly, 62 percent of entrepreneurs reported rising profits; 21 percent said that profits had fallen.

Constraints and Prospects

Constraints. Three issues dominated when entrepreneurs were asked to name their three main problems in order of importance. High taxes were cited among the top three problems by 31 percent of entrepreneurs, followed by delinquent payments by state enterprises (28%), and high interest rates (27%). Other main problems were weak product demand (15%), unstable business conditions (13%) and problems with labor (13%).

Entrepreneurs were subject to many different taxes, and rates appeared high. Loudly resented, payroll taxes totalled 50 percent of wages paid. Entrepreneurs claimed that such high rates eroded their profits and created a disincentive to raising salaries. They were widely avoided via use of contract labor that was exempted from payroll tax. Turnover taxes were high in some sectors (29% in textiles) and owed irrespective of payment by the customer. Laws affecting profits taxes were in flux at the time of the survey.

Delinquent payments, notably by state enterprises, accounted for up to 70 percent of 1991 sales in some firms. The main effect of delinquent payments was severe erosion of working capital, compounded when entrepreneurs paid turnover taxes upon delivery of goods and then waited for months to be paid by the state enterprise. Although laws were in place to allow entrepreneurs to collect for past
obligations with interest, the courts were reportedly full and few entrepreneurs had the time or confidence to pursue these avenues.

Entrepreneurs complained that real interest rates were exorbitant. Complaints may have resulted from the confluence of three factors in 1991: (i) a more commercial, i.e., profit-making orientation in the banks in 1991; (ii) declining inflation that increased real rates over the course of 1991; and (iii) the perception among late 1991 entrants (and others seeking new loans) that their predecessors had paid lower rates.

In addition to major problems, entrepreneurs and researchers identified hurdles in the everyday business environment that raised the cost of doing business, namely: excessive red tape, negative attitudes toward private enterprise and weak product markets. Many entrepreneurs routinely hired attorneys to handle official links with government, reflecting the complexity of this interface and entrepreneurs’ fears that they would get it wrong and have to repeat the process or pay fines. Paperwork and fees were considered excessive and costly, especially the initial registration deposit of 100,000 crowns (nearly $4,000). Other requirements included: annual licenses for all formal activities (as of July 1992) and substantial paperwork connected with leases and taxes, environmental impact assessments, and health and safety inspections. Some regulations carried no fees but implied certain costs, especially if improperly done. Problems with red tape were exacerbated by the far-reaching authority of local officials and their reported penchance for past practices (clientelism, bribery, absenteeism), as well as the inexperience of both parties in coping with new requirements.

Entrepreneurs routinely contended with social prejudice against private enterprise and profit-making. Described as part of the national character, entrepreneurs characterized their fellow citizens as a jealous lot who resented others’ gains. Encounters with low- and middle-level government officials had shown some entrepreneurs the extent to which pro-business government policies had not filtered down into the bureaucracy. Many entrepreneurs distinguished between the positive attitudes of high-level officials and the negative views of lower-level functionaries.

Product markets were weak. On the input side, just under 40 percent of entrepreneurs reported problems obtaining domestic inputs. Many state managers reportedly were uninterested in catering to the needs of small private producers for small quantities and quick delivery time. As a result, some entrepreneurs were in positions of going from one state manager to another, trying to persuade them to release inputs. Most inputs were not available from other private producers, and importing small quantities of raw materials reportedly was not feasible.

On the output side, private producers faced few alternatives for selling their products. Approximately half of entrepreneurs relied mainly on state enterprises to buy their products. As seen elsewhere in Eastern Europe, state-owned customers offered the advantages of larger contracts and greater tolerance of variable product quality, but most also brought the severe disadvantages of declining demand and slow repayments. Approximately half of entrepreneurs sold to private customers, domestic and foreign. In domestic markets, marketing channels were extremely limited due to poor development of a private retail sector. Clearly, the best option for many entrepreneurs was foreign markets, and almost half had managed to enter export trade.

Prospects. Groups of strong and weak firms were identified to clarify factors associated with success. Firms were classified as strong (or promising, since many were less than a year old) if: production was increasing, profits were rising, and the interview team rated the firm highly. Weak firms
were those for which production had decreased, profits were falling, and prospects were judged as poor by survey teams.

This selection produced 25 strong firms (21% of the sample) and only 4 weak firms (3% of sample firms). Because weak firms numbered so few, strong firms were compared with all other sample firms to identify distinctive characteristics of successful firms. Thirty percent of Slovakian firms were strong firms, compared with 21 percent in Bohemia and 14 percent in Moravia. Strong firms were found proportionately more often among new start-ups (26%) than among privatized firms (16%). They were located across cities, towns and villages in proportion to the sample as whole. More strong firms exported than other sample firms (61% vs. 47%).

Three characteristics of strong firms were outstanding. First, entrepreneurs in strong firms limited competition by producing good quality, differentiated products. Second, these entrepreneurs concentrated on expanding local and export markets, avoiding national markets where state enterprises dominated. Selling in strong markets to solvent clients was a big plus: entrepreneurs in strong firms made few complaints about inadequate demand and never once identified delinquent payments as a major problem. Third, strong firms had exceptional managers. These entrepreneurs were exceedingly competent: good analysts of their financial status, knowledgeable about their markets and competitors, aware of best practice in their products and focussed on improving production efficiency and product quality. They were more experienced in private business (40% owned more than one firm compared with 19% of other entrepreneurs), and they were savvy in cutting through red tape.

Needs for Assistance and Recommendations

Entrepreneurs were quick to identify their needs for assistance: they wanted specialized training, better information, and more support from government. Entrepreneurs wanted short-term training in: applied management, languages, and marketing. They wanted courses to be practical with an emphasis on the case study approach and a minimum of theory. Entrepreneurs thought the best trainers could be drawn from joint ventures in manufacturing where managers are familiar with conditions in the former CSFR and able to offer a global perspective. Entrepreneurs wanted government and donors to help defray costs and ensure quality, but most did not want these institutions to conduct courses.

Many entrepreneurs expressed a need for better information services, especially in rural areas including most of eastern Slovakia. They lacked basic economic information such as forecasts, business directories, legal notices, and data on the foreign sector. Entrepreneurs thought television and other public media could be creatively employed to bridge some of these gaps. They also wanted advice on how to become more competitive, deal with banks, and find trade and investment partners abroad. Finally, they were discouraged by slow progress in telecommunications. Getting a new telephone line was reported to take six months, slowing the use of telephone, fax and modem.

In the view of researchers, private manufacturers would be best served by measures that lower barriers to private sector growth. Priorities include: privatizing the state sector as quickly as feasible; lowering taxes on private companies; improving debt collections mechanisms; reducing red tape; increasing information flows; improving and broadening financial services; and developing community-level support for private enterprise.
Conclusions

Four major conclusions emerge. First, the policy content and sequencing of the transformation program in the former CSFR has been, for the most part, highly conducive to the successful formation of a private manufacturing sector. From the point of view of private producers, key components of the program included: (i) a legal and regulatory framework that established equal rights for private business and abolished most restrictions on their operations; (ii) a pre-announced schedule for price liberalization; (iii) opportunities to purchase factory buildings and production equipment through the small privatization program; (iv) provision of long-term financing from the banks; and (v) access to foreign markets.

In many ways, the sequencing of reforms in the former CSFR was optimal from the point of view of private producers. Many sample entrepreneurs were spared the initial shock of price reforms as most started up after prices had stabilized in the second quarter of 1991. New entrants, therefore, had the decided advantage of choosing their investments in the context of relatively undistorted signals, a key difference from Poland where massive private sector entry took place prior to price and trade liberalization.

Policies adopted under the transformation program were not designed specifically to protect domestic producers, but a fair degree of protection resulted nonetheless. Import penetration was constrained by import surcharges (20% in 1991, 10% in 1992), undervaluation of the domestic currency, restrictions on access to foreign exchange for self-employed traders, and conservative spending by consumers whose real incomes fell sharply. All of these factors slowed import penetration, avoiding the Polish phenomenon wherein individual traders flooded the country with imports and small retailers immediately created a fiercely competitive retail sector. Slow inflows of imports appeared to favor private producers who were fully exploiting their temporary reprieve from full-fledged competition to build their skills and their businesses.

The other side of the coin is that slow growth in imports may have retarded the growth of the private trading sector, an important source of inputs and final markets for private producers. (Implicit in this hypothesis is the assumption that broad-based entry of private retailers in a non-shortage economy is dependent on access to imports.) Indeed, surveyed entrepreneurs reported that they had a limited selection of suppliers and customers from which to choose. As a result, most remained highly dependent on the undependable state sector as suppliers and customers. Aware of the danger of this dependency, entrepreneurs were moving into export markets as quickly as they could.

Second, future success of this first wave of entrepreneurs will depend on their ability to cope with two remaining hurdles that will fundamentally alter the the former CSFR economy: large-scale privatization and full import competition. Without question, the privatization of large state enterprises will almost entirely re-configure the domestic economy. Likely scenarios include a further curbing of aggregate demand as whole firms are mothballed; increased pressure on government and banks' resources for restructuring; and an increase in competition from leaner privatized firms as new managers are forced to cut costs and respond to the market. Whether privatization will improve state enterprises' practices as suppliers and customers remains to be seen. The other hurdle will arise when import competition begins in earnest. To the extent that the former CSFR conforms to the experience in Poland and other adjusting countries, one can expect that small firms producing low-tech, undifferentiated consumer goods will be at risk.
Third, privatization of enterprises in no way ensures their future success. The performance of privatized firms in the sample varied, in part due to the conditions under which they were privatized. Where new owners of privatized firms were entirely free to deploy capital and labor as they thought best, privatized firms performed as well as new start-ups. But where new owners were hampered in their redeployment of capital and labor by implicit or explicit constraints in sales agreements, chances for success were reduced. Examples include exclusive purchasing arrangements with state enterprises or, most importantly, limitations placed on the size or nature of the labor force. In addition, many privatized firms needed restructuring to upgrade or change their products, and the widespread availability of bank finance in the former CSFR undoubtedly contributed to the new-found viability of many.

Fourth, successful entrepreneurs in the former CSFR offer insights into what it takes to survive and grow in transition economics. Beyond strong technical skills and smart choices about products and markets, successful entrepreneurs had the personal skills to navigate effectively in a sea of resistance. Hostility toward private business appeared to be more pervasive in the former CSFR than in either Poland or Hungary. Just under the surface of federal endorsement for private enterprise, ill-informed, uncaring and resentful government bureaucrats, state enterprise managers and private citizens exacted costs from private entrepreneurs who wanted to expand their businesses. These individuals were armed with needed inputs, sales contracts, required permits, enforcement of ambiguous regulations, bottomless paperwork, social stigma and at times, demands for special favors and bribes. Successful entrepreneurship depended critically on the ability to negotiate effectively in a difficult business environment.
INTRODUCTION

This report contains the findings of a survey of private manufacturing firms carried out in the former CSFR in January 1992. This survey is part of an 18-month comparative study of private sector manufacturing in Eastern Europe financed by the Research Committee of The World Bank. The project includes comparable surveys implemented in Poland (May 1991) and in Hungary (September 1991).

The report is organized as follows. Chapter I contains project objectives, an analytical framework, research issues, and the research methodology. Chapter II describes the macroeconomic setting and presents an historical and current picture of the private sector in the former CSFR. Chapters III and IV lay out the basic characteristics of sample entrepreneurs and their firms. Chapter V analyzes firm-level constraints to growth and presents a profile of successful firms. Chapter VI presents entrepreneurs' requests for assistance, and makes a number of recommendations for action. Chapter VII returns to the research questions raised in Chapter I and sums up survey findings.

The nature of this project should be kept in mind. Survey findings are based on in-depth, three-to four-hour interviews with a carefully selected group of private Czech and Slovak manufacturers in January 1992. The results are, in effect, detailed quantitative and qualitative photographs of firms operating in the setting prevailing at the time. To the extent that the circumstances of January 1992 are ongoing in the former CSFR, findings in this report remain relevant today. Similarly, to the extent that circumstances have changed, some findings presented here become part of an historical record documenting the status of private sector manufacturing 18 months into the transformation underway in the former CSFR.

Since this research was undertaken and an internal working paper published, the Czech and Slovak Federal Republic has been dissolved and two separate countries have been created. The language in this report has been amended to reflect these changes.
I. THE PROJECT

Project Objectives

The central objective of this research was to document the characteristics and problems of private sector manufacturers in the former CSFR so that they can be supported as effectively as possible. In doing so, this project also produces an historical record of the status of private sector manufacturing 18 months into the transformation program in the former CSFR.

The research had three specific objectives. The first was to develop a profile of entrepreneurs and their firms. The second was to assess sample firms' prospects through evaluating the impact of policy reforms on firm-level operations and identifying constraints to further growth. Key factors for success were identified by comparing high-performance firms with the remainder of sample firms. The third objective was to formulate recommendations for actions to support the private manufacturing sector in the former CSFR.

The Analytical Framework

The theoretical literature provides no single framework to analyze the development of private, productive enterprises in formerly centrally-planned economies. The most closely related area of research is empirical work on firm-level response to structural adjustment programs. The sources of economic problems in centrally-planned economies like the former CSFR and the magnitude of the transformation involved distinguish Eastern European economies from typical adjusting countries, but the macroeconomic imbalances and the measures taken to stabilize and liberalize the economy are similar. Without underestimating the unique set of circumstances in the former CSFR, the empirical evidence on firm-level response to adjustment programs is used here as a starting point from which to formulate research issues.

Response to Adjustment: What We Know

At the aggregate level, the Report on Adjustment Lending II confirms that private investment response in many adjusting countries has been disappointing, and offers some possible explanations, as follows:

(i) Tight monetary and credit policies discourage investment by raising the cost of credit and the opportunity cost of retained earnings;

(ii) Real devaluation discourages investment (in the short term) by raising the price of imported capital goods and intermediate inputs as well as reducing aggregate demand;

(iii) With trade liberalization comes a reduction of investment in import-substituting industries;

(iv) Potential investors are unwilling to risk their capital when they are uncertain about the continuity of new policies, regulations, prices and incentive schemes;

Cuts in government investment in complementary public projects, such as roads, ports and telecommunications, have a negative impact on private investment.

Dornbusch offers a further discussion of the lack of investment response in adjusting countries in "From Stabilization to Growth." He views stabilization and adjustment as necessary but insufficient conditions for resumption of growth, and criticizes official institutions for offering "unjustifiably rosy scenarios ...based on assumptions that do not hold in practice." His explanations for low levels of private investment include: (i) budget corrections that reduce real wages and hence internal demand, without which firms will not invest; (ii) diversion of scarce available resources away from exports and import substitution; (iii) short-run contractionary effects of real depreciation on demand; (iv) cutting back of credit and an inability to finance government support measures; and (v) entrepreneurs' lack of confidence in the stability of the policy environment.

Firm-level studies include those carried out in Africa—Ghana, Malawi, Senegal and Tanzania—and in Latin America—Chile, Argentina and Uruguay. Researchers in Africa found no shortage of entrepreneurs but rather a host of constraints to growth, mostly traceable back to the macroeconomic setting. Sample entrepreneurs were squeezed by rising input costs and an inability to raise prices due to eroded domestic demand and competing low-cost imports. Even the strongest firms lacked access to institutional credit for working capital and investment, despite an apparent willingness to pay going interest rates. Entrepreneurs were isolated from larger, growing markets and information sources, and they had few linkages with large enterprises. The regulatory environments were neutral in principle, but in practice government officials had failed to facilitate private sector growth by processing required paperwork in a timely fashion, cutting through bureaucracy and supplying needed information.

An analysis of the prospects for Ghanaian firms in 1989 revealed that the process of adjustment envisioned by policy-makers for the state enterprise sector was in full swing in the private sector. Firms that could not compete in the post-reform environment were failing, and those that had located niche markets were expanding. Weaker firms manufactured mass-produced, undifferentiated goods—typically textiles, clothing and simple metal products—that competed, or rather failed to compete, with imports. Stronger firms exploited niche markets, producing custom goods that faced little competition from imports. Where they did compete with imports, successful producers aimed for the top end of the market. Successful Ghanaian entrepreneurs were young and well-educated, often with engineering backgrounds.

---


Researchers in Latin America looked at how managers of firms were adapting to import competition. They found that four strategies for improving efficiency dominated. First, firms met import competition by greater product specialization and improvements in product quality. Second, they consolidated production and reduced their labor force. Third, they increased investment in new machinery and plant modification. And fourth, they purchased foreign blueprints and negotiated profit-sharing and licensing agreements with foreign firms.

In addition, researchers in Latin America found that appreciated exchange rates resulted in "misplaced" investment to produce exports that never materialized. A shift from production to importing was common in all three countries when the trade regimes were liberalized. Adjustments were most comprehensive and quickly implemented when there was little doubt about the irreversibility of policies.

Research Questions

Combining the above empirical work on firms in adjusting economies with knowledge of conditions in the former CSFR, key research questions were as follows:

(i) How have the components and sequencing of the transformation program in the former CSFR affected the development of private sector manufacturing? Which elements of the program have been most beneficial to private manufacturers' growth and which have been most detrimental?

(ii) What are the major constraints reported by entrepreneurs? What are the sources of these problems, and how do they differ from firm-level constraints reported in other adjusting countries?

(iii) What factors enable some entrepreneurs to overcome constraints and operate profitably? What measures will entrepreneurs take to maintain profitability in their changing, increasingly competitive environment? Are their strategies to maintain competitiveness similar to those found in Argentina, Chile and Uruguay?

(iv) What is the impact of the dominant state sector on private producers? How has the government's privatization program affected the formation and development of private sector manufacturing?

(v) What kinds of assistance could most effectively support private manufacturers in the former CSFR?

Research Methodology

The Approach

Changes are underway in data collection practices of the Federal Statistical Office in the former CSFR, particularly concerning private sector statistics. However sound, aggregate data reveal little about entrepreneurs' perceptions and behavior, and almost nothing about their prospects. In-depth interviews with owners and managers provided researchers with detailed information about firm-level responses to macro-level changes.
Selection of a representative sample was fundamental to formulating valid conclusions about the manufacturing sector in the former CSFR as a whole. A country-wide approach also produced key data about the distribution of opportunities across regions, and between urban and rural areas.

The Population

To be eligible for inclusion in the population from which the sample was drawn, firms had to be:

(i) registered companies;
(ii) at least 51 percent privately and 51 percent domestically owned;
(iii) engaged primarily in manufacturing;
(iv) employers of seven or more workers.

The population was restricted to registered firms—limited liability and joint-stock companies—because these incorporated enterprises tend to be larger and more formally organized than other types of private domestic units. In addition, fairly complete rosters of registered firms exist in the former CSFR, a key factor in selection of a representative sample. Under the assumption that larger firms have a broader impact on the economy, an employment criteria was applied to exclude micro-enterprises.

Several large and important groups of private enterprises were excluded from this population. First, self-employed persons (sole proprietorships) who number over one million in the former CSFR were excluded because the great majority are very small, and the population of self-employed persons actually operating is unknown. Moreover, their rapid turnover would have limited the possibility of tracking such enterprises over time. Second, joint ventures and foreign firms were excluded because their constraints and prospects are likely to differ substantially from those of domestic firms. Third, firms whose primary activities are trade and services were excluded because these entrepreneurs operate their businesses under a different set of parameters than those affecting manufacturers.

Sample Selection

The sample was randomly selected in December, 1991 from the roster of 4,346 registered, industrial firms in the Federal Statistical Office in Prague. With the longer term objective of comparisons with comparable samples in Poland and Hungary, a random sample drawn from the whole population was supplemented by five stratified samples representing industrial activities common to all three countries. The activities were plastics, clothing, knitting, metal working and machinery.

The sample was selected in three segments. First, the Federal Statistical Office supplied researchers with a printout of all private, registered, industrial enterprises. The 4,346 firms were immediately reduced to 2,225 by eliminating those enterprises with names that clearly indicated that their main activity was trade or services (the 1991 branch classification included repair and maintenance in manufacturing), and those who operated in home workshops.

Next, a letter of verification and invitation was sent to these 2,225 firms. Over 1,200 people responded, providing basic facts about their businesses and expressing their desire to be interviewed. Of

6/ As of November 1, 1991, the federal roster contained 4,346 registered industrial units, reflecting registration through the second quarter of 1991.
the 1,200 respondents, 475 enterprises met the criteria shown above. Random samples were drawn from this group—five stratified samples of 20 entrepreneurs each from those engaged in metal-working, plastics, textiles, clothing and machinery production, and one sample of 35 companies from the whole population. Factoring in those who did not respond to the letter, researchers estimate that the final sample represents about 15 percent of all registered, domestic private manufacturers with more than six workers.

The final sample consisted of 121 firms located throughout the country. Two-person survey teams (five of them) spent about three hours interviewing each entrepreneur. The survey instrument is attached in Annex 2, and a map of company locations is in Annex 3. The survey was completed in three weeks, ending on February 1, 1992.
II. BACKGROUND

Section A of this chapter reviews the main components of the reform program in the former CSFR and outlines the macroeconomic setting prevailing at the time of the survey. Section B briefly summarizes the history of the private sector in the former CSFR, identifying key elements that are relevant today. Section C provides an overview of private sector trends in the former CSFR from 1989 through 1991.

Economic Transformation

Czechoslovakia has witnessed remarkable events since the "velvet revolution" of late 1989 which gave rise to a new government in December of that year and democratic elections in June 1990. Economic conditions facing the new reform government were mixed. On the positive side, conservative fiscal and monetary policies had produced inflation rates of only about 3 percent through 1989, and external debt was only 101 percent of exports in convertible currencies at the end of 1990. Though income growth had dropped off in the late 1980s, per capital income was higher than elsewhere in Eastern Europe. Unemployment was non-existent, and educational levels and other social indicators were high.

Less promising were growth rates which in the past two decades had fallen some 30 percent below rates in Western industrialized countries—perhaps the most appropriate comparison given Czechoslovakia’s history as an industrialized nation. Underlying long-term inefficiencies in production surfaced in the 1980s in decreasing rates of labor productivity and high energy consumption/GDP ratios. Industrial growth rates had declined from 5.6 percent a year during the 1970s to 2.1 percent on average during the late 1980s due to unsuccessful industrial management, weak incentives for workers, cutbacks in exports to the East, and a stagnating weapons industry. The industrial enterprise sector was virtually all state-owned.

The goal of the transformation program, blueprinted in early 1990 and initiated by the new government in mid-1990, was to liberalize the economy and provide incentives conducive to restoring growth. In keeping with the emergence of democratic political process, the economic strategy centered on transformation of Czechoslovakia’s centrally-planned economy to a market-based one. In most aspects, the government chose rapid, comprehensive reform over a more gradual approach. Preliminary reform policies, undertaken throughout 1990 included: two currency devaluations, unification of commercial and tourist exchange rates, increases in the discount and deposit/lending rates, removal of subsidies on retail food and increases of industrial energy and transport prices. A two-tier banking system was created. Laws were passed allowing private sector participation in most economic activities, and foreigners were allowed to invest in joint ventures.

