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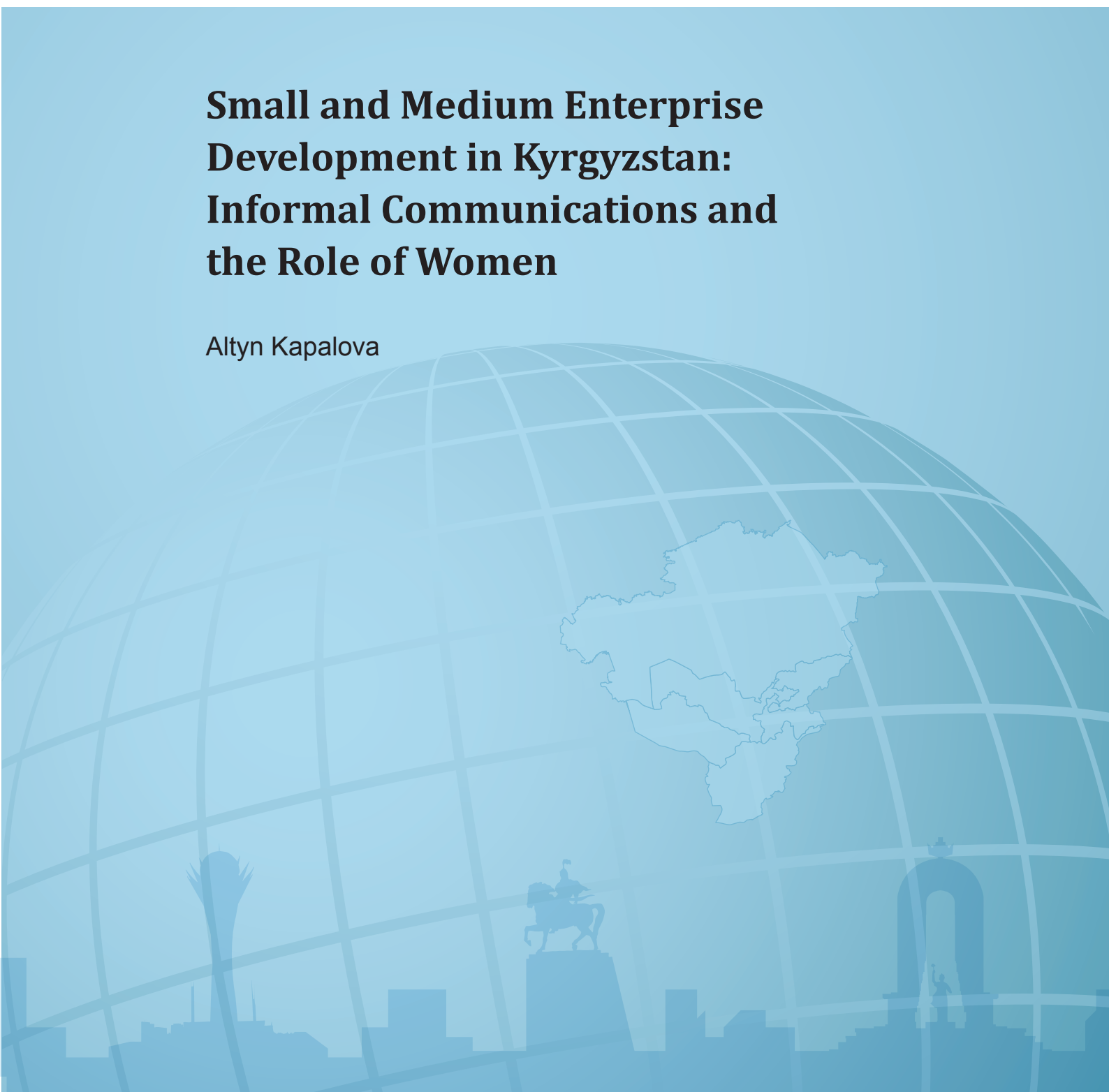
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GRADUATE SCHOOL OF DEVELOPMENT

Institute of Public Policy and Administration

# **Small and Medium Enterprise Development in Kyrgyzstan: Informal Communications and the Role of Women**

Altyn Kapalova



**WORKING PAPER NO.25, 2014**





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## **Abstract**

This paper is intended for those interested in the development of small and medium-sized businesses in the Kyrgyz Republic. This paper is based on the results of anthropological research conducted by the University of Central Asia's Institute of Public Policy and Administration from October 2013 to March 2014. This paper highlights issues related to informal channels of communications for building business relationships; the role of women in the development of small and medium-sized businesses; and the degree of influence of the development of small and medium-sized enterprise (SME) on the infrastructure in the capital city of Bishkek.

## **Keywords**

Informal economic relations, woman entrepreneurship, small and medium enterprise.

JEL codes: Z1

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### **About the author**

Altyn Kapalova conducts anthropological research of informal communications in Kyrgyz society. One of her recent studies was on financial support obligations in Kyrgyz kinship networks. As a fellow of the Central Asia and Caucasus Research and Training Initiative in 2012, she interned at the Department of Anthropology at Texas A & M University, USA. Ms. Kapalova currently teaches at the Kyrgyz State University of Construction, Transport and Architecture.

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## Abbreviations

ACC	Anti-Corruption Commission
SME	Small and medium enterprise
VSS	Vehicle service station
IE	Individual entrepreneur
NSC