Data in this section are from the Staff Appraisal Report for the first World Bank structural adjustment loan to CSFR, June 7, 1991, and from IMF and Institute of International Finance staff reports. Selected domestic and external indicators are provided in Annex Tables 1.1-1.2.

Economic conditions worsened somewhat in 1990. GDP stagnated and gross industrial production dropped by 3.7 percent. Consumer prices (as measured by the CPI) rose by 8 percent; real wages fell by almost 6 percent; and unemployment appeared. Real exports to CMEA countries dropped by 19 percent while imports in convertible currencies increased by 26 percent in real terms. The results were deficits in both the convertible and non-convertible currency accounts.

Reform started in earnest in January 1991. The strategy of the domestic program was to liberalize prices and to a lesser extent trade, at the same time employing strict fiscal, monetary and incomes policies to avoid an inflationary spiral and pressure on the balance of payments. Price controls were eliminated for most goods on January 1, 1991 bringing the share of free prices in total turnover to 85 percent. Sharp cuts were made in government expenditures. The money supply was tightened through direct credit ceilings for commercial banks, hard budget constraints on state enterprises and an increase in the discount rate. Wage policies placed ceilings on wage increases and heavily taxed employers who exceeded them.

External policies promoted the re-orientation of trade from East to West, earning needed hard currency and compensating for the loss in revenues from CMEA trade. To adjust for expected terms of trade losses, the exchange rate was devalued and pegged to a basket of currencies at the end of December 1990. To ensure an adequate but limited volume of imports, registered businesses were permitted to purchase foreign exchange for most transactions, but low ceilings were maintained on the amount of foreign exchange available to individuals. With a few exceptions, all quantitative restrictions on imports were removed at the end of 1990. Tariffs were unified for many intermediate goods and lowered to an average of 5 percent. An import surcharge of 20 percent was applied throughout 1991, lowered to 10 percent in January 1992. Export licensing was removed for all goods except textiles, steel, meat, and 65 intermediate goods still subject to subsidies and price controls.

The privatization program in the former CSFR, a critical component of the transformation, was divided into two stages. First came the mostly locally administered "small privatization" which targeted small business units, over half to be auctioned starting in January 1991. A restitution program provided for return of 80,000 to 100,000 properties to private individuals who owned them before the 1948 nationalization. Next came the "large privatization" program which effectively divided large enterprises into two groups: those that would stay in state hands in the medium term and those that could be privatized through direct sales and through a coupon privatization scheme. Coupon books were sold to the public beginning in late 1991, redeemable for company shares in mid-1992.

Consistent implementation of these reform policies brought some positive results by the end of 1991. Consumer prices jumped 41 percent in the first quarter of 1991 following price liberalization in January 1991, but leveled off quickly for an increase of some 59 percent for the year. Monthly inflation was only 0.5 percent in the second half of 1991, and less than 1 percent on average from January through June 1992. The year-end government budget deficit was about 2 percent. Inflation was offset in part by transfer payments to households which rose by 42 percent. The current account of the balance of payments showed a surplus of 2 percent of GDP by the end of 1991 despite a fall in exports of 41 percent in real terms. Exports to OECD countries rose by almost 13 percent, and total imports fell by about 50 percent in real terms, declining by more than two-thirds from former CMEA countries compared with 1990 levels.

Hyperinflation and budgetary and balance of payment deficits were thus avoided in the transition of 1991, providing some stability for the economy to absorb the costs of adjustment. But GDP fell an
estimated 16 percent; industrial output, excluding construction, fell by about 25 percent, and retail turnover was down by about 40 percent. Investment fell as enterprises postponed decisions until the effects of the privatization program were clear. Real wages declined by 26 percent over the course of 1991 and unemployment was at 7 percent of the labor force by the end of the year (4% in the Czechlands of Bohemia and Moravia and 12% in Slovakia).

To sum up, the macroeconomic setting in January 1992—when this survey was conducted—was promising. Inflation was low. Most prices were market-based. Wages had fallen sharply previously but appeared to have stabilized. The shock of the collapse of the CMEA market had been sustained and survived. The legal and regulatory framework that governed the start-up of private firms was in place, and the number of new private entrants was multiplying quickly. About 25,000 firms had been privatized through the "small privatization" program and about 50,000 properties had been returned to their original owners through the restitution program. But problems were also present. Most immediately, large industrial enterprises upon which sample firms depended were stagnating with output and investment falling as they waited for privatization. Reduced real wages and higher real prices had suppressed consumer demand. Markets were just beginning to function, and business infrastructure to support private enterprise was wholly undeveloped. Confidence in the government and the privatization program was high, and only political cleavage loomed as a major cloud over continued progress in 1992.

History of the Private Sector

The strength of the emerging private manufacturing sector, described throughout this report, is not strictly the result of sound macroeconomic management and liberalization policies implemented in 1990-1991. It is also consistent with the history of private, outward-oriented manufacturing in Czechoslovakia. Political and economic ties with Germany and Austria date back hundreds of years. Strong historical links with the West fed by demand for Czechoslovak machinery and a local tradition of craftsmanship helped Czechoslovakia to become one of the 15 most industrialized and prosperous countries in the world by the 1930s (Table 2.1).

In 1948, a coup d'état by the Communist Party of Czechoslovakia placed the country under Soviet hegemony. By 1952, the new government had nationalized all sectors of the economy, effectively taking over all commercial and industrial enterprises with over 50 employees. By 1960, private enterprises involving employees had been abolished, and collectivization of agriculture was nearly completed. In 1965, the New Economic Model brought partial reform with the introduction of enterprise-level decision making based partially on profitability and wage differentials, and market costing of some inputs. But efforts to further liberalize the economy in 1968 led to the Warsaw Pact invasion, and plans for reform were scuttled.

---

9/ Slovakian enterprises were hit especially hard by the collapse of CMEA trade, pressure to close weapons factories, and because many were less viable initially.

Table 2.1: Living Standards, Employment Structure, Openness (1927-1938)

<table>
<thead>
<tr>
<th></th>
<th>Net Income/Head (US$)</th>
<th>Male Labor Force (%)</th>
<th>Openness (%)</th>
<th>Tariffs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Econ.</td>
<td>Ind.</td>
<td>Agric.</td>
<td>Agric.</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>176</td>
<td>450</td>
<td>200</td>
<td>35</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>68</td>
<td>300</td>
<td>110</td>
<td>73</td>
</tr>
<tr>
<td>Romania</td>
<td>70</td>
<td>290</td>
<td>80</td>
<td>73</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>81</td>
<td>200</td>
<td>100</td>
<td>77</td>
</tr>
<tr>
<td>Poland</td>
<td>104</td>
<td>400</td>
<td>100</td>
<td>61</td>
</tr>
<tr>
<td>Hungary</td>
<td>112</td>
<td>340</td>
<td>150</td>
<td>52</td>
</tr>
<tr>
<td>France</td>
<td>236</td>
<td>580</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>337</td>
<td>790</td>
<td>290</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Kaser and Radice (1985); Teichova (1988)

Notes: Data on per capita income and employment for 1937-38; openness is the average of imports and exports as % of GDP in 1929; tariff data for 1927.

In sum, post-war Czechoslovakia went further in eliminating the private sector than its closest neighbors, Poland and Hungary (Chart 2.2). By 1989, the state sector so dominated the economy that less than 1 percent of the population was privately employed. Small craftsmen who remained in the private sector were tightly regulated, highly taxed, and subject to capricious local officials. The availability of basic goods in the former CSFR also may have dampened the development of quasi-legal informal sectors found in Poland and Hungary.

Chart 2.2: Share of Private Enterprise to GDP in Mid-1980s

Source: OECD, as reprinted from EBRD.
Staff Report, Charap (1992).
Current Status of the Czech and Slovak Private Sector

Legal Reforms

The Entrepreneurial Law of April 1990 legalized the establishment of private companies and permitted them to employ unlimited numbers of workers and produce a full range of goods. Concomitantly, the commercial codes of the 1960s were amended to provide for the incorporation of private firms, spelling out the legal requirements of limited liability and joint-stock companies and partnerships. Passed in October 1990, the "small-scale privatization law" (#427/90 SB) targeted small shops, restaurants and production facilities for sale, lease and restitution. In 1991, the status of private enterprise was bolstered by a constitutional amendment (Law #100/91 SB) which states that private and state enterprises are equal before the law. New bankruptcy laws provided two main avenues for insolvent firms: liquidation and negotiated debt reduction.

In addition to these early legal changes, a number of new laws and regulations affecting private enterprise took effect in 1992. In January, a comprehensive commercial code governing company forms and commercial contracts for domestic and foreign investors was put in place. A new law came into effect in July 1992 requiring companies to obtain a business license before they could register with the Commercial Registry. The government promised amnesty on profits taxes to private firms in their first year for reinvested profits of up to $36,000. This law was made retroactive to cover the 1991 fiscal year for private firms formed in 1990 and 1991, with provisions for two-year extensions for firms in certain sectors (public health, environment) and regions (N. Bohemia and N. Moravia). Corporate tax rates on foreign and domestic businesses will be unified at 45 percent (previously 40% and 55%, respectively) in January 1, 1993. The maximum personal income tax rate was lowered from 55 percent to 47 percent. New legislation permits self-employed people unlimited access to foreign exchange for long-term financing and investment (but not for trading).

Numbers of Units and Sectoral Distribution

Aspiring entrepreneurs wasted no time in starting up private businesses. As elsewhere in Eastern Europe, private enterprises take two basic legal forms: sole proprietorships (self-employed, "physical" persons) and incorporated, registered companies (limited liability and joint-stock companies, and registered "physical" persons).

As of end-1991, 1,175,700 persons were listed on official rosters as sole proprietors (Table 2.3). By July 1992, this number reportedly had topped 1.4 million. A breakdown by sector, based on data as of November 1, 1991, shows that the largest proportion of sole proprietors were involved in industrial production and repair (26%), followed by construction (20%), direct trade (20%) and "trade and other technical services" (12%). The common presumption at the time of the survey was that many people recorded as sole proprietors were not yet operational. Many who were recorded as self-employed actually

---

11/ Requirements include minimum start-up capital for limited liability and joint stock companies of 100,000 and 1 million Crowns, respectively.

worked in registered private firms, using their self-employed status to spare their employers payment of high labor taxes.\textsuperscript{12}

Table 2.3: Number of Enterprises

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Sole Proprietorships</td>
<td>8,200</td>
<td>381,300</td>
<td>1,175,700</td>
</tr>
<tr>
<td>in Manufacturing</td>
<td>3,000</td>
<td>106,400</td>
<td>275,900</td>
</tr>
<tr>
<td>No. Registered Companies</td>
<td>100</td>
<td>11,600</td>
<td>39,000</td>
</tr>
<tr>
<td>g/ in Manufacturing</td>
<td>-</td>
<td>2,200</td>
<td>6,800</td>
</tr>
<tr>
<td>No. Joint Ventures</td>
<td>100</td>
<td>600</td>
<td>5,400</td>
</tr>
<tr>
<td>in Manufacturing</td>
<td>0</td>
<td>100</td>
<td>700</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office

\textsuperscript{g/} Note that registered enterprises include state-owned and privately-owned units. Private registered enterprises totaled approximately 25,000 units at end-1991. (See Annex Tables 1.3-1.6)

As of end-1991, the official roster contained almost 40,000 registered companies, more than tripling since end-1990. Registered companies consist of three legal forms:\textsuperscript{12} (i) limited liability companies; (ii) joint-stock companies; and (iii) self-employed persons who have registered in the courts, including partnerships.\textsuperscript{12} A sectoral breakdown shows that a third of registered companies are engaged in services, a third in trade and retail services, and less than 20 percent are in industry (Annexes 1.4 and 1.6).

Private Sector Contribution to GDP and Employment

Growth of the private sector has been impressive as seen in its contribution to GDP and employment. According to the Federal Statistical Office, GDP declined by 16 percent in 1991, but the private sector contribution to GDP rose by 28 percent. The private sector share in GDP doubled from

\textsuperscript{13} 15-20\% of "employees" in companies surveyed were subcontractors, many registered as sole proprietors. Effective in March 1992, new regulations limit the time an individual can work as a self-employed person without being treated as a regular employee, i.e., subject to labor laws including taxes.

\textsuperscript{14} The number of units in each legal form are unavailable for end-1991. As of November 1, 1991, the proportion of registered firms that were limited liability companies was 62\%, joint stock 9\%, and "registered" physical persons 29\%. The common perception is that most recent growth has taken place among limited liability companies. For detailed data on each legal form, see Annex 1.3.

\textsuperscript{15} Self-employed persons are required to register in the courts if they meet any one of three criteria: more than 25 employees, turnover of more than 540,000 crowns, or use of foreign currency in trading operations. These enterprises pay corporate taxes.
4 percent to 8 percent between 1989 and 1991. Similarly, private sector employment grew from 1 percent in 1989 to 16 percent by end-1991 (Annex Tables 1.5 and 1.7).

<table>
<thead>
<tr>
<th>Table 2.4: Private Sector Shares in GDP and Employment (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
</tr>
<tr>
<td>Private</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Employment</td>
</tr>
<tr>
<td>Private g/</td>
</tr>
<tr>
<td>Cooperative h/</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Source: Federal Statistical Office</td>
</tr>
<tr>
<td>g/ Czechoslovak and foreign: private firms, joint ventures and sole proprietorships.</td>
</tr>
<tr>
<td>h/ Includes private and semi-private institutions/political parties, religious institutions etc.</td>
</tr>
</tbody>
</table>

**Foreign Investment**

Private investment outpaced public investment, boosted by over 5,000 joint ventures worth almost US$2 billion established by end-1991. Seventy percent of joint ventures were small- and medium-sized transactions involving an average of US$30,000. Germany accounted for more than a third of foreign investment projects and together with Austria, it accounted for 80 percent of total dollar value (inflated by a huge Volkswagen venture with Skoda). The distribution of foreign investment was markedly uneven between the two the former CSFR republics. From mid-1990 to mid-1992, over 90 percent of the value of foreign investment went into the Czech Republic.\(^{12}\)

**Privatization**

The privatization strategy in the former CSFR aimed at a quick transfer of small shops and factories into private hands and long-term development of a market for transferring assets and control of large SOEs to a broad cross-section of the population. Progress was rapid and by May 1992, some success was evident. The small privatization program succeeded in selling some 19,000 units in the Czech Republic (most with full payment due in 2-5 years), raising 24 billion crowns; while in Slovakia, 8,820 were sold, raising 12 billion crowns.\(^{12}\) The first phase of the restitution program, in accordance with the 1990 Restitution Law, covered 70,000 small businesses nationalized after 1956, of which 50,000

---

16/ World Bank staff estimate the private sector share of GDP as high as 15% in 1991.

17/ The Economist, (May 30, 1992), "Two Elections in Czechoslovakia".

18/ Despite the numbers of units sold, less than half of the retail sector was private by the end of 1991.
were returned to their former owners by July 1992. The second phase, included under the 1991 Extrajudicial Rehabilitation Law, covered property nationalized after 1948 which amounted to about 10 percent of all state-owned property.

The large privatization program began to take off in 1992. By Spring 1992, nearly 9 million coupon books had been bought by citizens for about one week’s salary each ($33). Nearly 70 percent of coupon holders opted to invest at least some of their vouchers in privatization investment funds offering guaranteed returns of 1,000 to 2,000 percent. The first wave of privatization targeted about 1,500 firms to be sold entirely or in part through the voucher scheme. By Fall 1992, three rounds of bidding had taken place, and the first phase of voucher privatization should be completed by end-1992. Privatization of small and large firms is ongoing through auctions, direct sales and foreign investment.
III. THE ENTREPRENEURS

Section A of this chapter describes sample Czech and Slovak entrepreneurs by age, education and work experience. Section B discusses their motivations for entering private manufacturing and the personal qualities they have applied to their work. Section C contains a brief overview of entrepreneurship development in the former CSFR.

General Characteristics

Entrepreneurs were well-educated, middle-aged and overwhelmingly male. The average age was 43, with large numbers at 40 and 50 years (Chart 3.1). Few had traveled previously outside the former communist bloc, and only a handful of pre-reform "craftsmen" had any prior private business experience. Half of the 116 men and 5 women surveyed had college or university diplomas, and another 40 percent had finished technical or commercial secondary and post-secondary schools.

Chart 3.1: Age of CSFR Entrepreneurs

Entrepreneurs were seasoned in the management and technical skills required by large socialist enterprises. Eighty percent worked previously in state firms, another 13 percent in government institutions. Almost two-thirds previously held posts as managers, directors, presidents and other high-level administrators. Those with non-management backgrounds typically had held technical and sales positions, with only 7 of 121 describing themselves as blue-collar workers. In their new businesses, most chose familiar products and technologies. Sixty-one percent said their present products were the same or very similar to products they had produced in the past, and an additional 14 percent were producing related products.
Motivations and Personal Qualities

Entrepreneurs came to private business out of choice and necessity: half pulled by the perception of opportunity and half pushed by unacceptable personal and professional situations. On the "pull" side, most respondents said they had identified a profitable opportunity and chosen to take it. Fully half of those on the "push side" had lost or expected to lose their jobs, and the remainder had left state employment in frustration. Nearly half of all entrepreneurs from Slovakia felt pushed into private business compared with only one in five Moravian entrepreneurs. Only one entrepreneur in the sample said he had entered private business for purely monetary reasons. In fact, many were like the former production manager from Skoda Auto Works who paid himself 25 percent of his former salary. Primary personal goals were achievement (cited first by 36%), independence (24%) and economic necessity (13%).

Entrepreneurs' motives generally reflected their personalities. Given a list of personal qualities commonly associated with entrepreneurs, most readily identified themselves as practical, highly disciplined and needing to feel in control (Table 3.2).

Table 3.2: Personal Qualities of Sample Entrepreneurs

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Number of Responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A practical person with practical skills</td>
<td>50</td>
<td>21</td>
</tr>
<tr>
<td>Highly disciplined, committed to hard work</td>
<td>50</td>
<td>21</td>
</tr>
<tr>
<td>Like to feel in control of what is going on</td>
<td>40</td>
<td>17</td>
</tr>
<tr>
<td>High achiever, easily bored with routine</td>
<td>36</td>
<td>15</td>
</tr>
<tr>
<td>A risk-taker, willing to live with uncertainty</td>
<td>30</td>
<td>12</td>
</tr>
<tr>
<td>Self-confident, fairly sure of success</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Independent, loner, somewhat separate from others</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>241</td>
<td>100</td>
</tr>
</tbody>
</table>

Entrepreneurs were shown this list of personal qualities and asked to choose the three that described them best.

Entrepreneurship Development

Removing the barriers to private business in 1990 unveiled and liberated widespread entrepreneurial ambitions among Czechs and Slovaks. The first wave of manufacturers, captured in this survey, may be among those in the country with the highest potential for establishing private manufacturing businesses. Most brought years of experience as managers, strong technical educations and skills, a preference for elaborating upon known products and technologies, and fierce determination to succeed. Researchers were impressed by the flexibility with which entrepreneurs had responded to the difficulties of a transition economy characterized by shrinking demand, an unreliable state sector, the challenge and necessity of entering foreign markets, the uncertainty of adopting new technologies, and the necessity of product marketing.

Despite their apparent success, many entrepreneurs were notably anxious. They were unaccustomed to risk and the need to respond to constantly changing markets. Most were acutely aware that substandard technology and a lack of modern management know-how and information made it
difficult to transform their often considerable experience and skills into efficient returns. Many
entrepreneurs talked about feeling vulnerable and apprehensive, standing on the frontier of social and
economic change. Their lack of confidence was apparent in the fact that only 7 percent described
themselves as "fairly sure of success" (Table 3.2).

What can be predicted about their future? This report documents the outstanding start many have
made, but the challenge will be to survive in the next several years as the domestic economy is entirely
re-configured by privatization and an inflow of imports. The effects of privatization are unclear, but it
can be assumed that competition will increase as newly-privatized enterprises enter the marketplace.
These firms will seek to claim market shares of current producers, and some will have the advantage of
scale economies. Competition for government resources and available credit will increase as privatized
units seek to re-structure their enterprises. Privatization should improve access to inputs, and broaden
distribution and retail channels. To the extent that hidden subsidies have kept input and distribution
prices low, entrepreneurs will be subject to higher costs.

Greater inflows of imports will increase currently low levels of competition. As was the case in
Poland, increased imports typically mean lower prices for mass-produced consumer goods such as
everyday clothing, many knitted goods and simple plastic and metal products. Entrepreneurs who have
started up in these industries can expect problems as imports enter the former CSFR in earnest. On the
positive side, greater access to imports will be welcomed by those who have had limited access to
imported inputs.

For a number of reasons, this first wave of Czech and Slovak entrepreneurs appeared well-
positioned to meet these challenges. First, most had selected their products and markets wisely with a
view and a commitment to the long term. Although some entrepreneurs were manufacturing cheap, mass-
produced goods that would be vulnerable to incoming imports, most were producing at the high end of
the product market where they could undersell imports based on lower labor costs. Most had invested
in a single product and were systematically building up initial market footholds for that product, neither
jumping from one niche to another nor relying on a continuation of high initial profits earned by filling
temporary market gaps. Half were exporting, and most were looking for foreign buyers to secure their
sales outside of the unpredictable domestic market. Their long-term commitment was evident in the large
number of term loans entrepreneurs had taken and in their high rate of investment in land and buildings.

Second, conditions for private enterprise should improve in the near future with positive results
for those already in business. Attitudes towards private enterprise in government, state firms and among
citizens reportedly are becoming more supportive over time. The initial confusion surrounding the new
tax and business codes of 1992 will subside, and business planning will become easier. Privatization of
large state enterprises will free up more and larger equipment, buildings and land. The continued success
of these first entrepreneurs will depend heavily on maintaining their competitiveness as the number of
players increases.
IV. THE FIRMS

Section A of this chapter summarizes the main characteristics of sample firms, focusing on their sectoral distribution, size, location and origins. Sections B and C highlight factors of production: the use of physical and financial capital and labor. Section D focuses on land and buildings; section E on intermediate inputs and raw materials; section F on product markets and competition; section G on exports; and section H on trends in output, sales and profits.

General Characteristics

Regardless of their origins, nearly all firms had registered as private, limited liability companies following passage of the Entrepreneurial Law in April 1990. Registration dates included: 3 in 1989, 24 in 1990 and 94 in 1991. One third of all firms were newborns, registering only in the second half of 1991. Fifty-five percent were private since start-up (mostly new start-ups and a few pre-reform craftsmen). The remainder were privatized state enterprises and cooperatives, about 10 percent of which had lineage to the interwar period and before.

Distribution of Firms

Initial entry of private manufacturers has been a broad-based phenomenon in the former CSFR. Approximating the population distribution, 38 percent of firms were located in cities, 34 percent in towns and 28 percent in villages. By region, Bohemia and Moravia held nearly 40 percent each of the firms and Slovakia accounted for just over 20 percent.

As planned, two thirds of entrepreneurs were engaged in one of five principal industries: textiles, clothing, plastics, metals and machinery. The remaining one-third were in other industries, most importantly food processing (Table 4.1). Firms were evenly distributed by sector in different locations except for clothing manufacturers who were almost never found in villages. Slovakia had a paucity of textile and plastics producers, and a disproportionately large number of clothing manufacturers.

| Table 4.1: Sectoral Distribution of Firms by Number of Units and Monthly Sales |
|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                       | Total    | Textiles | Clothing | Plastics | Metals | Machinery | Others a/ |
| Number of firms       | 121      | 11       | 20       | 16       | 19     | 13        | 42         |
| Percent of firms      | 100      | 9        | 17       | 13       | 16     | 11        | 34         |
| Average Sales b/      | 55,758   | 98,492   | 65,335   | 49,336   | 26,168 | 29,509    | 62,396    |

a/ Other firms include: Food Manufacturers (15), Wood and Paper Products, Printers (12), Chemicals, Glass and Clay Products (8), Transport Equipment, Measuring Devices, Other Manufacturing (7).

b/ Average monthly gross sales in US dollars (27 crowns per dollar).

Most firms were small. Average monthly gross sales were US$56,000. Metal shops were the smallest averaging $26,000 per month, and textiles were the largest at $98,000 per month (Table 4.1). Average monthly sales figures in Slovakia were somewhat higher than average, corresponding to the large size of clothing manufacturers. As to the number of employees, 80 percent of all firms employed fewer
than 50 persons (Table 4.2). More than half employed 20 or more persons. The average number of employees was 42. Researchers were impressed that the average number of workers in the former CSFR firms was nearly the same as in Hungary (42 vs. 44) and higher than in Poland (42 vs. 32), both countries having more mature private sectors.

Table 4.2: Distribution of Sample Firms by Size

<table>
<thead>
<tr>
<th>Number of Workers Per Firm a/</th>
<th>Total</th>
<th>1-10</th>
<th>11-20</th>
<th>21-50</th>
<th>&gt;50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms</td>
<td>120</td>
<td>19</td>
<td>32</td>
<td>44</td>
<td>25</td>
</tr>
<tr>
<td>Percent of firms b/</td>
<td>100</td>
<td>16</td>
<td>27</td>
<td>37</td>
<td>21</td>
</tr>
</tbody>
</table>

a/ Employment figures are full-time equivalent, calculated by adding the number of eight-hour days worked by part-time workers and the number of full-time workers.

b/ Figures may not sum to totals due to rounding.

Origins of Sample Firms

Tracing the origins of sample firms involves analysis of their ownership structures, their histories and the avenues by which they acquired property (Table 4.3).

Table 4.3: Origins of Sample Firms

<table>
<thead>
<tr>
<th>Ownership at Start-up</th>
<th>History of Firm</th>
<th>Means of Acquiring Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colleagues</td>
<td>Private</td>
<td>Simple purchase or lease</td>
</tr>
<tr>
<td>Individual</td>
<td>Former SOE a/</td>
<td>Auction</td>
</tr>
<tr>
<td>Family</td>
<td>Former cooperative</td>
<td>Restitution (direct) b/</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
<td>Restitution (indirect) b/</td>
</tr>
</tbody>
</table>

a/ Derived from a state-owned enterprise.
b/ Entrepreneurs gained access to restituted properties either directly through the restitution program, or indirectly by leasing from an individual with restituted property.

(i) Ownership at start-up. Sixty-three percent of sample firms were started by colleagues, typically groups of friends and former co-workers. Strong relationships among co-workers were common in the former CSFR owing to lifelong service of employees in their companies. With the legalization of private enterprise, social and professional relationships often became incubators of ideas, sources of complementary management and technical skills, and means of mobilizing capital. The initial registration fee of nearly US$4,000 (100,000 crowns) and the high collateral requirements of banks encouraged individuals to pool their capital.

19/ The average number of employees is biased upward by the presence of four firms employing more than 250 persons.
Seventeen percent of firms were started by sole individuals, about a third of whom began as craftsmen before 1990. Small bakeries, clothing manufacturers, and metal shops were typical of this group; textile and machinery firms were notably absent. These smaller firms typically served local niche markets. Twelve percent of sample firms started as family businesses, typically husband and wife teams. Most family businesses were found among restituted companies, although many did not last as family businesses. Of the 11 restituted firms still operated by family members, seven had brought in additional partners.

(ii) History of firms. Most sample firms in the former CSFR had one of three origins: they started as private independent businesses (55%); they were former state enterprises (30%); or they were former cooperatives (12%). With the exception of a few pre-reform craftsmen, all private firms in the sample started up after 1990 and throughout this paper, they are referred to as new start-ups. Most had new or semi-new products and markets, irrespective of the origins of their buildings and equipment. Many new start-ups were engaged in relatively small-scale production, with average sales only 63 percent of the sample average. New start-ups included virtually all of the bakers, and about three quarters of plastics and knitting firms.

Looking ahead to assessments of firms’ prospects, some important advantages held by new start-ups can be noted here: (i) most started up after prices were liberalized which enabled them to make choices about products, labor, and capital in response to undistorted market signals; (ii) they located and created new markets, and were only half as likely as other firms to sell to state firms (thus avoiding payments problems); and (iii) their small size brought greater flexibility needed to shift quickly with changing opportunities. Many new start-ups were thriving with 26 percent rated "strong" as compared to 15 percent of other firms (see para 5.20).

Thirty percent of sample firms were private descendants of former state enterprises. Most of these privatized firms continued to manufacture the same or similar products, typically using the same facilities. These firms predominated in metals, machinery, woodworking and in larger textile and clothing companies. Many managers in these enterprises were struggling to expand markets abandoned by their state predecessors, change their product mix and technology in response to price signals, and compete against smaller, more aggressive companies.

Entrepreneurs in privatized firms had several initial advantages including already established input and sales markets, years of experience usually in the same firm, and known problems. Most were larger than average with greater economies of scale. But they also faced disadvantages. At the time of purchase, privatized firms usually were equipped and staffed to produce according to relative prices of another era. Changing product lines and the mix of production factors to adjust to new signals was costly, and in some cases, impractical. Some entrepreneurs in privatized firms had the added disadvantage of inheriting labor contracts that curtailed their freedom to lay off workers. Moreover,

---

20/ One such example was a shop that manufactured sliding partitions near the border of Poland. The shop was owned by the father and uncle of the present entrepreneur until 1953, when it was nationalized. The shop was restored to the original family in 1990, but the recipient had no experience in this line of work. He formed a limited liability company with the accountant from the former SOE occupying the facility, and they bought the equipment and stocks and began production.
about half of the privatized firms relied mainly on sales to state firms which left them vulnerable to shrinking demand and growing collections problems.

Twelve percent of sample firms were former cooperatives. In 1990 under the Transformation Law, cooperatives were ordered to break out their operations by division to increase their financial autonomy. These laws did not require privatization, and divisions of cooperatives sometimes chose to lease their facilities or to take equity in new private companies. Some sold their operations to former employees or to private outside individuals. Entrepreneurs operating privatized cooperatives faced similar problems to those in privatized state enterprises.

(iii) Means of acquiring property. Over half of entrepreneurs bought or leased their facilities directly from individuals, municipalities, cooperatives and state enterprises. But just under half obtained their properties through one of two important instruments supporting small-scale privatization: the auctions and the restitution program.

The success of the former CSFR's now-famous auctions in passing capital assets from state to private hands was evident in the fact that almost one third of entrepreneurs had obtained their factories through this avenue.21 Of note is the fact that companies sold or leased through the auctions usually were transferred intact, including factory buildings, equipment, inventories and implicitly, workers. Most of these firms needed restructuring. Although they were immediately functional (avoiding piecemeal assembly of factories as was the case in Poland and Hungary), they typically were poorly positioned for the new economy, e.g., poorly equipped, over-staffed and with the wrong products.

Typical of the companies bought in auctions was a decorative plywood and panel-maker in Slovakia. The shop was originally a loss-making division of a larger state firm. Its main problem was a top-heavy management structure: 11 of the 39 employees were in administration. The new owners, all in their thirties, were former employees who worked informally at night to earn extra income. After winning at the auction, they immediately reduced the number of employees by one-third.

Fourteen percent of sample entrepreneurs acquired their factories via the restitution program that restored nationalized properties to the families of those from whom they were expropriated in the communist era. Owners were given first option to purchase buildings that were added to their land since it was nationalized. Eleven of these enterprises were owned and managed by recipients of restituted property--people who chose to take on the job of managing their families' former businesses. Six enterprises derived indirectly from the restitution program in that entrepreneurs were leasing buildings and equipment from owners of restituted property who chose not to assume management of their former businesses.

Those who chose to manage their restituted businesses were excited at the prospect of resurrecting family businesses, but many faced big problems. In some cases, owners were involved in complex disputes with state enterprises due to differences in opinion as to which property should rightfully be returned to the family and which property was additional and should be purchased. In other cases, state enterprises had combined several pieces of property when factories were built with the result that half the factory sat on land to be restituted and the other half on state-owned land. The new owners varied in

---

21/ Although entrepreneurs legally "own" property purchased at an auction, some bought the right to use the property and equipment until it is fully paid, a lease/purchase arrangement.
their preparedness to operate their businesses. Most had employed managers from the restituted state firm to help them operate the business, but some were plowing ahead alone learning as they went. Virtually all restituted companies were engaged in major clean-up operations, sandblasting decrepit buildings and refurbishing long-neglected, out-dated equipment.

A brick factory in Bohemia, founded in 1893 and passed from father to son and now to grandson, was typical of a restituted business. The new owners, husband and wife, were civil servants in Prague when they learned that the family brick factory was eligible for restitution. They wrote six times to the Ministry of Privatization asking for the buildings but not the equipment. Eleven months later, they were informed that the land would be restored provided they bought the equipment with no provision for depreciation. This couple fought hard and paid dearly for their brick factory, and they were determined to learn to manage it effectively.

Capital

Physical Capital

Czechoslovakia has produced and exported machinery for decades, and it came as no surprise that 65 percent (in value terms) of the equipment in sample firms was produced domestically, 25 percent from the West and 10 percent from former CMEA countries. More firms in Slovakia relied on production equipment from CMEA than did firms in the Czech Republic (44% and 14% of firms, respectively). As expected, new start-ups in urban areas were the most frequent users of equipment produced in the West. Regardless of its origins and age, almost 70 percent of all equipment was purchased from state enterprises.

The age of equipment was estimated in two ways: by the owners who estimated the average age of their equipment (in terms of units) and by researchers who calculated value-weighted averages based on replacement costs. In terms of units, the average age of equipment was 12 years. The number of very old machines (more than 20 years) was about equal to the number of very new units (less than 3 years), about 12 percent each. In terms of value, the average age of equipment was eight years, and 24 percent was older than 10 years. In value-weighted terms, half of production equipment was less than three years old.

It is interesting to note that researchers found no link between firms' performance and the age of the equipment used. Moreover, in the eyes of entrepreneurs, old equipment was not a major problem (accounting for only 6% problems). Researchers observed many instances when entrepreneurs were proficient in extracting the maximum from outdated equipment, doing their own repair and maintenance and even making spare parts.

22/ Value-weighted averages favored new equipment as old equipment typically was fully depreciated.

23/ Production equipment was quite old in many firms due, in part, to lack of investment over the years and, in part, to requirements that entrepreneurs who purchased their firms through the auctions and restitution programs purchase all equipment including "museum pieces."
In other cases, price changes hastened the obsolescence of equipment. A potter in Moravia claimed that his furnaces (three electrical and two coal-fired) were practically new when he got them through restitution. "The machines were well preserved because they had only been worked at 10 percent capacity," he said. But with energy prices increased to world levels in 1991, production costs doubled and the potter was forced to produce below costs or to buy new efficient furnaces which he could not afford.

Entrepreneurs were thinking about new equipment and technology. Some had upgraded already, but most had looked into financing new equipment and seen a dismal picture. Already fully leveraged by purchasing their facilities, few entrepreneurs could raise additional capital to finance new equipment. A knitter in Bohemia realized that bolts of cloth produced on his 1930s equipment could not be exported since international standards require 150cm, not 90cm widths. So he disassembled the old equipment, and sold it abroad for scrap. This entrepreneur was working three shifts on his 1970s vintage equipment, and buying new equipment was first on his list of future plans.

Finance

Researchers were surprised by the number of entrepreneurs who had received loans from banks, especially given their short time in business. Unlike their counterparts in Poland and Hungary who started up almost exclusively with personal savings, two thirds of entrepreneurs in the former CSFR had received loans within six months of start-up. Indeed, three quarters of all entrepreneurs had received at least one bank loan since start-up, used to finance everything from land and buildings to equipment and stocks. Four in five loans had terms of more than one year. Sixteen percent of entrepreneurs had received more than one loan, and only 9 percent had applied for loans and were turned down.

Despite the fact that many had received loans, entrepreneurs described increasing problems in obtaining credit from banks. The primary complaint was that interest rates were exorbitantly high (see para 5.11). In addition, entrepreneurs complained of excessive collateral requirements. Banks reportedly demanded 100-150 percent of the loan amount as security, judged excessive by entrepreneurs who pointed out that ordinary people had had only minimal opportunities to save under the former regime. The range of property acceptable for use as collateral reportedly was narrowed in January 1992 to exclude production equipment, thus favoring entrepreneurs with land and buildings. Some entrepreneurs claimed that their property had appreciated by 400 percent since purchase, but re-appraisal for use as collateral apparently was costly, time-consuming and resisted by banks. On balance, however, researchers observed that many entrepreneurs had landed creative financing arrangements with their banks, including a wide range of interest rates and grace periods, use of insurance policies and bank balances as collateral, and lower collateral ratios based on business plans.24c

Entrepreneurs commonly had problems maintaining adequate working capital, and banks reportedly resisted providing them with working capital loans. As in Poland and Hungary, shortages of working capital stemmed from the common practice by state enterprises of demanding cash for purchases of raw materials but taking months to pay for goods delivered. Working capital was also eroded in many

24/ Bankers reportedly were proficient at evaluating asset value and collateral, but most were inexperienced with business plans. Only in a few instances were business plans used to acquire loans.
firms due to the necessity of stocking raw materials because state managers would sell only in bulk and because supplies were unpredictable.

Financial services were poor. Entrepreneurs complained of slow transactions time, reportedly 10 days to two weeks on domestic transactions even within the same branch and three to eight weeks on foreign transfers. According to one plastics manufacturer in Moravia, "It takes three days for a payment to go from Austria to Prague, then one month from Prague to my branch bank. Sometimes, I take a working capital loan to cover my expenses, and sometimes, I go to Austria to get the money and bring it back to exchange it for crowns at a lower exchange rate than I could get through my bank."

**Labor**

**Size and Gender of the Labor Force**

The average full-time labor force (including owners) was 42 workers per firm, including part-time workers recast as full-time equivalents. Although more women were employed than men (57% vs. 43%), the overall gender ratio among workers was roughly even given the large number of owners (3-4 per firm, overwhelmingly male). As seen in Hungary and Poland, the gender of the labor force depended largely on the sector. Women worked mostly in lower-paying sectors like textiles and food processing. Where present, women managers were found in accounting and sales. Men worked in all sectors and positions, but they dominated almost completely in wood products, metalworking and machinery.

**Labor Compensation**

The average worker's salary was $151 per month, ranging from a low of $92 to a high of $617 for one highly skilled engineer.\(^{25}\) The lowest average salary was in clothing ($120 per month), the highest in machinery ($174 per month). Salaries were 25 percent higher in cities than in towns and villages. Salaries in Slovakia were 12 percent and 7 percent higher than in Moravia and Bohemia respectively. One explanation for this regional difference is the absence of knitting mills (where wages were low) among sample firms from Slovakia.

Most entrepreneurs set salaries by combining the minimum wage and the status quo for that industry with an assessment of workers' experience and productivity. Profit-sharing and worker-determined wages were exceptional. About 10 percent of firms had workers' councils, mostly abiding by contracts made previously under state ownership, and none of the firms interviewed had trade unions.

Workers received markedly few fringe benefits beyond the minimum mandated by labor laws, i.e., three months notice prior to layoff, maternity leave, vacation, and safety equipment and clothing. A thirteenth-month salary and year-end bonuses were provided by some firms. Offered by 35 percent of firms, non-cash benefits included pensions, free transportation and meals. Bonuses and other cash and in-kind allowances averaged only $10 per worker per month, far lower than average monthly benefits in Poland ($50) and Hungary ($46). Fringe benefits were about three times higher in new start-ups than

---

\(^{25}\) Figures for average salaries do not include owners who were allowed to expense up to $360 per month for their own salaries. Many entrepreneurs paid themselves considerably less, and a few, nothing at all.
in privatized state enterprises. This difference may be accounted for by the extra benefits paid to contract workers employed more often in new start-ups.

Including salaries, benefits and taxes, the average cost per worker was $205 per month, compared with $297 in Poland and $341 in Hungary.\(^{26}\) A payroll tax of 50 percent was charged on salaries net of benefits. But data suggests that the full 50 percent was rarely paid. On average, firms actually paid about 29 percent.\(^{27}\) New start-ups paid only 20 percent in labor taxes while privatized state firms paid 42 percent, the difference explained mostly by new start-ups’ greater reliance on subcontracted labor.\(^{28}\)

**Labor Market, Skills and Attitudes**

Craftsmanship is the hallmark of Czech and Slovak manufacturers, a reputation maintained by a skilled work force. Indeed, 78 percent of workers were considered "skilled" by their employers. But some entrepreneurs reported that even skilled workers needed "re-training" because they were over-specialized and inflexible. About 25 percent of respondents provided some on-the-job training, mostly short-term and informal.

Roughly half of entrepreneurs reported problems recruiting sufficient skilled workers. Some were in bidding wars with state firms and joint ventures. A manufacturer of wooden windows in Bratislava was innovative in his quest for skilled workers. He started a pilot program that offered state employees a two-week trial period at his company with pay. "We watch each other and get a feel for the prospective fit," the owner said. "I let the worker get convinced this is where he wants to work." Firms in Slovakia had relatively less difficulty recruiting skilled labor, unsurprising given the high rate of unemployment in Slovakia. Unskilled workers, by contrast, were plentiful in both republics. Entrepreneurs who had responded to government incentives for hiring the unemployed (mainly unskilled workers) complained about the caliber of workers sent by the employment office.

According to entrepreneurs, the problem with labor was that good skills and bad habits went hand-in-hand, and the market for skilled workers was too tight to separate them. Poor motivation among workers was cited as a major problem by 13 percent of entrepreneurs. Behind this problem was years of weak connections between productivity and profitability. A clothing manufacturer in Slovakia said that workers who transfer to the private sector bring unrealistic expectations, "they want to earn salaries like in Japan and work like in Russia." Many firms made explicit attempts to deal with workers’ expectations by calling meetings with them to discuss ways of increasing productivity. A brickmaker in Bohemia said, "when we started, we called all the workers together and told them--if you don’t work hard, we’ll fold." The brickmaker then cut back an entire shift to demonstrate how "folding" works.

---

\(^{26}\) Data from firm-level surveys in Poland (May 1991) and Hungary (September 1991).

\(^{27}\) Average total cost ($205) - average salary ($151) - average benefits ($10) = $44 = 29 percent of average salary ($151).

\(^{28}\) Roughly one in six workers in total sample firms was a contract employee, typically recorded as self-employed and therefore exempt from wage tax and social security contributions.
Land and Buildings

Ownership. Privatization appeared to be progressing quickly in the former CSFR as nearly half of entrepreneurs (45%) had purchased their factory buildings from the state through direct purchase, competitive bidding in the auctions, and buyouts associated with the restitution program. The level of property ownership among entrepreneurs in the former CSFR was far higher than seen in Hungary and Poland where only 28 and 12 percent, respectively, of entrepreneurs had been able to purchase their factory buildings. The high level of ownership in the former CSFR can be attributed to the auctions which made real estate available to private buyers, and to the banks which provided term loans. Entrepreneurs most likely to own their factory buildings had large firms with permanently-installed equipment. For example, 83 percent of firms in the machinery sector owned their facility as compared to 40 percent in the clothing sector.

Real estate markets were beginning to function (albeit imperfectly), and property prices were rising. Affordable real estate was especially scarce in Prague, pushed by competing demand for space by foreign firms. Outside of Prague, some property owners (including the state) were slow to rent or sell productive space, driven by real estate speculation and regulations limiting sales of state-owned property. A metal shop owner in Moravia explained that state firms were claiming, "somewhat arbitrarily", that even small spaces were essential to their operations. "For example," he said, "a firm in my town had 4,000 employees and recently fired 1,200 without freeing up one meter of productive space."

Bottlenecks in real estate markets were attributed to the federal government, local government, state enterprises and private speculators. Local governments apparently were especially difficult, typically attaching numerous formal and informal conditions to sales agreements (like hiring only local workers) and generally making the process far more time-consuming and costly than necessary. Researchers heard reports of a "real estate mafia" of former Party members and enterprise managers who pooled their resources to speculate on real estate, thus locking local entrepreneurs out of the market.

Leases. Just over half of entrepreneurs (55%) were leasing their factories. Entrepreneurs who leased had smaller firms than the sample average, and most employed lightweight equipment, e.g., small knitting and clothing operations. New start-ups were twice as likely to lease as privatized state firms and cooperatives. Multi-year leases accounted for 80 percent of reported leases but leases rarely locked in future rental fees.

Physical renovation—painting, plastering, partitioning—was underway in most factories whether owned or leased. An air of clean-up and renewal permeated the typically run-down buildings and equipment, and entrepreneurs were anxious to show the restored sections. The owner of a metal shop near Prague spoke bitterly of the neglect of property and unsafe working conditions under communism, pointing to a damaged roof and contrasting it with another section of the building where workers were scrubbing grime and slogans away and installing equipment to meet new health codes. Many families with restored properties were particularly embittered by the deterioration of their property under state ownership.

Intermediate Inputs and Raw Materials

Despite the fact that 35 percent of entrepreneurs were producing intermediate goods, input suppliers for sample firms were almost all state-owned industrial enterprises. Eighty-eight percent of
inputs (in value-weighted terms) were purchased from state suppliers, virtually all produced domestically. Only 12 percent were purchased from private suppliers. The near-total reliance on the state sector for inputs has several explanations. First, state enterprises were the only producers of the most common inputs used by entrepreneurs, e.g., steel, plastic granules, thread and cloth. Second, many entrepreneurs had historical and personal links to state enterprises. Third, there is some evidence that prices offered by state firms for basic inputs were lower than world prices. For example, entrepreneurs in the former CSFR paid on average $.37 per kilogram for metal sheets whereas their counterparts in Poland paid $.45 and in Hungary $.58. Fourth, importing directly involved considerable cost, requiring one to deal with customs officials, sort out constantly changing import tariffs schedules, interact with a bank to obtain and transfer hard currency and in the end, order only small quantities.

Evidence suggests that raw materials and semi-finished goods were amply available in state enterprises but not always to private entrepreneurs. Almost 40 percent of entrepreneurs reported problems in obtaining domestic inputs, mainly state managers who refused to do business with private entrepreneurs and a dearth of suppliers willing to sell in the small quantities and quick delivery times critical to efficient operations in small firms. Entrepreneurs with problems getting raw materials mostly were new entrants in urban areas whose personal connections presumably were weakest. As seen in Hungary, clothing manufacturers with their needs for small quantities of specialized accessories were the most troubled in their search for inputs.

**Output Markets and Competition**

Entrepreneurs sold their products to state enterprises (36%), private firms and traders (27%) and directly from their factories to both private and state customers (28%). Half of the privatized firms sold primarily to state enterprises, compared with a quarter of new start-ups. The choice of customers varied somewhat by sector. Metal and machinery firms sold mostly to state firms; clothing firms sold to a range of private and public buyers; and knitting firms were the least likely to use SOE channels (Table 4.4). As discussed elsewhere, the major advantage of selling to state enterprises was that contracts typically were large. The obvious disadvantages were problems with payment and declining orders.

<table>
<thead>
<tr>
<th>Table 4.4: Product Markets—by Sector a/</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Sell directly from shop</td>
<td>28</td>
</tr>
<tr>
<td>SOEs (as inputs)</td>
<td>20</td>
</tr>
<tr>
<td>Other private firms (as inputs)</td>
<td>10</td>
</tr>
<tr>
<td>SOEs (as finished goods)</td>
<td>16</td>
</tr>
<tr>
<td>Private retailer</td>
<td>11</td>
</tr>
<tr>
<td>Private middlemen</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
</tr>
<tr>
<td>Total Percent</td>
<td>100</td>
</tr>
<tr>
<td>(No. of responses)</td>
<td>116</td>
</tr>
</tbody>
</table>

a/ Percentage of 116 sample firms responding. Totals may not sum owing to rounding.
The primary source of weak demand (reported as a major problem by 15% of entrepreneurs) was cutbacks among state enterprises. A mining machinery manufacturer in Moravia was stymied when orders and payments stopped: "First my state customers stopped paying for, then stopped ordering, mining equipment--and there are no small companies in mining," he said. Other factors included: (i) weak consumer demand; (ii) a sudden rise in competition from some state enterprises that were shifting from CMEA to domestic markets and to a lesser extent, from imports; and (iii) a poorly-developed network of wholesalers and retailers that limited the range of outlets for new products entering the market. The role of middlemen appeared largely confined to state trading companies, reportedly with little feel for the market and little incentive to purchase from private producers.

**Competition.** Sample entrepreneurs faced low levels of competition, far lower than entrepreneurs in Poland or Hungary. When asked how many firms produced in their main markets, 50 percent of respondents said less than 10, 80 percent less than 50. Competition was increasing most notably in Bohemia (where foreign investment and restitution resulted in more private firms), among clothing manufacturers (low entry costs brought many new entrants) and in urban areas (where there were more private firms). The smallest firms manufacturing the most homogeneous products (knitted goods, everyday clothing, and simple metal and plastic products) faced the largest number of competitors, mainly state enterprises exploiting the advantages of economies of scale and to a lesser extent, new entrants (including self-employed people) taking advantages of low entry costs. For example, 90 percent of knitters had more than 10 competitors compared to 25 percent of machinery manufacturers. Firms manufacturing differentiated products, e.g., custom machinery, glassware, and high-quality construction materials had the fewest competitors.

Most entrepreneurs identified state enterprises as their chief competitors, but one in four said they competed mainly with other private firms (Table 4.5). Entrepreneurs' abilities to compete successfully with state firms varied. For some, state enterprises were formidable competitors based on economies of scale, their capacity to sell below costs, their practice of dumping inventories intended for CMEA trade, and their easy access to inputs and production equipment. Producers of undifferentiated products typically faced this situation. For others, undercutting state competitors was easily achieved by maximizing the classic advantages of small-scale production, i.e., niche marketing, flexible production of small, custom orders, and customer service.

**Table 4.5: Sources of Competition--Distributed by Sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total</th>
<th>Knitting</th>
<th>Clothing</th>
<th>Plastic Products</th>
<th>Metal Products</th>
<th>Machinery</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Private Firms</td>
<td>22</td>
<td>9</td>
<td>40</td>
<td>13</td>
<td>22</td>
<td>33</td>
<td>17</td>
</tr>
<tr>
<td>Large Private Firms</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>State Enterprises</td>
<td>54</td>
<td>73</td>
<td>45</td>
<td>53</td>
<td>61</td>
<td>50</td>
<td>52</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>6</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Foreign Owned Firms</td>
<td>7</td>
<td>9</td>
<td>0</td>
<td>13</td>
<td>0</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Imports</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>None</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>11</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total percent</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>(No. of responses)</td>
<td>(118)</td>
<td>(11)</td>
<td>(20)</td>
<td>(15)</td>
<td>(18)</td>
<td>(12)</td>
<td>(42)</td>
</tr>
</tbody>
</table>

\( g / \) Percentage of 118 responding firms. Totals may not sum owing to rounding.
Only 4 percent of entrepreneurs named imports as their main competitors, compared with 11 percent in Hungary and 35 percent in Poland. A number of factors may explain the low level of imports observed by survey teams. The demand for imported goods was constrained by reduced real wages and by the fact that shortages, as seen in Poland, did not exist in the former CSFR. Inflows of imported goods were constrained by: (i) limits on access to foreign exchange for individual traders who undoubtedly would have brought in more imports; (ii) by import surcharges of 10 percent which were added to modest tariffs; and (iii) by a reportedly undervalued domestic currency which raised the price of imported goods. In addition, foreign firms had problems reaching local markets because of the poor development of retail distribution mechanisms. Some entrepreneurs said that Asian clothing was more expensive and not suited to local demand for large sizes and durable fabrics. Many discounted the threat of imports by saying that they could undersell imports based on cheap, skilled labor.

Most entrepreneurs were not oblivious to the potential of greater competition. In textiles and clothing, the collapse of the CMEA market had already sparked a round of price wars and layoffs in western Slovakia. Moreover, imports were arriving in greater numbers and a few entrepreneurs were starting to see their margins slip as a result. Entrepreneurs avoided price increases, a practice they thought would invite domestic and import competition. Only 20 percent said they had raised prices in response to rising demand. By contrast, 52 percent of firms had lowered prices in response to falling demand. A window builder in Brno summed up the attitude, "We are producing at the lowest possible cost and would not raise our price even if we thought we could sell more, as this would give our competition a chance."

Exports

Researchers were amazed at the number of firms that were exporting and the export volume. Forty-two percent of firms were exporting some portion of their production, and one third of the value of total sales was exported. Ninety-nine percent of exports were in hard currency, and major trading partners were in Austria and Germany. Exporting firms were distributed proportionately to the samples as a whole: 47 percent in Bohemia, 21 percent in Slovakia and 32 percent in Moravia. Exporters were evenly split between privatized firms and new start-ups. They produced in all sectors except textiles. Interestingly, none of the restituted companies was exporting.

Entrepreneurs exported through three channels: direct sales to foreign buyers, subcontracting with foreign firms, and sales through intermediaries that typically were state trading companies. Most exporters sold directly to foreign buyers, making contacts through business trips and friends and family in the West. Roughly one in five exporters were subcontractors for Western European firms, mostly in Germany, Switzerland, Austria and Italy. Subcontracting arrangements typically involved fixed prices based on labor value-added: components were imported without cost to the firm, labor value was added and the product was exported. About a third of exporters sold their products abroad through intermediaries, usually state trading companies. These companies preferred the security of large contracts with trading companies to the risk of marketing their products themselves.

Exporters were larger and more prosperous than non-exporters. Over 30 percent of exporters employed more than 50 people compared to only 12 percent of non-exporters. More exporters reported rising output and profits than non-exporters. Exporters both acknowledged their own inexperience in operating in foreign markets and complained of excessive red tape in getting required licenses and dealing
with recalcitrant customs officials. Entrepreneurs wanted to export higher value-added goods, but some were struggling to meet international standards for health, safety and in some cases quality. For example, higher standards for paint finishes and food packaging and shelf-life, and requirements for barcodes and multiple-language presentation added to the cost and complexity of competing in foreign markets.

Trends in Output and Profitability

The majority of sample firms had excellent prospects with rising output, sales and profits. Two-thirds reported increasing output within the past three months. Only 11 percent of entrepreneurs reported falling output, and production for the remainder was stable. Fifty-seven percent of firms reported rising sales; only 17 percent reported declines. Exporters were booming: 9 of 10 firms exporting to the West reported increasing sales. Similarly, 62 percent of firms reported rising profits with only 21 percent reporting that profits had fallen.

29/ For example, a clothing exporter in Slovakia complained that a firm can only get a licence to export cotton goods by showing a signed contract. "Since the licence is not a certainty even with a contract, it is unlikely that anyone is going to take the time to negotiate a contract that might not be licensed," he said.

30/ Some firms with falling profits were actually increasing output in an attempt to lower unit costs.
V. THE BUSINESS ENVIRONMENT: CONSTRAINTS AND PROSPECTS

Section A of this chapter identifies and analyzes constraints cited most frequently by entrepreneurs. Section B discusses additional factors in the business environment that influenced entrepreneurs' abilities to operate efficiently, including exorbitant red tape, weak product markets, and negative attitudes toward private enterprise. In Section C, a group of strong firms is analyzed to identify variables associated with success.

Major Constraints

Entrepreneurs were asked to identify their three biggest problems in order of importance. Problems cited most frequently were: excessive taxes, delinquent payments by state enterprises, and high interest rates (Table 5.1). Other problems were weak product demand, unstable business conditions and problems with labor.31/

Table 5.1: Major Constraints Identified by Entrepreneurs

<table>
<thead>
<tr>
<th></th>
<th>Taxes</th>
<th>Delinquent Payments</th>
<th>Interest Rates</th>
<th>Demand</th>
<th>Unstable Business Conditions</th>
<th>Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of firms affected g/</td>
<td>31</td>
<td>28</td>
<td>27</td>
<td>15</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>

A/ Percentage of firms that listed the problem among their top three problems. 120 entrepreneurs identified 80 distinct problems in 332 responses.

Taxes

High taxes, levied in the former CSFR at almost every level of production, were cited by 31 percent of entrepreneurs among their top three problems. Entrepreneurs gave researchers an earful on the shortcomings of current tax regulations, including the best means of avoiding them. As shown in Table 5.2, entrepreneurs were subject to many different taxes and rates tended to be high.

Labor taxes, which totalled 50 percent of wages paid, were perhaps the most loudly resented of all taxes. Entrepreneurs claimed that such high rates erode their profits and create a disincentive to raising salaries, a prerequisite to attracting and retaining the most desirable workers. Some entrepreneurs complained that people received very little value for money paid in social security taxes. Evasion of labor taxes was a simple matter. Entrepreneurs simply subcontracted portions of their production to workers registered as self-employed and thus exempt from wage taxes.32/

31/ Demand issues are discussed in Para 4.45; unstable business conditions in Paras 3.06 and 5.12; and labor issues in Para 4.36.

32/ A new regulation was adopted in 1992 to limit subcontracting (see para 2.18).
Table 5.2: Primary Taxes (1991)

<table>
<thead>
<tr>
<th>Firm Type</th>
<th>Turnover Tax a/</th>
<th>Labor Tax b/</th>
<th>Income Tax c/</th>
<th>Corporate Tax d/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered</td>
<td>Sector Dependent</td>
<td>0-29%</td>
<td>50%</td>
<td>14-32%</td>
</tr>
<tr>
<td>Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sole Proprietors</td>
<td>Exempt</td>
<td>0-50%</td>
<td>14-32%</td>
<td>Exempt</td>
</tr>
</tbody>
</table>

a/ Turnover tax is levied on sales or turnover in production, not on raw materials or final sales. The rate (0-29%) is sector dependent, with the highest on textiles (29%) and metal and machines (20%).

b/ Labor tax is paid by employers for full-time employees. The rate of 50% is applied to gross wages less fringe benefits. The larger portion goes for social security; the smaller is a wage tax. Self-employed persons including contract workers are exempt from labor taxes but some choose to pay their own social security.

c/ The rate depends on marital status and number of dependents.

d/ Two effective rates: 20% for profits below $7,400 and 55% above $7,400. Profits are taxed after expenses which include depreciation (no accelerated schedules for ltd.), environmental upgrades, wages (including taxes), inputs, interest and owners' salaries. Registered companies were allowed to expense ≤ $4,400/year for owners' salaries.

Turnover taxes were unpopular among entrepreneurs. Regulations reportedly require automatic payment of turnover tax upon delivery of goods, whether or not payment has been received. As a result, many entrepreneurs paid turnover taxes far in advance of payment from state customers—in effect an involuntary subsidy. Turnover taxes drew the most ire in clothing and textiles firms, owing to their high rate of 29 percent. A western Slovakian dress-maker described the squeeze felt by textile producers, "We have no profit from sales after taxes and cannot raise wages in this lowest paying sector. Worse, we must pay turnover taxes in advance, even when our customers don't pay, and if we're late, the authorities charge interest on tax due—this happened once because our bank was slow to process the invoices."

Profits taxes reportedly jump from 15 percent to 55 percent when profits reach $7,400, clearly an incentive for firms to stay small or to spin off small subsidiaries. Entrepreneurs argued that tax deductions for investment and improved depreciation rules would yield higher growth rates and discourage tax evasion. One common strategy for disguising profits as expenses was to order large inventories of raw materials at year-end. Another was to direct profits to a separate enterprise subject to lower taxes (typically a sole proprietorship registered by a spouse).

Heavy taxation clearly had some negative effects. Earnings that could be used for investment and working capital were absorbed by taxes. Tax compliance and evasion robbed entrepreneurs of scarce time and energy. Tactics to evade taxes had left some entrepreneurs with sub-optimal arrangements, particularly with their work force. Indeed, some entrepreneurs felt singled out by the government for high taxes as a form of official discrimination against private enterprise. A question for empirical study asks whether lowering tax rates would raise compliance and revenues.

33/ The corporate tax rate was lowered to 45 percent in May 1992, and broad tax reinvestment incentives were adopted to take effect in 1993.
Delinquent Payments by State Enterprises

Delinquent payments (and frequently non-payment) by state enterprises was cited among the top three problems by 28 percent of entrepreneurs. Hardest hit were those who depended on large orders from a few state clients. In some firms, delinquent payments of greater than 60 days accounted for up to 70 percent of 1991 sales. A firm near Prague sold over $30,000 in metal doors and locks to state agricultural firms and cooperatives in 1991, but was only able to recover $1,000. The problem of delinquent payments was compounded when turnover taxes were paid on delivery and the entrepreneurs waited for months to be paid. The most immediate effect was severe erosion of entrepreneurs' working capital.

Legal recourse to collect delinquent accounts was available in principle, but some entrepreneurs faced closure before they could collect. A wooden crate producer in Moravia could not collect from his main state-owned customer and had to pay off his own suppliers by allowing them to use his shop in the evenings. Eventually, he had to re-route delinquent payments directly to his landlord to avoid eviction. Collecting interest on past-due accounts was difficult at best. Laws permitted firms to assess interest of .05 percent daily on delinquent payments, but enterprise managers ignored interest fees, courts were too crowded to handle claims, and many entrepreneurs had neither the time nor the confidence to pursue such avenues.

Poorly treated by state customers, many entrepreneurs had taken steps to decrease their dependence on the state sector and to better protect themselves. Many were seeking new private sector markets even though it meant smaller, less uniform orders. Others applied more stringent conditions to contracts with state clients. One woman wrote a clause into her sales agreements that she owned all equipment that she sold even if installed on the buyers' premises until it was fully paid for. Other entrepreneurs required full payment up front, not a competitive sales strategy but one designed for survival. A few firms had given up on the domestic market altogether and become subcontractors to foreign firms. All were selecting their clients with care, but as one entrepreneur put it, "there's no 'Moody rating' on customer solvency and liquidity in the former CSFR like in the West."

Interest Rates

Cited by 27 percent of entrepreneurs, the third major problem reported by entrepreneurs was high interest rates. At the time of the survey, real rates were 8-12 percent and entrepreneurs judged them excessive. Entrepreneurs' perception of excessively high rates may have resulted from the confluence of three factors in 1991: (i) tighter credit and a more commercial orientation of banks beginning in the first quarter; (ii) declining inflation that increased real rates during the second quarter and for the remainder of 1991, and (iii) the perception among 1991 entrants that their predecessors had paid lower real rates.

Daily Challenges in the Transition Economy

In addition, entrepreneurs (here joined by researchers) identified hurdles in the everyday business environment that raised the cost of doing business. Most prominent were: excessive red tape, weak product markets and negative attitudes toward private enterprise. Many of these problems were vestiges of the former system that should ease with time and further fine-tuning of regulations. The dynamic tension between private firms and the dominant state sector--as collaborators and competitors--cross-cuts these issues and is discussed in context.
Red Tape

Entrepreneurs expressed frustration with what they called a maze of red tape and fees. Many routinely hired attorneys to handle official links with government, a reflection of the complexity of this interface and entrepreneurs' fears that they would get it wrong and have to repeat the process or pay fines. Paperwork and fees were considered excessive and costly, especially the initial registration deposit of 100,000 crowns (nearly $4,000). Other complaints concerned: annual licenses for all formal activities (on average 2,000 crowns each, effective in July 1992), and excessive paperwork connected with leases and taxes, unclear environmental impact assessments, and health and safety inspections. Some requirements had no fees but implied certain costs, especially if improperly done. For example, forms filled out for social security and customs offices often required multiple visits. Mistakes in tax forms reportedly were penalized at 100 percent of the amount of the error.

Problems with red tape were exacerbated by the far-reaching authority of local officials and their reported penchant for past practices (clientelism, bribery, absenteeism), as well as the inexperience of both parties in coping with new requirements. A brickmaker in Bohemia explained, "The local council had to give us a permit stating that we were legal and eligible to register in the courts. Permission was needed from many associations. Everybody was inexperienced with the new processes. The biggest problem was the land office, which had no one to make maps of the land. We had to hire a private surveyor."

Lack of information about new laws and regulations had created havoc for some entrepreneurs, especially those located far from Prague. Complaints abounded about lack of information concerning new tax write-offs for reinvested profits, and new restrictions on use of contract labor. Changing and poorly publicized tax laws prevented entrepreneurs from effective planning. For example, some bought excessive inventories to shelter profits at the end of 1991 only to find out in 1992 that their profits would have been exempt from taxes had they been reinvested in equipment. New tariff schedules, in effect since January 1, 1992, were still not available at the end of January. New transportation licenses were required for exporters but were reportedly unavailable.

Weak Product Markets

Just under 40 percent of entrepreneurs reported problems obtaining domestic inputs. As reported in Chapter IV, 88 percent of inputs (value-weighted) were purchased from state enterprises. State managers reportedly were uninterested in catering to the needs of small private producers for small quantities and quick delivery time. Entrepreneurs described their state suppliers as "frozen," unwilling to make an effort to maximize profits until privatization. Entrepreneurs also reported flagrant discrimination where some state managers refused to sell to them simply because they were private. As a result, many entrepreneurs were in positions of going from one state manager to another, trying to persuade them to release inputs. Nearly two thirds of clothing manufacturers were dissatisfied with the available supply of cloth, sold by state-owned monopolists only in bulk with little flexibility in colors and materials. Metal producers also complained about monopoly suppliers that offered low quality inputs with little selection and late deliveries. Imports, sometimes available through private and foreign suppliers, reportedly were more expensive than domestic products. Therefore, entrepreneurs tended to buy imports mainly where domestic substitutes were unavailable, e.g., nylon and lycra, and special metals and plastics.
With characteristic skill, some entrepreneurs had found ways to circumvent problems with state suppliers. A plastics molding firm in Prague was able to find a new, private supplier after months of struggling with a state firm. A clothing manufacturer in eastern Slovakia was preparing to buy cotton cloth from Russia where prices were cheaper. Another clothing manufacturer in Slovakia, dissatisfied with the quality of the inputs from his the former CSFR supplier, began importing materials to send a message to his supplier. The two firms eventually renegotiated their contract and resumed trade. A knitter in Moravia ensured himself of a ready supply of raw materials by wholesaling thread at break-even.

On the output side, private producers faced poor alternatives for selling their products. Over half relied mainly on buyers in the state sector. As seen elsewhere in Eastern Europe, state enterprises offered the advantages of larger contracts and greater tolerance of variable product quality, but most also brought the severe disadvantages of declining demand and slow payments. Those who sold mainly to other private companies faced limited outlets for their products. To entrepreneurs' advantage, the relatively small number of other private producers and the undeveloped retail sector limited competition. To their disadvantage, many were restricted to local markets because private, domestic channels for selling intermediate and finished goods nationally or regionally were insufficient. Clearly, the best option for many was foreign markets, and almost half of entrepreneurs had managed to enter export markets.

Prejudice Against Private Enterprise

Entrepreneurs routinely contended with social prejudice against private enterprise and profit-making (Table 5.3). Described as part of the national character, entrepreneurs characterized their fellow citizens as a jealous lot who resented others' gains. Encounters with low- and middle-level government officials had shown some entrepreneurs the extent to which the pro-business government policy had not filtered down into the bureaucracy. Many bureaucrats were reported to be unhelpful and difficult, suspicious that all entrepreneurs were thieves. More sympathetic officials were afraid of making decisions. When queried, most entrepreneurs distinguished between the positive attitudes of high-level officials and the negative views of lower-level functionaries.

Table 5.3: Attitudes Toward Private Business a/
(Percentage of Firms Responding)

<table>
<thead>
<tr>
<th>Attitudes of:</th>
<th>Total</th>
<th>Negative</th>
<th>Neutral</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Officials</td>
<td>100</td>
<td>52</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Enterprise Managers</td>
<td>100</td>
<td>42</td>
<td>40</td>
<td>18</td>
</tr>
<tr>
<td>Private Citizens</td>
<td>100</td>
<td>48</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>

a/ Entrepreneurs were asked “How would you rate the attitude of government and public officials, managers of state enterprises and the average citizen toward private business and profit making?”

Prospects: Strong Firms Vs. Weak Firms

Groups of strong and weak firms were identified and analyzed to clarify factors associated with success. Firms were classified as strong (or promising, as many were less than a year old) if: production
was increasing, profits were rising, and interview teams judged that the firm had good prospects. Weak firms were those for which production had decreased, profits were falling, and prospects were poor in the judgement of interview teams.

This selection process produced 25 strong firms (21% of the sample), but only four weak firms (3% of the sample). Because of the very small number of weak firms, comparisons were made between strong firms and other sample firms (less the strong firms). To discuss weak firms in qualitative terms, the sample of four was increased to 10 by including six other firms judged by researchers to have poor prospects, despite mixed trends in output and profits.

Basic characteristics of strong firms included the following. Strong firms were disproportionately located in Slovakia (30%), compared with 21 percent in Bohemia and 14 percent in Moravia. They were found proportionately more often among new start-ups (26% vs. 16% of privatized firms). They were evenly distributed across sectors with relatively more metal manufacturers and fewer knitters. They were located across cities, towns and villages in proportion to the sample as whole. None of the firms with fewer than 10 workers and only 3 of 25 with more than 50 workers were among the strong firms. More strong firms exported than other sample firms (61% vs. 47%). The age of equipment was the same as other firms, but had a higher value and was more likely to have come from the West.

Three additional characteristics of strong firms were outstanding. First, strong firms had few competitors: 76 percent of strong firms vs. 44 percent of other firms reported having fewer than 10 competitors. Strong firms were also less likely to compete with other private firms, considered the most formidable competitors (13% vs. 22% of other sample firms). These observations also held across the regions. Slovak firms had few competitors: 66 percent of Slovak firms had fewer than 10 competitors as compared to Bohemia (46%) and Moravia (36%). Only 15 percent of Slovakian firms competed mainly with other private firms compared with 34 percent in Bohemia and 20 percent in Moravia. Indeed, one explanation for the strength of Slovakian firms was that they faced less competition.

A common strategy by which strong firms avoided competition was product differentiation. Strong firms were identified less by their sectors than by their degree of product differentiation. They tended to produce sophisticated, high value-added goods as opposed to simple consumer products (expensive metal furniture vs. metal trash cans). Of note is the fact that 13 of the 25 strong firms manufactured products other than the major five sectors represented in the sample, including custom construction materials (windows and door units), environmental products (air and water processors) and processed food.

Second, entrepreneurs at the helms of strong firms chose their markets carefully, concentrating on local and export markets and avoiding national markets where state enterprises dominated. Local markets offered several advantages, including: opportunities to fill local shortages (resulting in hundreds of new small bakeries), strong demand for custom work and personal service, improved collections and a limited need for marketing. Export markets were avenues for upgrading and expansion, allowing entrepreneurs to avoid reliance on domestic markets which were shrinking and de-stabilized by the state sector. Selling in strong markets to solvent clients was a big plus: entrepreneurs in strong firms made few complaints about demand and none identified delinquent payments as a major problem.

Third, entrepreneurs in strong firms were exceptional managers. These individuals were exceedingly competent: good analysts of their financial status, knowledgeable about their markets and competitors, aware of best practice in their products and focussed on improving production efficiency and
product quality. They were more experienced than others, with 40 percent owning more than one firm (compared with 19% of other entrepreneurs). Many were innovative, more likely than others to produce new products with modern technology and to rely on custom designs. They were achievers and risk-takers, eager to expand and penetrate new markets with which they had little experience. And finally, they were savvy in cutting through red tape to get what they needed; not one identified costly rules and regulations among their major constraints.

All 10 weak firms were located in Bohemia and Moravia, and almost all were privatized state firms and cooperatives and restituted enterprises. Half were metal shops suffering from weak demand and strong private competition. Six of ten weak firms leased their land and buildings. Weak firms sold mostly to state enterprises, making them vulnerable to demand and collections problems. They also had problems securing inputs in the desired quantity and time, and saw themselves as victims of rising input prices. A pottery factory was purchased by a man with restored property, but with little idea how to run the business. He could not afford new equipment, and the old equipment was too energy-intensive to be used profitably.

Entrepreneurs in weak firms manufactured simple products that were vulnerable to competition from large firms--either state enterprises or imports. Typical products included metal parts and containers, simple electronics and pottery. At a personal level, eight of ten entrepreneurs in the weak group felt pushed into private business by the impending failure of their previous employers. Managers in this group generally took up their posts by default or because restored property allowed them the possibility.

Evidence from weak firms suggests that the way privatization was carried out in some cases may have hobbled the growth of some companies. Seven of ten weak firms pre-existed as state enterprises or cooperatives and became private through restitutions or lease. Upon privatization, five of these seven enterprises were bound by implicit or explicit requirements about how they would deploy their resources. Typically, such obligations prohibited firing workers, but some contracts locked in future sale prices (without reciprocal obligations for volume) or required new owners to purchase irrelevant stock and equipment. The restitution program exacerbated some of these problems by giving recipients first rights to buy companies on restored properties. The new owners were sometimes willing to make unsound deals to procure the rest of the operations, including buying huge stocks and equipment configured for outdated production. For example, upon registering his newly privatized firm, a metal parts producer in Bohemia accepted a US$3,500 subsidy from the local council to create jobs with the agreement that he could not fire anyone. When sales and output sagged, he could not cut labor costs even through temporary layoffs.

Subcontracting with foreign firms was observed in seven of ten weak firms. Subcontracting eliminated the need to pay for inputs and to locate markets, but it typically squeezed profit margins. A metal shop in Moravia, devastated by collections problems, subcontracted production of metal mining carts for an Austrian firm until it could sort out finances. Profits were minimal, but the entrepreneurs stayed afloat.
VI. NEEDS FOR ASSISTANCE AND RECOMMENDATIONS FOR ACTION

Section A of this chapter outlines requests by entrepreneurs for support: training, improved information services, and government action to improve the business climate. Section B contains entrepreneurs' views of public and private assistance programs currently available. Section C makes a series of recommendations for action based on researchers' assessments, entrepreneurs' requests for support, and the specific problems identified in Chapter V.

Entrepreneurs' Requests for Support

Entrepreneurs were quick to identify their needs for short-term training and were fairly united in what they wanted: applied management training, German and English language skills, and marketing. They also emphasized their needs for improved information services of all kinds. When queried, entrepreneurs put forth recommendations for government action.

Training

The type of training most frequently requested was applied management. Thirty percent of entrepreneurs requested management training in hopes of learning how to better make decisions, plan for the future and negotiate in a market economy. Specifically, entrepreneurs wanted to know more about how to: anticipate changing prices, identify comparative advantage, minimize taxes, make business plans, target and penetrate markets, organize production more efficiently, manage their work force and handle cash-flow.

The second most common request for training (21% of entrepreneurs) was for foreign language instruction, first German and then English. Given the importance of trade and investment with Germany and Austria, entrepreneurs saw a distinct advantage in learning German so that they could negotiate more effectively with trading and investment partners. Although language courses reportedly were available in most medium-sized communities, they were considered expensive and not always sufficiently business-oriented.

The third most common request was for training in marketing. Many entrepreneurs were dependent on just a few big customers, usually state enterprises. Virtually all were aware of the danger of relying on the volatile state sector, and they were anxious to expand their markets. Entrepreneurs also recognized other problems involving marketing, including biases of foreigners against East European goods, the distance between evolving consumer tastes and the factory floor, the inadequacy of their packaging, and their need to advertise. Most had little experience with market research (irrelevant in a command economy), and they were just learning to find customers through avenues other than personal contacts.

Other requests for training included topics in the regulatory environment: tax and employment laws, banking and credit, and real estate. International trade, finance and technology also were popular subjects. Here, entrepreneurs were interested in how to: access foreign markets directly, negotiate with foreign buyers, and identify and finance current technologies.

The modality of training was very important to entrepreneurs who asserted that training should be customized to circumstances in the former CSFR. Courses should be relatively inexpensive, condensed, and convenient in terms of location and time. Entrepreneurs thought the best trainers could be drawn from joint ventures in manufacturing, where managers are familiar with conditions in the
former CSFR and are able to offer a global perspective. Entrepreneurs wanted other collaborators to help defray costs and ensure quality, e.g., the Ministry of Finance, bilateral and multilateral donors, but most did not want these institutions to conduct courses. Some entrepreneurs wanted to work abroad on short-term arrangements with foreign firms in their industry to learn first-hand about new methods and technologies, make new contacts and establish relationships for future exchanges. A few managers wanted to send their workers abroad to learn new skills and habits.

**Information Services**

Many entrepreneurs expressed a need for better information services. Most entrepreneurs located outside of Prague, and especially those in eastern Slovakia, felt almost completely cut off from up-to-date economic and market information. Many lacked access to basic information such as forecasts, business directories, details on assistance programs, laws affecting business decisions, and the entire foreign sector. In addition to basic information, entrepreneurs needed processed information including advice on the best strategies for competitiveness and information about the status of state-owned customers and suppliers. They also wanted help with finding trade and investment partners abroad, and an active local chamber of commerce.

Improving the telecommunications infrastructure, especially telephone service, would improve access to information. The main problem was getting a new telephone line, reported to take six months or more. Firms with telephones often piggy-backed faxes and other services onto the same line, or shared the line with other firms (at some cost in terms of missed service owing to persistent busy signals). In some rural areas, improved networks were needed to address the problem of one-way communication: some firms could call anywhere in the country, but they could only be reached from the two major cities and locally.

**Government Action**

Entrepreneurs were asked what they thought government should do to support private enterprise. Their main recommendations for government action, grouped in order of frequency, were as follows:

(i) **Accelerate privatization.** Entrepreneurs thought that government should hasten privatization to promote competition among suppliers of raw materials and inputs, in labor markets and among wholesalers and retailers. Entrepreneurs hoped thereby to augment the supply and flexibility of available inputs and the supply of skilled labor. They also thought that privatization would bring more financial accountability and responsiveness to their state customers.

(ii) **Improve clarity of applicable laws and regulations.** Entrepreneurs wanted clear and timely information on laws and regulations affecting them, preferably via regular and direct avenues such as mailings or television campaigns. Entrepreneurs wanted transparency and plain language in laws affecting them, with maximum notice prior to changes. They also wanted some analysis of how new laws and regulations (especially relating to taxes) would affect their businesses.

---

34/ Only a few legal and business journals exist in CSFR, and other mass media are rarely employed in business services. Entrepreneurs thought that television would be a good means of communicating business information.
(iii) Offer more credit at lower interest rates with fewer collateral requirements. Entrepreneurs wanted the government to ease credit, suggesting the creation of a development bank to lend on a concessional basis and a guarantee bank to ease collateral requirements. They also wanted the government to reverse recent banking policies disallowing the use of equipment as collateral. Finally, they wanted the government to actively intervene in lowering the interest rate.

(iv) Amend tax regulations. Entrepreneurs wanted to write off reinvested profits during their first three years. Such incentives, they argued, would allow them to adopt new technologies faster, and lessen the need to accept subcontracts for lower value-added production. In their view, this strategy would pay off for the government with increased revenues later. Some entrepreneurs wanted lower wage taxes so they could raise wages and employ more people. A few wanted to abolish current regulations that discriminate against employment of pensioners, many of whom were good role models for younger workers. They also wanted faster rates of depreciation.

Entrepreneurs' Views on Assistance Programs

Most entrepreneurs had a dim view of current assistance programs, some because their experiences had not been positive but many because they were ill-informed or not eligible for services. Three-quarters had heard about special programs, and some entrepreneurs were satisfied recipients of targeted assistance.35/

Non-government Programs

Few entrepreneurs recognized membership in entrepreneurs' associations as a meaningful affiliation. According to entrepreneurs, they offer few services other than a newsletter and are oriented mainly to traders, not producers. Chambers of Commerce and Industry were judged favorably, particularly by entrepreneurs located in capital cities. Professional associations and crafts guilds, offering sector-specific information on technologies, markets and contacts, also were perceived favorably. Several professional associations were described as mouthpieces for the state sector, e.g., the Association of Textile Producers.

Bilateral and multilateral aid programs often were viewed with suspicion. Bilateral aid was negatively associated with the Czechoslovak-American Fund. Entrepreneurs who had inquired or applied for loans from this Fund were disappointed to find that: (i) only large loans were available; (ii) firms with foreign guarantors received preferences; and (iii) interest rates were comparable to those available from the former CSFR banks. Entrepreneurs in rural areas were likely to be misinformed about eligibility requirements, and most assumed the Fund had been wasted. Other bilateral aid programs (German, Swiss, Danish) were virtually unknown and had no recipients in the sample. Multilateral aid had not reached sample entrepreneurs, and few had heard of IFC and EBRD loan programs. Investment guarantors like OPIC and MIGA were never mentioned by entrepreneurs.

35/ The most widely received forms of aid were sector- and region-specific investment subsidies from the Ministries of Agriculture, Industry and Finance, and direct subsidies from the Labor (unemployment) Office. Only rarely had entrepreneurs received direct aid from private and bilateral organizations.
Current Government Programs

Entrepreneurs had mixed views on current government programs, depending on their knowledge and personal experience with them. Most common were investment incentives, subsidies for hiring the unemployed, and tax incentives. Investment incentives took the form of direct subsidies or concessional loans targeted at specific sub-sectors and regions, typically requiring that entrepreneurs purchase new equipment, stay in business nine years, and use financed equipment for 15 years. Investment subsidies were offered by several ministries. Subsidies for hiring the unemployed were small in value but well subscribed, with mixed reviews by the entrepreneurs. Firms received a lump sum ($300-$700) upon hiring someone from the labor office (usually after a 3-month trial period), providing the person was retained for two to three years. Entrepreneurs agreed that the biggest problem was getting reliable workers from the labor office. Tax incentives were a source of great confusion. Two thirds of entrepreneurs knew about special incentives in 1991 for profits reinvested in new machinery and nearly one quarter of respondents had applied for these incentives, but few had received word as to their eligibility. During the survey, the government announced new tax incentives to take effect retroactively but failed to provide critical details.

Recommendations for Action

This section draws from information in the preceding chapters and researchers' perspectives based on data analysis and the interviews. Recommendations also are framed within the context of expected trends in 1992 including: (i) continued tight fiscal, monetary and credit policies; (ii) continued downward pressure on domestic demand due to cut-backs in the state sector; (iii) continued trade liberalization and increased use of foreign exchange by private traders; and (iv) a slow down in privatization due to political uncertainty, with only modest freeing up of land and facilities.

First Order Recommendations: Reducing Impediments

The private sector clearly was expanding quickly in January 1992, and the highest priority should be to reduce impediments to further private sector growth. Recommendations include:

(i) Privatize the state sector as quickly as is feasible. Without question, continued domination by the state sector in product, labor, and real estate markets is impeding the growth of private sector manufacturing. Blockages in these markets retards the growth of competition and forestalls efficiency gains that would flow from expanded opportunities in domestic markets. State enterprises raise the cost of doing business for private firms because most reportedly are uncooperative as suppliers and unreliable

36/ Although precise figures are unavailable, researchers estimated 10-20 percent of surveyed firms had participated in some government incentive program.

37/ Reportedly, the Ministry of Agriculture offered subsidies for investment in new food-processing equipment, popular among bakeries, requiring in some cases that recipients hire labor from the unemployment office. The Ministry of Industry targeted firms in border regions with high unemployment, firms doing environmental clean-up, exporters, and firms employing large numbers of disabled persons. The Ministry of Economic Policy offered concessional loans to medium-sized firms modernizing their equipment and able to export 15 percent of their production, and the Ministry of Finance offered concessional loans for production firms that introduced "progressive technologies".
as customers. These costs contribute to the inefficiency of both sectors and by extension, to the economy as a whole.

(ii) Lower taxes on private companies. As documented throughout this report, private manufacturers in the former CSFR were heavily taxed. The results were obvious: earnings available for re-investment were reduced, and tax evasion was widespread—particularly on labor taxes. As noted, the government is engaged in tax reform with a new tax code to come into effect in January 1993. Serious thought should be given to reducing private entrepreneurs' tax burden—the number of different taxes and their rates. In particular: (i) labor taxes should consist mainly of social security payments with no wage tax; (ii) profits taxes should have a graduated schedule with more than two marginal rates to decrease incentives for firms to stay small; (iii) turnover taxes should be assessed upon payment by the customer rather than upon delivery; and (iv) barriers to entry like the $3,700 registration deposit and annual fees and permits for different economic activities should be minimized.

(iii) Improve collections mechanisms. Efficient use of firms' own resources cannot be over-emphasized and steps are needed to strengthen entrepreneurs' abilities to collect for overdue accounts that mostly originate in the state sector. In the short term, one approach would be to promote wider access to information on firms' payment histories (especially state enterprises). Alternatively, the state could simply require state enterprises to pay their debts. In the long run, improved collections would require a greater institutional capacity to rate firms' liquidity, form collections agencies and process small claims.

(iv) Reduce red tape. As documented throughout this report, entrepreneurs routinely were forced to wade through an extraordinary amount of red tape, far more than their counterparts in Poland and Hungary. Indeed, regulating the private sector sometimes appeared to be a higher priority than nurturing its growth. Red tape affecting private manufacturers should be radically reduced. A place to start would be to choose a small but representative sample of private manufacturers and actually document the number of regulations affecting the firms, including the number of permits and licenses required and the time and money needed to obtain them. As this cataloguing is done, it would be important to assess whether current implementing institutions are, in fact, the optimal choices. As described in this report, local government appeared to have a great deal of authority over private firms, and reports were that local power often was abused. Once the facts are known, steps should be taken to eliminate unnecessary bureaucratic hurdles, streamline those deemed necessary, designate the most appropriate institutions for their implementation, and deliver an unambiguous message that facilitation, not blockage, of private enterprise is the objective.

(v) Improve information flows. As noted, many entrepreneurs did not have the information they needed to make optimal decisions about their companies. Access to regulatory information (fees, taxes, permits and standards) could be improved by more and better communication on the part of the originating institution or by a central agency charged with dissemination. Far greater use could be made of public media to update entrepreneurs on regulatory changes. Improvements in this area probably could be readily attained as most entrepreneurs were actively seeking this kind of information.

Flows of commercial information like basic data on products, markets and technology also could be improved fairly easily. Again, public and private media could be used extensively. Business

---

38/ An hypothesis worth testing asks whether tax revenues are greater when small numbers of entrepreneurs are heavily taxed, or whether revenues would increase if taxes were lowered and entrepreneurs could expand at a faster rate.
publications and trade shows could be more frequent and widespread, and fees could help offset costs. Libraries offering directories of firms and products could be a source of information. Information on all things foreign could be disseminated by travelling specialists from "speakers bureaus", perhaps financed in part by foreign donors. Improved telecommunications especially telephone service could provide instant communication with prospective suppliers and customers.

Courses that focus on the basics of operating a business should be offered throughout the country on a frequent basis at little or no fee. Such courses would be of great value to entrepreneurs just setting up their businesses. A number of domestic and foreign commercial consultants are already entering this niche, but the first wave of entrepreneurs has no way of assessing the value of their services. As discussed above, training should include topics in marketing, foreign languages and management. Additional technical assistance programs could develop exchange programs and technical advisors. Televised courses could help educate entrepreneurs and the public generally on money matters and issues of a market economy.

(vi) Develop community-level support for private enterprise. As previously discussed, entrepreneurs were subject to resentment from officials and citizens, especially at the local level. Prejudice of this nature is difficult to address through policy, and time and experience will likely be the main agents of change. At a minimum, the government should make clear to local officials that discrimination against private entrepreneurs is unacceptable. But in the meantime, entrepreneurs could reduce their isolation and further legitimize private enterprise by developing support institutions such as local chambers of commerce and private sector research and policy centers. Organizations of this type could offer support to the currently fragile network of entrepreneurs, and begin building the foundation for eventual integration into the policy-making process and the economy as a whole.

Second Order Recommendations

Second order recommendations aim at raising the long-term competitiveness of private firms. These issues are less pressing than those outlined above, but they represent long-run considerations. The most important are: an expanded outward orientation (both export promotion and an awareness of import competition) and banking reform.

(i) Promote an outward orientation. An outward orientation aims to expand international interaction. It requires raising domestic competitiveness through export promotion and responding to the challenge of import competition. Appropriate actions to promote exports include: (a) lowering the cost of exporting by reducing red tape, in particular clarifying export procedures and eliminating difficulties of foreign transfers and payments; (b) improving availability and use of information on foreign markets, available contacts and networks, and international standards for health, safety and packaging requirements; and (c) promoting private investment with continued emphasis on joint ventures through direct recruitment and promotion.

In the long run, trade liberalization and the development of a private trading sector will effectively turn up the heat of competition in domestic markets for final goods and to a lesser extent on intermediate products. Appropriate actions (preferably by non-governmental institutions) to prepare for import competition would: (a) undertake studies to clarify sources of long-term comparative advantage; (b) promote technology transfer through purchase and lease of foreign technology and patents, licensing arrangements and joint research efforts; and (c) combat domestic and foreign discrimination against the former CSFR-produced goods by arming firms with modern marketing techniques and undertaking a campaign to promote the image of the former CSFR products.
(ii) **Address Inefficiencies in the Banking Sector.** Banks in the former CSFR have been relatively successful in lending to private entrepreneurs, making more and longer term loans than banks in Hungary and Poland. But the quality of these loans remains to be seen, and the quality of banking services is low. Ideally, financial markets would be competitive and open to private entry as quickly as other markets, but in the meantime, the following actions might encourage greater efficiency in the current banking sector: (a) improve the capacity of banks to evaluate loans based on the strength and potential of firms rather than on asset value and collateral alone; (b) lower the legal limit for transaction time from ten days to two or three days, forcing banks to adopt and utilize computer technology and to decentralize decision-making from central to branch offices; (c) encourage the use of technical assistance and exchange programs to strengthen the administrative and technical skills of bank employees; and (d) increase competition in the banking sector by privatizing some state banks, encouraging new private entrants, and permitting entrepreneurs to borrow directly from foreign banks.
VII. CONCLUSIONS

Four major conclusions emerge. First, the policy content and sequencing of the transformation program in the former CSFR has been highly conducive to private sector growth. Second, most entrepreneurs surveyed in this research were well positioned for long-term growth. Third, analysis of strong firms in the former CSFR points to a generic set of strategies and skills needed by private producers to survive in transition economies. Fourth, the ability of privatized firms to survive in the long run is critically affected by their freedom to redeploy capital and labor as needed.

The Role of Reforms in Stimulating the Private Sector

The transformation program in the former CSFR was well-designed and implemented. In addition, the government also took seriously the task of marketing its program, communicating with its citizenry about the strategy and content of reforms and creating a broad base of support through mass privatization. The high degree to which entrepreneurs viewed themselves as participants and stakeholders in the reform process was observed, and was in clear contrast to their counterparts in Poland who saw themselves as marginal actors.

From the vantage point of private producers, key components of the reform program included: (i) a legal and regulatory framework that established equal rights for private business and abolished most restrictions on their operations; (ii) a pre-announced schedule for price liberalization; (iii) opportunities to purchase factory buildings and production equipment through the small privatization program; (iv) provision of long-term financing from the banks; and (v) access to foreign markets. In sum, entrepreneurs in the former CSFR were allowed to establish businesses under conditions where price signals were reasonably undistorted, productive assets were available and could be financed, and participation in import and export markets was possible.

The sequencing of reforms appears to have been almost optimal for most private producers. Many were spared the initial shock of price reforms as most sample firms started up after prices had stabilized in the first quarter of 1991. New entrants, therefore, had the decided advantage of choosing their investments in the context of relatively undistorted signals, a key difference from Poland where massive private sector entry took place a full year prior to price liberalization.

Policies adopted under the transformation program were not designed to protect domestic producers, but a fair degree of protection resulted nonetheless. Import penetration was constrained by import surcharges (20% in 1991, 10% in 1992), undervaluation of the domestic currency, restrictions on access to foreign exchange for self-employed traders, and conservative spending by consumers whose real incomes fell sharply. All of these factors slowed import penetration, avoiding the Polish phenomenon wherein individual traders flooded every corner of the country with imports and small retailers immediately created a fiercely competitive retail sector. Slow inflows of imports appeared to favor private producers who fully exploited their temporary reprieve from full-fledged competition to build their skills and their businesses.

On the negative side, slow growth in imports may have retarded the growth of the private trading sector, an important source of inputs and final markets for private producers. (Implicit in this hypothesis is the assumption that broad-based entry of private retailers in a non-shortage economy is dependent on access to imports.) Indeed, surveyed entrepreneurs reported that they had a limited selection of suppliers and customers from which to choose. As a result, most remained highly dependent on the undependable state sector as suppliers and customers. Aware of the danger of this dependency, entrepreneurs were moving into export markets as quickly as they could.
Challenges Ahead for Entrepreneurs

Although prospects were excellent for many sample firms, two large hurdles remained: large-scale privatization and serious import competition. In all likelihood, privatization of large state enterprises eventually will entirely re-configure the domestic economy. Scenarios include a further curbing of aggregate demand as whole firms are mothballed, increased pressure on government and banks' resources for restructuring; and an increase in competition from leaner, former SOEs as new private managers are forced to cut costs and respond to the market. Whether privatization will improve state enterprises' practices as suppliers and customers remains to be seen.

The second hurdle to be cleared will arise when import competition begins in earnest. To the extent that the former CSFR conforms to the experience in Poland and other adjusting countries, one can expect that small firms producing low-tech, undifferentiated products including some clothing, metal and plastics goods will be at risk. When consumers are offered a full range of domestic and imported products, it is unclear whether Czechs and Slovaks will follow the Poles and choose imported goods over local goods simply because they are foreign. Certainly, profit margins in firms that have reaped high profits from monopoly positions will fall with the arrival of competing imports.

As noted above, many entrepreneurs were in positions that should serve them well over time. First, they had previous experience as high-level managers in some of the most efficient firms in Eastern Europe. Second, their labor force was skilled and cheap by comparison with neighboring countries. Third, they were exploiting the classic advantages of small firms in an economy dominated by large firms, i.e., responsiveness and innovation. Fourth, many made wise choices when they started, focussing on local and export markets as a buffer to the volatile state sector and to future import competition, and producing highly differentiated products with little competition. Fifth, most entrepreneurs had committed for the long haul with high rates of property ownership and concentrated development of a few products.

Strategies for Success in a Transition Economy

Successful firms in the former CSFR offer insights into what it takes for private manufacturers to survive and grow in transition economies. Beyond strong technical skills and smart choices about products and markets, successful manufacturers were able to navigate effectively in a sea of resistance. Just under the surface of federal endorsement for private enterprise lay the traps of ill-informed, uncaring and resentful bureaucrats, state managers, bankers and private citizens. Many of these individuals were armed with regulatory hurdles, ambiguous regulations, paperwork, and at times, demands for special favors and bribes. Remarkably, entrepreneurs with rising profits and output reported few problems with these types of institutional and social barriers, while the rest of the respondents could not say enough. There is no reason to believe that successful firms had it easier. Rather, evidence suggests that managers of strong firms had the initiative and skills to build needed bridges to sell their ideas, obtain inputs and avoid dangerous pitfalls.

More specifically, successful entrepreneurs had many characteristics in common. They were found more often among new than privatized firms, setting up production in response to the new opportunities. They purchased most of their inputs from state enterprises, but they avoided the unreliable state sector on the output side, selling as much as possible in local markets and abroad. Successful managers more often sold directly from their shops, ensuring that they knew their customers and could collect on the spot. Strong firms had good products, distinguished from and usually of higher quality than their competitors, and they were establishing better service records. Highly differentiated products gave small firms a comparative advantage where they lacked economies of scale.
Privatization: Beyond the Transfer of Assets

Entrepreneurs in successful privatized firms behaved similarly to those in new start-ups, taking the initiative and having the autonomy to redeploy resources at will. Privatized firms that restructured, shifted to new products, and found new growing markets tended to do as well or better than other firms. But privatized firms that had not restructured or were unable to make changes as needed because of agreements made when they were privatized performed more poorly than other firms. Researchers concluded that the transfer of ownership to private agents is only the beginning. Success in the long run depends on creative redeployment of physical and human capital. Wherever such redeployment was hampered by weak entrepreneurship or constraints implicit in the sale of the firm (e.g. exclusive production arrangements with the former state company or inflexible agreements with workers), chances for success were reduced.
ANNEX I: TABLES
Annex Table 1.1: Selected Economic Indicators: Czechoslovakia (1980-1991)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (bil current koruny)</td>
<td>-</td>
<td>677.0</td>
<td>694.7</td>
<td>711.1</td>
<td>740.0</td>
<td>759.5</td>
<td>819.0</td>
</tr>
<tr>
<td>GDP (bil 1990 koruny)</td>
<td>-</td>
<td>766.6</td>
<td>780.7</td>
<td>787.0</td>
<td>808.0</td>
<td>818.7</td>
<td>819.0</td>
</tr>
<tr>
<td>GDP Annual Growth (% change at constant 1990 prices)</td>
<td>-</td>
<td>2.2</td>
<td>1.8</td>
<td>0.8</td>
<td>2.6</td>
<td>1.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Gross Investment b/ (bil current koruny)</td>
<td>-</td>
<td>-</td>
<td>170.0</td>
<td>176.8</td>
<td>186.1</td>
<td>184.2</td>
<td>204.5</td>
</tr>
<tr>
<td></td>
<td>Private</td>
<td>-</td>
<td>-</td>
<td>6.2</td>
<td>6.4</td>
<td>7.4</td>
<td>7.2</td>
</tr>
<tr>
<td></td>
<td>Socialist</td>
<td>-</td>
<td>-</td>
<td>163.8</td>
<td>170.4</td>
<td>178.7</td>
<td>177.0</td>
</tr>
<tr>
<td>Industrial Production £/ (% change at constant 1989 prices)</td>
<td>-</td>
<td>-</td>
<td>3.2</td>
<td>2.5</td>
<td>2.1</td>
<td>-0.8</td>
<td>-3.5</td>
</tr>
<tr>
<td>Consumer Price Index (% change)</td>
<td>-</td>
<td>-</td>
<td>0.5</td>
<td>0.1</td>
<td>0.2</td>
<td>1.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Real Wage Index (% change)</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
<td>1.9</td>
<td>2.1</td>
<td>0.9</td>
<td>-6.3</td>
</tr>
<tr>
<td>Unemployment (in percent)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>General Government Budget Overall Balance (in percent of GDP)</td>
<td>-</td>
<td>-0.6</td>
<td>-2.7</td>
<td>-0.7</td>
<td>-1.5</td>
<td>-2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Monetary Growth (year-end, percentage) g/</td>
<td>-</td>
<td>-</td>
<td>3.9</td>
<td>6.0</td>
<td>11.5</td>
<td>3.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Data from Czechoslovakia’s Ministry of Finance, National Bank, Central Statistical Office, as reprinted from the Staff Appraisal Report from the first World Bank Structural Adjustment Loan to CSFR, June 1991, and from IIF and IMF staff reports.

a/ Estimated.

b/ Gross Fixed Investment.

g/ Gross output.

g/ Broad Money.
Annex Table 1.2: External Indicators: Czechoslovakia (1980-1991)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Debt, DOD (mil $US)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Convertible</td>
<td>7,765</td>
<td>5,574</td>
<td>6,715</td>
<td>7,658</td>
<td>7,900</td>
<td>8,693</td>
<td>9,298</td>
<td>11,008</td>
</tr>
<tr>
<td>Convertible</td>
<td>6,850</td>
<td>4,608</td>
<td>5,568</td>
<td>6,658</td>
<td>7,375</td>
<td>7,917</td>
<td>8,169</td>
<td>9,931</td>
</tr>
<tr>
<td><strong>Debt Service (percent of exports)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>22.7</td>
<td>24.0</td>
<td>24.3</td>
<td>24.4</td>
<td>19.5</td>
<td>15.2</td>
</tr>
<tr>
<td><strong>Convertible trade balance (bil $US)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
<td>-0.1</td>
<td>-0.6</td>
<td>-0.3</td>
<td>-0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Imports</td>
<td>-</td>
<td>-</td>
<td>4.3</td>
<td>4.5</td>
<td>5.0</td>
<td>5.4</td>
<td>6.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Non-Convertible trade balance (bil $US)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>-</td>
<td>-</td>
<td>-0.6</td>
<td>-0.2</td>
<td>0.5</td>
<td>-0.3</td>
<td>-0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Imports</td>
<td>-</td>
<td>-</td>
<td>9.2</td>
<td>10.6</td>
<td>10.0</td>
<td>8.8</td>
<td>5.7</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Balance of payments, consolidated (mil $US)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account</td>
<td>-</td>
<td>689.0</td>
<td>168.8</td>
<td>371.1</td>
<td>1,093.0</td>
<td>939.6</td>
<td>-1,339.3</td>
<td>886.0</td>
</tr>
<tr>
<td><strong>Exchange rates b/</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>koruny/$US</td>
<td>-</td>
<td>-</td>
<td>15.00</td>
<td>13.68</td>
<td>14.36</td>
<td>15.05</td>
<td>17.95</td>
<td>29.48</td>
</tr>
<tr>
<td>koruny/ruble</td>
<td>14.8</td>
<td>11.2</td>
<td>11.2</td>
<td>11.2</td>
<td>10.4</td>
<td>10.0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Data from the CSFR Ministry of Finance, National Bank, Central Statistical Office, and WB Staff estimates (see Annex Table 1.1). Data on exchange rates from Mayer et al., 1992.

b/ Estimated.

b/ Average commercial rates.
Annex 1.3: Characteristics of Private Registered Companies

Based on analysis of aggregate data from November 1, 1991, each of these groups of registered enterprises can be characterized as follows. (Annex Tables 1.4-1.5). Limited liability companies are predominantly privately- and domestically-owned (70-75%). About two-thirds have fewer than 25 employees. Main activities are trade (36%); services (31%); manufacturing (15%) and construction (9%). It is important to note that most trading companies are state-owned, joint ventures and foreign firms, and that less than a sixth of trading enterprises are involved with foreign trade. Manufacturing firms are dominated by machinery, food processing, metal working and woodworking.

Almost half of joint-stock companies (44%) are private and domestic with the remaining 56 percent split almost evenly between state ownership and joint ventures. Within industry, however, state ownership dominates due to the large number of state-owned machinery manufacturing companies. The dominant activities among joint-stock companies are services (30%), industry (26%) and trade (28%). Employment data, available for about half of joint-stock companies, indicate that most are large with more than 300 employees.

Self-employed people ("physical persons") who have registered their companies as required by the applicable laws are all privately-owned, and most are small with fewer than 25 employees. Main activities are trade (33%), services (27%) and industry (20%).

---

\[iv\] Aggregate figures presented here are based on data from approximately two thirds of registered companies collected by the Federal Statistical Office.

\[v\] The figure for services was obtained by combining the CSFR classification of "trade and technical services" (4,762 units) with hotel, tourist, and municipal services (874 units).
Annex Table 1.4: Registered Companies (Units) by Sector (Year-End)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>A,B</td>
<td>4</td>
<td>183</td>
</tr>
<tr>
<td>Industry C,D,E</td>
<td>49</td>
<td>2,292</td>
<td>6,963</td>
</tr>
<tr>
<td>Construction F</td>
<td>22</td>
<td>1,359</td>
<td>3,969</td>
</tr>
<tr>
<td>Trade G</td>
<td>22</td>
<td>2,768</td>
<td>13,222</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants H</td>
<td>3</td>
<td>338</td>
<td>1,134</td>
</tr>
<tr>
<td>Services I-Q</td>
<td>30</td>
<td>4,625</td>
<td>13,589</td>
</tr>
<tr>
<td>Total</td>
<td>130</td>
<td>11,565</td>
<td>39,434</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office.

Annex Table 1.5: Private Sector Employment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>7,937,000</td>
<td>7,846,000</td>
<td>7,060,000</td>
</tr>
<tr>
<td>Private g/</td>
<td>95,000</td>
<td>499,000</td>
<td>1,159,000</td>
</tr>
<tr>
<td>Cooperative b/</td>
<td>1,232,000</td>
<td>1,118,000</td>
<td>847,000</td>
</tr>
<tr>
<td>State g/</td>
<td>6,610,000</td>
<td>6,229,000</td>
<td>5,054,000</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office

g/ Czechoslovak and foreign private firms, joint ventures, physical persons (unincorporated) and their employees (main jobs only).

b/ Including private and semi-private institutions/political parties, religious inst. etc.

g/ Includes for 1991 31 mixed enterprises with different shares of Czechoslovak private, cooperative or state ownership.
**Annex Table 1.6: Number of Firms in Manufacturing by Legal Form a/**
(Data available as of November 1991)

<table>
<thead>
<tr>
<th>Manufacturing Sector</th>
<th>CSFR Industry Code</th>
<th>Non-registered</th>
<th>Registered Companies b/</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sole Proprietorships</td>
<td>Limited Liability</td>
<td>Joint-Stock</td>
</tr>
<tr>
<td><strong>Fuels</strong></td>
<td>21</td>
<td>294</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>22</td>
<td>660</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td><strong>Ferrous metals</strong></td>
<td>23</td>
<td>111</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td><strong>Non-ferrous metals</strong></td>
<td>24</td>
<td>92</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td><strong>Chemical, plastic</strong></td>
<td>25</td>
<td>1,606</td>
<td>180</td>
<td>44</td>
</tr>
<tr>
<td><strong>Mech. engineering</strong></td>
<td>26</td>
<td>39,776</td>
<td>494</td>
<td>156</td>
</tr>
<tr>
<td><strong>Elec. engineering</strong></td>
<td>27</td>
<td>29,098</td>
<td>334</td>
<td>85</td>
</tr>
<tr>
<td><strong>Building materials</strong></td>
<td>28</td>
<td>3,346</td>
<td>135</td>
<td>41</td>
</tr>
<tr>
<td><strong>Woodworking</strong></td>
<td>29</td>
<td>33,123</td>
<td>286</td>
<td>35</td>
</tr>
<tr>
<td><strong>Metalworking</strong></td>
<td>30</td>
<td>42,740</td>
<td>371</td>
<td>47</td>
</tr>
<tr>
<td><strong>Paper &amp; pulp</strong></td>
<td>31</td>
<td>240</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td><strong>Glass, ceramics</strong></td>
<td>32</td>
<td>3,305</td>
<td>53</td>
<td>31</td>
</tr>
<tr>
<td><strong>Textiles</strong></td>
<td>33</td>
<td>11,836</td>
<td>71</td>
<td>43</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td>34</td>
<td>30,587</td>
<td>69</td>
<td>11</td>
</tr>
<tr>
<td><strong>Leather</strong></td>
<td>35</td>
<td>4,255</td>
<td>51</td>
<td>20</td>
</tr>
<tr>
<td><strong>Printing</strong></td>
<td>36</td>
<td>2,572</td>
<td>108</td>
<td>32</td>
</tr>
<tr>
<td><strong>Food Processing</strong></td>
<td>37</td>
<td>10,617</td>
<td>403</td>
<td>72</td>
</tr>
<tr>
<td><strong>Beverages</strong></td>
<td>38</td>
<td>198</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>39</td>
<td>17,141</td>
<td>212</td>
<td>46</td>
</tr>
<tr>
<td><strong>Total Industry</strong></td>
<td></td>
<td>231,597</td>
<td>2,842</td>
<td>705</td>
</tr>
<tr>
<td><strong>All other sectors</strong></td>
<td></td>
<td>665,752</td>
<td>15,598</td>
<td>1,996</td>
</tr>
<tr>
<td><strong>Total Economy</strong></td>
<td></td>
<td>897,349</td>
<td>18,440</td>
<td>2,701</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office

a/ Manufacturing classifications in the former CSFR include both production and repair. Large numbers of sole proprietorships and registered "physical persons" are engaged in repair and not production.

b/ Registered companies include these legal forms: (i) limited liability companies, 72 percent of which are estimated by the FSO to be private (79% in industry); (ii) joint-stock companies, 44 percent of which are estimated to be private (39% in manufacturing) and (iii) registered "physical persons", 100 percent estimated to be private.
Annex Table 1.7: Number of Registered Companies by Firm Size g/
(As of November 1991)

<table>
<thead>
<tr>
<th></th>
<th>Total Companies g/</th>
<th>1-24 Employees</th>
<th>25-49 Employees</th>
<th>50-299 Employees</th>
<th>&gt;300 Employees</th>
<th>Available g/</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Limited Liability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>2,842</td>
<td>1,856</td>
<td>140</td>
<td>144</td>
<td>20</td>
<td>622</td>
</tr>
<tr>
<td>Other</td>
<td>15,598</td>
<td>10,152</td>
<td>311</td>
<td>270</td>
<td>25</td>
<td>4,900</td>
</tr>
<tr>
<td>Total</td>
<td>18,440</td>
<td>12,008</td>
<td>451</td>
<td>414</td>
<td>45</td>
<td>5,522</td>
</tr>
<tr>
<td><strong>Joint-Stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>705</td>
<td>207</td>
<td>29</td>
<td>103</td>
<td>279</td>
<td>87</td>
</tr>
<tr>
<td>Other</td>
<td>1,996</td>
<td>1,018</td>
<td>96</td>
<td>178</td>
<td>112</td>
<td>592</td>
</tr>
<tr>
<td>Total</td>
<td>2,701</td>
<td>1,225</td>
<td>125</td>
<td>281</td>
<td>391</td>
<td>679</td>
</tr>
<tr>
<td><strong>Registered &quot;Physical Persons&quot;</strong> g/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>1,799</td>
<td>206</td>
<td>9</td>
<td>5</td>
<td>0</td>
<td>15,250</td>
</tr>
<tr>
<td>Other</td>
<td>7,059</td>
<td>1,609</td>
<td>21</td>
<td>13</td>
<td>2</td>
<td>5,414</td>
</tr>
<tr>
<td>Total</td>
<td>8,858</td>
<td>1,869</td>
<td>30</td>
<td>18</td>
<td>2</td>
<td>6,999</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office

g/ The number of firms in each category is based on estimates by the Federal Statistical Office.

h/ Official employment in private companies includes only legal employees, not subcontracted labor.

g/ Number of firms for which employment data were not available.

g/ Self-employed persons required to register their firms in the courts (a category unique to the former CSSR).
ANNEX II: QUESTIONNAIRE
January 10, 1992
The World Bank
Industry Development Division

INTERVIEWING GUIDE FOR CSFR PRIVATE FIRMS

I. BASIC INFORMATION

5. Name of Person Interviewed: ___________________________

6. Position of Person Interviewed: 0. Owner 1. Manager
   8. Other (Specify) ___________________________

7. Gender: 1. Male 2. Female

8. Age: _______ years

9. Name of firm: ___________________________

10. Address or location: (Be specific) ___________________________

11. Month/year of registration in the courts as a company: ___________

12. Actual month/year of start-up of this business (in any form):

   ___________________________

13. Origin of firm. Why it was started, when, by whom, with what products?
    Major differences now vs. when it was started. Ask the entrepreneur how
    he/she identified the opportunity and how he/she selected this one.
    (let the owner tell his/her own story here.)

   ___________________________

   ___________________________

   ___________________________

14. How was this business started up?

   0. Started business alone
   1. Started business with my spouse or other family member
   2. Started with a friend, colleague, classmate or other
   3. Started with a foreign partner
   4. Bought or took over the business from the State
   5. Received this business as part of the restitution program.
   6. Bought the business from a non-family member
   7. Inherited the business from a family member
   8. Other (Specify) ___________________________
   9. N/A
15. What form has this company taken since starting up?

<table>
<thead>
<tr>
<th>Form</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Only the current one</td>
<td>---</td>
</tr>
<tr>
<td>1. Craftsman (one man business)</td>
<td>---</td>
</tr>
<tr>
<td>2. Cooperative</td>
<td>---</td>
</tr>
<tr>
<td>3. Permission of the local authority for private business activity</td>
<td>---</td>
</tr>
<tr>
<td>4. Small place of business owned by local authorities</td>
<td>---</td>
</tr>
<tr>
<td>5. Ancillary production of an agricultural cooperative</td>
<td>---</td>
</tr>
<tr>
<td>8. Other (Specify)</td>
<td></td>
</tr>
<tr>
<td>9. N/A</td>
<td></td>
</tr>
</tbody>
</table>

16. Who owns this company?

<table>
<thead>
<tr>
<th>Owner</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. The Government</td>
<td></td>
</tr>
<tr>
<td>1. Other state-owned company or cooperative</td>
<td></td>
</tr>
<tr>
<td>2. The owner being interviewed</td>
<td></td>
</tr>
<tr>
<td>3. Other private partners</td>
<td></td>
</tr>
<tr>
<td>4. Private investors outside CSFR</td>
<td></td>
</tr>
<tr>
<td>5. Workers</td>
<td></td>
</tr>
<tr>
<td>6. Local government</td>
<td></td>
</tr>
<tr>
<td>7. A bank(s)</td>
<td></td>
</tr>
<tr>
<td>8. Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>

Total 100 percent

(Note: if 0, 1, or 6 are > 50 percent, the firm is ineligible)

17. What is the ownership history of this company?

<table>
<thead>
<tr>
<th>Ownership History</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Fully privately-owned and independent since start-up</td>
</tr>
<tr>
<td>1. Fully private now but previously fully/partly owned by or legally connected to</td>
</tr>
<tr>
<td>the State</td>
</tr>
<tr>
<td>2. Private but previously owned by or legally connected to a larger private company</td>
</tr>
<tr>
<td>3. Currently private but legally or commercially connected to a state-owned enterp</td>
</tr>
<tr>
<td>4. Previously associated with a cooperative</td>
</tr>
<tr>
<td>5. Previously private, then state-owned, then returned to current owner as part of</td>
</tr>
<tr>
<td>the restitution program</td>
</tr>
<tr>
<td>8. Other (Specify)</td>
</tr>
<tr>
<td>9. N/A</td>
</tr>
</tbody>
</table>

18. Please explain the past and current relationship among owners:

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
19. What is the legal form of this company?
   0. Limited liability company
   1. Joint stock company
   2. Physical persons registered in the courts
   8. Other (Specify) ___________________________________________________________________
   9. N/A

20. Principal product/activity/service: ____________________________________________________

21. CSFR code _______ 22. ISIC Code _______

23. Is your primary product:
   0. An intermediate input
   1. A finished good
   8. Other: ________________
   9. N/A

24. Secondary product/activity: __________________________________________________________

25. CSFR code _______ 26. ISIC Code: ___________

27. What was the actual output of your company in the month of November?

<table>
<thead>
<tr>
<th>Product</th>
<th>Units</th>
<th>Your Selling Price</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

100%

28. Comments on diversification strategies: ___________________________________________________________________

29. What percentage of your revenues come from trade? __________

30. What percentage of your revenues come from services? __________

31. How have your sources of revenues changed over the past 12-18 months?

What are the three biggest problems affecting your business today?

[Coder] Explanation (Write down the responses)

32. [ ] #1 ____________________________________________________________________________

33. [ ] #2 ____________________________________________________________________________

34. [ ] #3 ____________________________________________________________________________

(Interviewer: After respondent gives own answers, follow up if necessary to discover the root problem; write in their answers in the blanks above. Later, find the closest answer in the list at the back of the questionnaire and enter its number beside of 32, 33, 34. Most important problem comes first, etc.)
II. THE ENTREPRENEUR

A. Background

35. What was/is your father's occupation? _________________________

36. Who is/was your father's employer?

0. The government/Party
1. Public Sector: state-owned firm or cooperative
2. Private Sector: private company or private self-employed person
8. Other (specify) _________________________
9. N/A

37. What was/is your mother's occupation? _________________________

38. Who is/was your mother's employer?

0. The government/Party
1. Public Sector: state-owned firm or cooperative
2. Private Sector: private company or private self-employed person
8. Other (specify) _________________________
9. N/A

39. Has anyone in your family worked in the private sector?

0. No 1. Yes Who, and what did they do? _________________________

40. What is the highest level of school you completed?

0. None
1. Primary
2. Secondary/Gymnasia
3. Commercial Secondary
4. Technical Secondary
5. Vocational  a. commercial  b. technical
6. College or university
7. Post-graduate
8. Other (Specify) _________________________
9. N/A

41. Have you received any training abroad?

0. No 1. Yes What kind, when, for how long and where? __________

42. What do you think is the major source of the primary skills/knowledge you use to operate this business?

0. University/technical education
1. Experience in previous jobs
2. Manufacturer of equipment
3. Purchaser of final product
4. Trade/technical journals
5. Learning on your own
6. Training programs outside of the education system
8. Other (Specify) _________________________
9. N/A
43. What kind of short term training course would be most useful to you today? (Circle only the most important one)

0. None
1. Accounting or bookkeeping skills
2. Marketing
3. Skills to obtain financial services from a bank
4. More familiarity with different technologies
5. Legal
6. Management (What kind of management?) ______________________
7. Import/export ______________________
8. Other (specify) ______________________
9. N/A ______________________

44. In your opinion, what would be the best source of the training you need?

0. A government program
1. A foreign assistance organization
2. A private trade association
3. A private for-profit company
4. Local colleges/universities ______________________
8. Other (Specify) ______________________
9. N/A ______________________

45. How many other private businesses have you owned (fully or in part)?

0. None
1. One
2. Two
3. Three
4. More than three
8. Other (Specify) ______________________
9. N/A ______________________

46. How many businesses do you currently own in full or in part?

0. None
1. One
2. Two
3. Three
4. More than three
8. Other (Specify) ______________________
9. N/A ______________________

47. Who did you work for before you started this business? (For most of your career)

0. Worked for a government institution. Which one? ______________________
1. Worked for a state-owned enterprise. Which one? ______________________
2. Worked for another private company. Which one? ______________________
3. Worked in another business I owned. What kind? ______________________
4. Worked for a foreign company in CSFR. Which one? ______________________
5. Worked for a foreign company outside of CSFR. Which one and where? ______________________
6. Worked for a joint venture. Which one? ______________________
8. Other (Specify) ______________________
9. N/A ______________________
48. How many people were employed where you last worked?
0. 25 or fewer  1. 25 to 50
2. 50 to 100  3. 100 to 200
4. 200 to 500  5. 500 to 1000
6. 1000 to 10,000  7. More than 10,000

49. What was your occupation and position in your last job? __________

50. Are you producing the same product in your current business that was produced in your last several jobs? (Formal or informal jobs)
0. The same
1. Very similar
2. Related but different
3. Completely different
9. N/A

51. What is the primary reason why you started up this business? (pulled to opportunity or pushed to it by problems elsewhere)
0. Lost job, was laid off, or expected to be laid off
1. Frustrated with work in state-owned enterprises--no future there
2. Few job opportunities elsewhere, private sector was only option
3. Previous salary was too low, thought could make more in private sector
4. Wanted to put training to use
5. Saw a profitable opportunity and took it
6. Laws on private enterprise were changed
7. Parents/relatives were in private business
8. Other (Specify)
9. N/A

52. What were your primary personal goals in starting up this business? (interviewers, choose one that best matches the person's answer. Let them tell you in their words)
0. Achievement--wanted to use the skills you have
2. Status/prestige--wanted to move up in the world
3. Independence--wanted to work on your own
4. Power--wanted to be in charge
5. Money--wanted to earn more money than was before
6. Economic necessity--had few other choices
7. Career/security--this route offered the best future
8. Other (Specify)
9. N/A

53. Which of the following descriptions best fits you? (Interviewers, read them the list. They can choose 3)
0. A high achiever, easily bored with routine, restless
1. A practical person with practical skills
2. Highly disciplined, committed to hard work
3. A risk-taker, willing to live with uncertainty
4. Like to feel in control of what is going on
5. Self-confident, fairly sure of success
6. Independent, a loner, somewhat separate from others
7. Grew up in a difficult, troubled family
8. Other (Specify)
9. N/A
54. If you had the opportunity to start over, would you choose this business again?

0. Would not start this business again if I could choose again
1. Would start another business in a different industry. Which industry?
2. Would start again in the same industry
3. Would not start any private business.
4. Other (Specify)
5. N/A

55. Are you a member of a trade association or other business association?

0. No 1. Yes 9. N/A
If so, name of association: ____________________________

56. What benefits do you receive as a member? (For example: information on markets, technology, laws and regulations, political representation, education, insurance, special low-interest loans or other financial services)

III. FIRM PROFILE

A. LABOR AND LABOR COSTS (enter 0 for none; leave blank if no answer)

1. Profile of Labor Force

57. Owners and other family members who work full-time
58. Full-time wage workers, contract employees and others
59. Full-time Apprentices
60. Total, all full-time workers including owners and family members
61. Number of full-time workers including owners and family members when started up.
62. Number of full-time workers including owners and family members 12 months ago. (Leave blank if firm started up less than 12 months ago)
63. Part-time owners and family members
64. Part-time wage workers, contract employees and others
65. Total, all part-time workers
66. Average number of hours worked per week by all part-time workers combined.

Gender Profile
67. Male full-time workers
68. Female full-time workers

Skills Profile
69. Workers directly operating production machinery
70. Workers providing ancillary support e.g., moving materials within the plant, packaging the product.
71. Administrative workers, e.g., bookkeepers, sales persons, etc.
72. Technical/engineering support workers
73. Other (Specify) ____________________________

74. What percentage of your workers are skilled workers? ______ percent
75. Are your current workers as highly skilled as you need/want them to be?
   0. No  Comment: _____________________________________________________________
   1. Yes Comment: ____________________________________________________________
   8. Other (Specify) __________________________________________________________
   9. N/A

76. Do you have problems recruiting unskilled workers?
   0. No
   1. Yes What problems? _________________________________________________________
   8. Other (Specify) __________________________________________________________
   9. N/A

77. Do you have problems recruiting skilled workers?
   0. No
   1. Yes What problems? _________________________________________________________
   8. Other (Specify) __________________________________________________________
   9. N/A

78. Do you provide any training to your workers?
   0. No. Why not?
   1. Yes. Please describe. (What kind, to whom, how often for what duration?)
   8. Other (Specify) __________________________________________________________
   9. N/A

79. Where have most of your workers learned the skills they use in your company?
   0. In the school system
   1. In training courses outside the formal education system
   2. From on-the-job training in previous jobs
   3. From on-the-job training in your company
   8. Other (Specify) __________________________________________________________
   9. N/A

80. What do you think would be the best approach to training and upgrading the skills of workers in CSFR?

81. Are your workers represented by a union or a worker’s council?
   0. No Why not?
   1. Yes What kind? _____________________________________________________________
   8. Other (Specify) __________________________________________________________
   9. N/A

82. Are your workers protected against losing their jobs, i.e., are you prohibited from firing a worker if you want to?
   0. No, workers have no protection against losing their jobs
   1. Yes, workers are protected by job security laws in CSFR
      If so, what are the laws? __________________________________________________
   2. Yes, workers are protected by other measures. What measures?
   8. Other (Specify) __________________________________________________________
   9. N/A
2. **Labor Costs**

What is the total cost of labor of your business? (including wages, bonuses, allowances, taxes and social security)

83. __________ crowns per week/month (specify time unit)
84. __________ the total wage bill in US$ per month (figure later)
85. Of the total wage bill, how much do you pay directly to all workers as salaries?
   __________ crowns per week/month (specify time period)
86. Of the total wage bill, how much do you pay directly to workers in allowances and bonuses?
   __________ crowns per week/month (specify time period)
87. Of the total wage bill, what percent do you pay for taxes on wages?
   ______ percent
88. Of the total wage bill, what percent do you pay for social security?
   ______ percent
89. How do you decide wages for your workers?
   0. You decide yourself
   1. You pay the minimum wage set by the State
   2. You have to bargain with workers unions or councils
   3. The market—demand and supply for workers—sets the wage
   4. The amount that you pay is determined by the amount the state-owned enterprises pay, i.e., you pay some percentage more
   8. Other (Specify)
   9. N/A
90. What kinds of compensation/benefits do all workers receive in CSFR?
   0. None
   1. Retirement/pension benefits
   2. Health insurance
   3. Housing allowance/allotment
   4. Transportation allowance
   5. Other (Specify)
   6. Maternity
   7. Vacation with pay, # of days?
   8. Other (Specify)
   9. N/A
91. What additional kinds of compensation/benefits have you chosen to give to your workers?
   0. None
   1. Retirement/pension benefits
   2. Health insurance
   3. Housing allowance/allotment
   4. Transportation allowance
   5. Other (Specify)
   6. Maternity
   7. Vacation with pay, # of days?
   8. Other (Specify)
   9. N/A

B. **PHYSICAL CAPITAL**

1. **Land and Buildings**

92. How many square meters of floor space does your firm occupy?
93. How did you obtain the factory space (building) you now occupy?

0. Bought it. What year? From whom?
1. Acquired it during the small-scale privatization. How?
2. Acquired it during the large-scale privatization. How?
3. Acquired it through the restitution program. How?
4. It belongs to a family member.
5. Lease it on a multi-year basis. From whom?
6. Lease it on annual basis. From whom?
7. Purchased the lease from the State or local government.
8. Other (Specify)
9. N/A

94. How did you obtain the land your business sits on?

0. Bought it. What year? From whom?
1. Acquired it during the small-scale privatization. How?
2. Acquired it during the large-scale privatization. How?
3. Acquired it through the restitution program. How?
4. It belongs to a family member.
5. Lease it on a multi-year basis. From whom?
6. Lease it on annual basis. From whom?
7. Purchased the lease from the State or local government.
8. Other (Specify)
9. N/A

95. Are the land and building space you now have sufficient for your needs?

0. Too small
1. Just right
2. Too big
3. Poorly located
4. Poor quality
5. Other (Specify)
6. N/A

96. Is it possible to rent or purchase a larger building or more land for your business needs?

0. No. Why not?
1. Yes, it's available and affordable
2. Yes, it's available but it's too expensive
3. Other (Specify)
4. N/A

2. Equipment

/97. What are the main production machines in your business?

<table>
<thead>
<tr>
<th>Machine</th>
<th>Number of Units</th>
<th>Manufacturer</th>
<th>Year Made</th>
<th>Replacement Cost Today of Exist. Machine</th>
<th>In which Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
98. What is the average age of your equipment?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Less than one year old</td>
</tr>
<tr>
<td>1</td>
<td>1 - 3 years old</td>
</tr>
<tr>
<td>2</td>
<td>3 - 5 years old</td>
</tr>
<tr>
<td>3</td>
<td>5 - 10 years old</td>
</tr>
<tr>
<td>4</td>
<td>10 - 20 years old</td>
</tr>
<tr>
<td>5</td>
<td>More than 20 years old</td>
</tr>
<tr>
<td>6</td>
<td>Other (Specify)</td>
</tr>
<tr>
<td>7</td>
<td>N/A</td>
</tr>
</tbody>
</table>

99. From whom did you purchase most of your machines?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Directly from a state-owned enterprise</td>
</tr>
<tr>
<td>1</td>
<td>Imported indirectly through a state trading organization</td>
</tr>
<tr>
<td>2</td>
<td>Imported directly</td>
</tr>
<tr>
<td>3</td>
<td>From a private person or agent</td>
</tr>
<tr>
<td>4</td>
<td>Other (specify)</td>
</tr>
<tr>
<td>5</td>
<td>N/A</td>
</tr>
</tbody>
</table>

100. Have you purchased equipment (new or used) since start-up? (Other than initial investment)

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>No</td>
</tr>
<tr>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
</tr>
</tbody>
</table>

101. How did you finance the purchase of your new equipment?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Profits from this business</td>
</tr>
<tr>
<td>1</td>
<td>Profits from other businesses</td>
</tr>
<tr>
<td>2</td>
<td>Credit What kind and from whom?</td>
</tr>
<tr>
<td>3</td>
<td>Personal loan</td>
</tr>
<tr>
<td>4</td>
<td>Other (Specify)</td>
</tr>
<tr>
<td>5</td>
<td>N/A</td>
</tr>
</tbody>
</table>

102. Who are the main suppliers of equipment for your enterprise?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Domestic producers</td>
</tr>
<tr>
<td>1</td>
<td>Producers in ruble areas</td>
</tr>
<tr>
<td>2</td>
<td>Producers in non-ruble areas</td>
</tr>
<tr>
<td>3</td>
<td>Other (Specify)</td>
</tr>
<tr>
<td>5</td>
<td>N/A</td>
</tr>
</tbody>
</table>

103. Are there problems in procuring imported equipment?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>No</td>
</tr>
<tr>
<td>1</td>
<td>Yes. If so, what are they?</td>
</tr>
<tr>
<td>4</td>
<td>Other (Specify)</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
</tr>
</tbody>
</table>

104. Is domestic equipment available that meets your needs?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>No</td>
</tr>
<tr>
<td>1</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Other (Specify)</td>
</tr>
<tr>
<td>9</td>
<td>N/A</td>
</tr>
</tbody>
</table>

105. What problems, if any, are there with domestically-made equipment?

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>It's of poor quality</td>
</tr>
<tr>
<td>1</td>
<td>It's more expensive than the imported ones</td>
</tr>
<tr>
<td>2</td>
<td>The specifications are wrong for what you need</td>
</tr>
</tbody>
</table>
3. The equipment you need is not manufactured in CSFR
8. Other (Specify)
9. N/A

106. Are the spare parts and repair services that you need easy to get?
0. Very difficult 1. Difficult 2. Easy 3. Very easy
9. N/A

If difficult, why?

107. From whom do you buy spare parts and purchase repair services?
0. Import directly from the manufacturer who makes the machine
1. Buy them directly from producers of domestic machines
2. Buy them from domestic retailers of spare parts
3. Buy them second-hand or take them from discarded machines
4. Make them myself
8. Other (Specify)
9. N/A

108. How do you account for depreciation of capital equipment?
0. Written off as current expense
1. Amortized at an annual rate of
8. Other (Specify)
9. N/A

C. FINANCE AND THE COST OF CAPITAL

Please check the following items to describe how you obtained and maintained the funding and financing required to initiate and maintain the ownership of your business. Check as many boxes as are appropriate.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>109. Initially or during the first six months of operations</th>
<th>110. Between the first six months and first year of operations</th>
<th>111. Between the first and third years of operations</th>
<th>112. After three years in business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0. Own savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Family borrowing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Borrowing from friends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Government program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Commercial or investment bank loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Cash flow from the business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Supplier credits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Other (Please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
113. What is your biggest problem with financing your business?

114. Are you a client of a bank?
0. No 1. Yes Name of bank(s): _______________________

115. How far do you have to travel to get to the nearest bank branch?
________________________ Kilometers

116. What banking services have you used? (Check as applicable)

0. ____ Savings account
1. ____ Checking account
2. ____ Letters of credit
3. ____ Bills of collection
4. ____ Working capital
5. ____ Investment credit
6. ____ Equipment lease finance
7. ____ Insurance (Type?) _________________________
8. ____ Other (Specify) __________________________
9. ____ None

117. Are you satisfied with the banking services you have received?
0. No 1. Yes
Comments: ______________________________________

118. If no, indicate which factors you would like to see improved, ranking by degree of importance to your business (1 = very important, 2 = less important)

0. ____ Transaction speed
1. ____ Fees/price of services
2. ____ Availability of services
   (Name most important: ____________________________)
3. ____ Confidence/trust
4. ____ Reliability/accuracy
5. ____ Other (Specify) _____________________________

119. If a western bank offered these services, would you rather use them than a CSFR bank?
0. No 1. Yes
If so, why? ______________________________________

120. Since start-up, have you tried to get a loan from a bank or promotion agency?
0. No Why not?
1. Yes, but not successful. What kind of loan? __________
   Why not successful?
2. Yes, short term loan received (12 months or less)
   Terms of loan: interest rate _____ term _____
   name of bank ___________________________
3. Yes, long term loan received.
   Terms of loan: interest rate _____ term _____
   Name of bank ________________________________
8. Other (Specify) _______________________________
9. N/A

121. If a long-term loan were available from a bank or government agency at current interest rates of _____ percent, would you apply for one?
   0. No  Why not? ________________________________
   1. Yes
8. Other (Specify) _______________________________
9. N/A

122. Assuming you are willing to pay current interest rates, how difficult is it currently to get a long term loan from a bank?
   0. Very easy
   1. Fairly easy
   2. Fairly difficult
   3. Very difficult
8. Other (Specify) _______________________________
9. N/A

123. The main difficulty in getting a loan is:
   0. Paperwork
   1. Not enough money to be loaned
   2. Size of loans available is not large enough
   3. Bankers prefer to make larger loans
   4. Lenders prefer favored clients, those who have large deposits or are long-term clients
   5. Lenders do not like my kind of business
   6. Lenders require more collateral than I have
   Details on collateral: _______________________________
8. Other (Specify): _______________________________
9. N/A

124. Do you have problems in getting foreign exchange?
   0. No  1. Yes  9. N/A
If so, what problems? _______________________________

D. RAW MATERIALS, INTERMEDIATE INPUTS AND ENERGY CONSUMPTION

125. What are the principle raw materials and intermediate inputs used in your product? (List in physical units per year, month or week)
(Imported means imported directly or by a retailer)

<table>
<thead>
<tr>
<th>Raw Materials</th>
<th>Quantity</th>
<th>Time Period</th>
<th>Price per Unit</th>
<th>Supplier</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>and Inputs</td>
<td># of units</td>
<td>(week/month/year)</td>
<td></td>
<td>(private, state)</td>
<td>(Domestic, imported)</td>
</tr>
</tbody>
</table>
1. 
2. 
3. 
4. 

126. What proportion of your raw materials or intermediate inputs are imported, either by you or an importer? _____ percent
127. Do you have problems obtaining the imported raw materials and intermediate inputs you need?

0. No 1. Yes 9. N/A
If so, what problems? __________________________

128. Since start-up, is the proportion of your raw materials and inputs that is imported:

0. about the same 1. greater 2. less 9. N/A
If it has changed, why? __________________________

129. Do you have problems obtaining local raw materials and intermediate inputs?

0. No 1. Yes 9. N/A
If yes, what problems? __________________________

130. What is the amount of energy consumed by your factory? (electricity, coal, gas, oil in physical units with price per unit) (Specify time units: per year, month or week)

What are your main problems with public services (transportation roads, railway, water and sewage, electricity, communications-phone, telegraph, etc.)?

131. Service: ________________ 132. Service: __________

0. none 1. occasional interruption 2. frequent, longer or serious interruptions
3. too expensive 4. delay in obtaining 5. other (Specify) __________
6. N/A

E. PRODUCTION AND CAPACITY UTILIZATION

1. Production

133. How many hours per week does your company operate? ________________ hours

134. How many hours per week could your company operate if it were at full capacity? (With as many orders as you could fill with the same workers and equipment)

_______________ hours

Changes in Production

135. In the past 3 months, how has your production volume changed? For what single most important reason? (circle only one)

0. No significant change
1. Increased, because foreign exchange (inputs) more available
2. Increased, because local raw materials are more available
3. Increased, because demand has increased
4. Increased, because of entering new markets
5. Increased, because imported goods now are more expensive
6. Increased, because production in state-owned enterprises has declined
7. Increased, other reason (specify) ________________________________
8. Decreased, because demand is weak
9. Decreased, because of competition from imports
10. Decreased, because of increased domestic competition
11. Decreased, because of high costs of imported inputs (lack of working capital)
12. Decreased, because of high costs of local inputs (lack of working capital)
13. Decreased, because of labor problems
14. Decreased, other reason (specify) ________________________________
99. N/A

136. At present, is the firm selling everything that it produces?
0. No, inventories are piling up
1. Yes, and you could sell more if you had more orders
2. Yes, but couldn’t sell much more even if demand were greater.
8. Other (Specify): ________________________________
9. N/A

137. If you cannot sell all that you can make, have you lowered your prices?
0. No 1. Yes 9. N/A
If not, why not? ___________________________________________________
If so, what was the result? ________________________________________

138. If you could sell more (i.e., if demand is high) have you raised your prices?
0. No 1. Yes 9. N/A
If not, why not? __________________________________________________
If so, what was the result? ________________________________________

139. How has the retail price of your most important product changed in the past 10-12 months?
0. It has not changed
1. It has increased. By what percent? _________
2. It has decreased. By what percent? _________
If it has changed, why has it changed? __________________________________
8. Other (Specify) ________________________________________________
9. N/A

140. How do you set the price of your product?
0. I set it based on production costs
1. I charge the same as my competitors
2. I set it based on the profit level I want
3. The price of my product is fixed
4. Trial and error
5. A mix of the above (which ones? _________)
8. Other (Specify) ________________________________________________
9. N/A
141. Have you changed your mix of products since start-up?

0. No  1. Yes  9. N/A

New products (Describe them, why did you choose this product? Source of design?)

______________________________
Producing more of
______________________________
Producing less of
______________________________
Stopped production of

142. Have you changed, in any way, your methods of production since start-up?

0. No  1. Yes How?
8. Other (Specify)
9. N/A

143. What are your hopes or plans for the company in the next 5 years? (Check all applicable items)

0. Expand the company size
1. Expand into new markets, locally abroad
2. Get access to better technology/improve product quality
3. Expand into new product/service areas (which ones? _____)
4. Become listed on the stock exchange
5. Find a local partner
6. Find a foreign partner
7. Stay roughly the same, maintain the company as it is
8. Other (Specify)
9. Sell the company
10. Invest abroad (Where? ____________________________)
11. Reduce production

F. SALES AND MARKETING

1. Profits

144. Approximately what was the total sales revenue of your factory in November? __________ crowns

145. Of total sales, what percentage are crowns ____%, rubles ____%, hard currency ____%?

146. Is the business currently making profits? (i.e., is owner getting any income out of it?)

0. No  1. Yes  9. N/A

147. What do you do with your profits?

0. Invest them in this business
1. Invest them in another business
2. Save them
3. Spend them
8. Other: ____________________________
9. N/A
148. Is the business more or less profitable now than in the first few months after start-up?

0. About the same 1. More profitable
2. Less profitable 8. Other (Specify) ________________
9. N/A

Why? ________________________________

149. Are you satisfied with the profits of this business?

0. Unsatisfactory and unreasonable
1. Reasonable
2. Below the potential of this business
3. Unpredictable
4. Better than I expected
8. Other (Specify) ________________________________
9. N/A

2. Distribution and Markets

150. Through which channels in CSFR do you sell your products?

0. Sell directly from your own shop
1. State-owned enterprises (as inputs)
2. Other private industries (as inputs)
3. State-owned enterprises (as finished goods)
4. Private shops, retailers (as finished goods)
5. Government (as finished goods)
6. Private middlemen or agent (finished goods or inputs?)
8. Other (Specify) ________________________________
9. N/A

151. What percentage of your revenues come from your top three customers?

0. 0 - 25%
1. 25% - 50%
2. 50% - 75%
3. 75% - 100%
4. 100%
8. Other: (specify: )
9. N/A

152. Where are most of your products sold?
(circle one only)

0. Locally
1. In surrounding towns
2. Nationally
3. Other countries in Central Europe
4. Western Europe
5. The USSR
6. Other countries overseas
8. Other (Specify) ________________________________
9. N/A

153. How have your markets changed in the past 12 months? (Can answer more than one)

0. Domestic sales have increased
1. Domestic sales have decreased
2. Ruble sales have increased
3. Ruble sales have decreased
4. Hard currency have increased
5. Hard currency have decreased
154. Describe the typical person who buys your products? (If you sell final products)
1. Rural people/farmers
2. Low-income urban people
3. Middle-income urban people
4. Upper-income urban people
8. Other (Specify) ________________________________
9. N/A

155. Do you have problems distributing your product?
0. No 1. Yes
8. Other (Specify) ________________________________
9. N/A
If yes, what are they? ________________________________

156. Are there regulations regarding distribution channels you have to use for your products?
0. No 1. Yes
8. Other (Specify) ________________________________
9. N/A
If yes, what are they? ________________________________
3. Exports

157. Do you export your product (directly or through traders)?
0. No 1. Yes, export directly
2. Yes, export through others
8. Other (specify): ______________
9. N/A

158. If yes, about what proportion of your production is exported: _____ percent

159. What percentage of your exports are in hard currency? ____%

160. If you export, what changes in your products have you made to ensure that they are competitive in world markets?
0. No changes, my products are competitive without changes
1. I have switched product lines
2. I have upgraded the quality of my products
3. I have switched export markets to stay competitive
   From which countries to which countries? ______________
4. I have lowered my prices to undersell the competition
8. Other (Specify) ________________________________
9. N/A

161. How do you decide which products to export, what quality they should be and what prices to charge?

______________________________
162. If you are exporting, what are the main obstacles that you face? (For example: taxes, paperwork, knowledge, costs)

163. If you are not exporting, have you considered it?

0. No  1. Yes  8. Other (Specify)  9. N/A

If no, why not?

4. Competition

164. Who are your firm's main competitors? (circle one)


165. Has the number of firms producing in your main product become greater since you started-up?

0. No  1. Yes  8. Others (Specify)  9. N/A

166. How many other firms now produce in your main market in CSFR?

0. None  2. 1-10  3. 10-50  4. 50-100  5. More than 100  8. Others (Specify)  9. N/A

167. How many other firms now produce in your markets abroad?

0. None  2. 1-10  3. 10-50  4. 50-100  5. More than 100  8. Others (Specify)  9. N/A

168. In your main market, why do you think your customers buy your product instead of your competitors'? (Circle the one most important reason)

1. My price is lower than my competitors'  2. My product is better designed, of higher quality and is more reliable  3. My product is the only one of its type on the market  4. I deliver my product on time  5. I actively advertise and market my product  6. My business is conveniently located  7. My reputation, people know me  8. Other (Specify)  9. N/A
IV. GOVERNMENT POLICIES AND REGULATIONS

A. Registration Information

169. What kinds of registration, licenses, permits does this firm have?

170. Did you have problems obtaining any of the licenses and permits that you have?

0. No 1. Yes 8. Other (Specify) 9. N/A

If so, what kinds of problems with which licenses or permits? (Be specific)

171. How long did it take you to get all of the licenses and permits that you needed?

0. Same day 1. Less than a month; 2. 1-3 months 3. 3-6 months 4. more than 6 months 8. Other (Specify) 9. N/A

172. How have privatization policies affected your business?

B. Taxes

(Interviewers, once you are sure that you know the answers for the next six questions, you can skip them but write them out for the first five interviews)

173. What types of taxes do you pay, other than those connected with payroll and workers? (For example: VAT, sales, income, inventory, import or export taxes...)

174. How have these changed in the past two years?

0. Not at all 1. Minor changes 2. Significant changes, explain

175. What are the main regulations regarding taxes on profits from your enterprise?

176. What is the tax treatment for profits reinvested in the company?)
177. Are there any special incentives for investment in new machinery and equipment?
0. No
1. Yes, explain ____________________________
9. N/A

178. Have you used any of these incentives?
0. No 1. Yes 9. N/A
If so, which ones? ____________________________

V. CONCLUSIONS

/179. What are the major problems facing someone trying to start a new business today in your country?
______________________________________________________

180. How would you rate the attitude of government and public officials toward private business and profit-making?
0. very negative 1. negative
2. neutral 3. positive
4. very positive
Explain: __________________________________________

181. How would you rate the attitudes of managers of state firms toward private business and profit-making?
0. very negative 1. negative
2. neutral 3. positive
4. very positive

182. How would you rate the average citizen's attitude toward private business and profit-making?
0. very negative 1. negative
2. neutral 3. positive
4. very positive
Explain: __________________________________________

/183. In your view, what should the government do to make it easier for you or someone who is starting a new business? (includes policies and special programs)
______________________________________________________

/184. Have you heard about any special programs to help private business with credit or with training?
0. No 1. Yes
8. Other (specify) ____________________________
9. N/A
If so, which program and what is your opinion of it?

185. In your view, what is the future of the private sector in CSFR?

Interviewer's notes on the Entrepreneur and/or the Business:
Coding List For Question on Problems

Demand
1. People don’t have enough money (generally)
2. People aren’t buying because it is the off season
3. Too many other firms in the same business
4. Too many imports
9. Other demand problems (specify) ______________________

Raw Materials and Inputs
11. Can’t get enough local raw materials and inputs
12. Quality of raw materials and inputs is poor
13. Price of local raw materials and inputs is too high
14. Can’t get enough imported raw materials and inputs
15. Price of imported raw materials and inputs is too high
16. Tariffs on imported raw materials are too high
19. Other; (specify) ______________________

Technology, Equipment
21. Equipment is old and needs replacing or updating
22. Replacement costs are too high
23. Can’t get spare parts
24. Local equipment is inferior, can’t afford imports
25. Repairs are difficult to do or get done
29. Other; (specify) ______________________

Finance
31. Have to give too much credit to customers
32. Can’t get credit for raw materials or working capital
33. Can’t get credit for equipment
34. Banks are too difficult to deal with (guarantees are too high, too much collateral, other)
35. Interest rates are too high
36. Cash flow problems due to delayed clearing of payments by the bank
37. State enterprises are not paying on time
39. Other; (specify) ______________________

Labor, Management
40. Lack of skilled workers; workers don’t have the right skills
41. Lack of unskilled workers
42. High wages and benefits for skilled workers
43. High wages and benefits for unskilled workers
44. Not allowed to lay workers off
45. Inadequate management skills. In which area? ________
46. Not permitted to increase wages sufficiently to attract appropriate labor
47. Workers unmotivated or lazy
49. Other; (specify) ______________________

Infrastructure
50. Lack of or frequently interrupted electricity
51. Inadequate telecommunications, specifically ________
52. Inadequate roads for transport
53. Transportation costs are too high
54. Shipping by land, sea and air is very difficult to arrange
55. Shipping by land, sea and air is very expensive
56. Factory space is inadequate and getting a larger space is too expensive
57. Factory space is inadequate and a larger space is not available
58. Warehouse space is not available
59. Other; (specify) ________________________________

**Business Environment**

60. Taxes
61. Regulations, licensing, permits
62. Obtaining foreign exchange
63. Rules and policies change too often
64. Standards and quality requirements are unreasonable (e.g., for gov’t. procurement)
65. Government rules and regulations are too costly to comply with
66. Other; business environment (specify) ________________________________

**Marketing and Distribution**

70. Too few distributors
71. Distributors won’t handle the firm’s product
72. Distributors will pay too little for the firm’s products
73. Difficult to gain access to retail market directly
74. Other; (specify) ________________________________
75. Other problems; (specify) ________________________________

99. N/A = not asked, not applicable, no answer
Topics for Qualitative Information

Write out or type up those facts about this firm that are of interest and that illustrate a general point about private manufacturing that you think is important. If you write, please write clearly—remember that someone at the other end will have to read what you have written. Be specific: problems with taxes is useless if we don't know which taxes and what problems. Whether writing or typing, please start your paragraph with the word underlined so that we can collate easily at the end. Topics that have proven helpful in writing up the report are the following. If you need to add others, please do so. Just be consistent with your topic word.

1. Origins of firm
2. Backgrounds of Entrepreneurs
3. Equipment/Production
4. Labor—skills/training, labor markets, labor culture
5. Raw materials—problems in obtaining, quality
6. Real estate—lease terms, availability, choice of location
7. Effect of govt policies on firms, details of regulations
8. Taxes
9. Attitudes toward private profit making
10. Relationships with state firms, SOEs, buying from, selling to
12. Finance—how done it, current problems with
13. What are the firm's major constraints and problems?
14. Prospects—how do you rate this firm's prospects for the future and why? How competitive is this firm and why? If prospects are poor, what is the main reason? If bright future, what is the key variable? The person, competition or lack thereof, favorable policies? What are your conclusions about this firm?
15. Needs for assistance—what do you think is needed and in what form and delivered by whom?
16. What should the govt. do to assist private manufacturers?
REFERENCES


### Distributors of World Bank Publications

<table>
<thead>
<tr>
<th>Country</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Carlos Rincón, SRL</td>
</tr>
<tr>
<td>Austria</td>
<td>Gemdall &amp; Co.</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Micro Industries Development Assistance Society of Bangladesh</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>House 5, Road 14, Dhaka 10</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>D. A. Montas De Lancay</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>100 Ahsbali Commercial Area, Dhaka 10</td>
</tr>
<tr>
<td>Belgium</td>
<td>Jean De Deo, Av. de Borde 2000, Antwerpen, Belgium</td>
</tr>
<tr>
<td>Canada</td>
<td>La Défense 15, B.P. 20000 92100 Courbevoie, France</td>
</tr>
<tr>
<td>Chile</td>
<td>Inversa ITG S.A., Av. Santa Maria 6600, Santiago, Chile</td>
</tr>
<tr>
<td>China</td>
<td>China Financial &amp; Economic Publishing House, 6 Da Po Dong, Beijing, China</td>
</tr>
<tr>
<td>Colombia</td>
<td>Interlink Ltd., Avenida El Prado 115, Bogota, Colombia</td>
</tr>
<tr>
<td>Côte d'Ivoire</td>
<td>Centre d'Édition de la Diffusion Africaine (CEDA), 04 Av. P. Madié, Abidjan, Côte d'Ivoire</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Center of Applied Research, Cyprus College, 6, Diogenes Street, Engomi, Cyprus</td>
</tr>
<tr>
<td>Denmark</td>
<td>Seminbis/Litteratur, Rosenormer Aalé 11, DK-1970 Frederiksberg C</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Editors Taller, C. por A., Restaurante a Isabel la Católica 209, Apartado de Correos 2190 2-1, Santo Domingo</td>
</tr>
<tr>
<td>Egypt</td>
<td>Arab Republic Of Ali Alamin, Al Qais Street, Cairo, Egypt</td>
</tr>
<tr>
<td>Finland</td>
<td>The Middle East Observer, 41, Sheikh Street, Cairo, Egypt</td>
</tr>
<tr>
<td>Finland</td>
<td>P.O. Box 128, 00101 Helsinki 10</td>
</tr>
<tr>
<td>France</td>
<td>World Bank Publications, 64, avenue d’Etoile, Paris, France</td>
</tr>
<tr>
<td>Germany</td>
<td>UNO-Verlag, Pappelstetterstr. 55, D-5300 Bonn 1</td>
</tr>
<tr>
<td>Greece</td>
<td>Allied Publishers Ltd., 751 Route de Low, Mendris, Switzerland</td>
</tr>
<tr>
<td>Greece</td>
<td>Madras 600 02, Chennai, India</td>
</tr>
<tr>
<td>Greece</td>
<td>13/14 Azaal Ali Road, New Delhi 110 003</td>
</tr>
<tr>
<td>Greece</td>
<td>17 Chittaranjan Avenue, Calcutta 700 071</td>
</tr>
<tr>
<td>Greece</td>
<td>Jayadeva Hostel Building, 54, Main Road, Candibinagar, Bangalore 560 009</td>
</tr>
<tr>
<td>Greece</td>
<td>3-5-1129 Kagoshiga, Cross Road, Hyderabad 500 027</td>
</tr>
<tr>
<td>Greece</td>
<td>Prathona Flat, 2nd Floor, Near Thakare Bag, Narmangpura, Ahmedabad 380 009</td>
</tr>
<tr>
<td>Greece</td>
<td>Petai House, 16-A Ashok Marg, Lucknow 226 001</td>
</tr>
<tr>
<td>Greece</td>
<td>Central Bazaar Road, 40, Baghel, Nagar 464 001</td>
</tr>
<tr>
<td>Greece</td>
<td>P.O. Box 181, Jakarta 1022</td>
</tr>
<tr>
<td>Ireland</td>
<td>Government Supplies Agency, 4-5 Hartcourt Road, Dublin 2</td>
</tr>
<tr>
<td>Israel</td>
<td>Yezriel Literature Ltd., P.O. Box 565</td>
</tr>
<tr>
<td>Italy</td>
<td>Liceo Comunale Sanremo SPA, Via Dux Di Calabria, 1/1, Caslino Postale 552, 50125, Firenze</td>
</tr>
<tr>
<td>Japan</td>
<td>Eastern Book Service, Hongo 3-Chome, Bankyo-ku 113, Tokyo</td>
</tr>
<tr>
<td>Kenya</td>
<td>Africa Book Service (AGL) Ltd., Quaran House, Victoria Street, Nairobi</td>
</tr>
<tr>
<td>Korea</td>
<td>P.O. Box 101, Kwanghwaemon Seoul</td>
</tr>
<tr>
<td>Malaysia</td>
<td>University of Malaya Cooperative Bookshop, Limited, P.O. Box 1177, Kuala Lumpur</td>
</tr>
<tr>
<td>Mexico</td>
<td>BURITIC, Apartado Postal 22-500, 14000 Tlaepan, Mexico D.F.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>De Lindedroom, In/De-Publicaties, P.O. Box 291, 1400 AE Haaksbergen</td>
</tr>
<tr>
<td>New Zealand</td>
<td>BSCCO NZ Ltd., Private Mail Bag 9991, New Market, Auckland</td>
</tr>
<tr>
<td>Nigeria</td>
<td>University Press Limited, Three Cowrie Building Switch, Private Mail Bag 3005, Abuja</td>
</tr>
<tr>
<td>Norway</td>
<td>Norwegian Information Center Book Department, P.O. Box 612, Enieter, N-0602 Oslo 6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Mika Book Agency, 65, Shahrah-e-Quaid-e-Azam, P.O. Box No. 729, Lahore 54000</td>
</tr>
<tr>
<td>Peru</td>
<td>Editorial Desarrollo SA, Apartado 3824, Lima 1</td>
</tr>
<tr>
<td>Philippines</td>
<td>International Book Center, Suite 401, 401 Chiyoda, Japan</td>
</tr>
<tr>
<td>Poland</td>
<td>International Publishing Service, U1, Plaza 31/37, 00-477 Warszawa</td>
</tr>
<tr>
<td>South Africa</td>
<td>For single titles: Oxford University Press, Southern Africa, P.O. Box 1141, Cape Town 8000</td>
</tr>
<tr>
<td>Spain</td>
<td>Mund-Press, Instituto, S.A., Casilla 37, 28001 Madrid</td>
</tr>
<tr>
<td>Sri Lanka and the Maldives</td>
<td>Lake House Bookshop, P.O. Box 246, 100, Sir Chittaranjan A., Garden Vehda, Colombo 3</td>
</tr>
<tr>
<td>Sweden</td>
<td>For single titles: Frank F. Petersen, Stensgatan 12, Box 16856, 5-120 Stockholm</td>
</tr>
<tr>
<td>Switzerland</td>
<td>For single titles: Librairie Payot, Case postale 2922, CH 1002 Lausanne</td>
</tr>
<tr>
<td>Thailand</td>
<td>Central Department Store, 354 Siam Road, Bangkok, Thailand</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>Dr. René Lévy, 18-20, Jeanne Vernet, Antwerp, Belgium</td>
</tr>
<tr>
<td>Barbados</td>
<td>GRENADA, JUNE, JAMAICA, KENYA, ZAMBIA, ZIMBABWE, ST. LUCIA, ST. VINCENT &amp; THE GRENADINES,</td>
</tr>
<tr>
<td>Barbados</td>
<td>Systematic Studies Unit, 79, W. Street, Cartagena, Colombia</td>
</tr>
<tr>
<td>Barbados</td>
<td>Trinidad, West Indies</td>
</tr>
<tr>
<td>Turkey</td>
<td>Internat, Nuslub Resoh, No. 15, Istanbul, Turkey</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Micronesia Ltd., P.O. Box 3, Atien, Micronesia GUS, 372, England</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Distributors of World Bank Publications</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Libreria del Estado, Apdo. 40, 207, Caracas 1060-A, Venezuela</td>
</tr>
</tbody>
</table>
RECENT WORLD BANK TECHNICAL PAPERS (continued)

No. 197 Zymelman, editor, Assessing Engineering Education in Sub-Saharan Africa
No. 198 Teerink and Nakashima, Water Allocation, Rights, and Pricing: Examples from Japan and the United States
No. 199 Hussi, Murphy, Lindberg, and Brenneman, The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank
No. 200 McMillan, Nana, and Savadogo, Settlement and Development in the River Blindness Control Zone: Case Study Burkina Faso
No. 201 Van Tuijl, Improving Water Use in Agriculture: Experiences in the Middle East and North Africa
No. 203 Cleaver, A Strategy to Develop Agriculture in Sub-Saharan Africa and a Focus for the World Bank
No. 204 Barghouti, Cromwell, and Pritchard, editors, Agricultural Technologies for Market-Led Development Opportunities in the 1990s
No. 205 Xie, Küffner, and Le Moigné, Using Water Efficiently: Technological Options
No. 207 Narayan, Participatory Evaluation: Tools for Managing Change in Water and Sanitation
No. 208 Bindlish and Evenson, Evaluation of the Performance of T&V Extension in Kenya
No. 209 Keith, Property Tax: A Practical Manual for Anglophone Africa
No. 210 Bradley and McNamara, editors, Living with Trees: Policies for Forestry Management in Zimbabwe
No. 211 Wiebers, Integrated Pest Management and Pesticide Regulation in Developing Asia
No. 212 Frederiksen, Berkoff, and Barber, Water Resources Management in Asia, Volume I: Main Report
No. 213 Srivastava and Jaffee, Best Practices for Moving Seed Technology: New Approaches to Doing Business
No. 214 Bonfiglioli, Agro-pastoralism in Chad as a Strategy for Survival: An Essay on the Relationship between Anthropology and Statistics
No. 215 Umali, Irrigation-Induced Salinity: A Growing Problem for Development and the Environment
No. 216 Carr, Improving Cash Crops in Africa: Factors Influencing the Productivity of Cotton, Coffee, and Tea Grown by Smallholders
No. 217 Antholt, Getting Ready for the Twenty-First Century: Technical Change and Institutional Modernization in Agriculture
No. 218 Mohan, editor, Bibliography of Publications: Technical Department, Africa Region, July 1987 to December 1992
No. 219 Cercone, Alcohol-Related Problems as an Obstacle to the Development of Human Capital: Issues and Policy Options
No. 220 Kingsley, Managing Urban Environmental Quality in Asia
No. 221 Srivastava, Tamboli, English, Lal, and Stewart, Conserving Soil Moisture and Fertility in the Warm Seasonal Dry Tropics
No. 222 Selvaratnam, Innovations in Higher Education: Singapore at the Competitive Edge
No. 223 Piotrow, Treiman, Rimon, Yun, and Lozare, Strategies for Family Planning Promotion
No. 224 Midgley, Urban Transport in Asia: An Operational Agenda for the 1990s
No. 225 Dia, A Governance Approach to Civil Service Reform in Sub-Saharan Africa
No. 226 Bindlish, Evenson, and Gbetibouo, Evaluation of T&V-Based Extension in Burkina Faso
No. 228 Webster and Charap, The Emergence of Private Sector Manufacturing in St. Petersburg: A Survey of Firms
No. 229 Webster, The Emergence of Private Sector Manufacturing in Hungary: A Survey of Firms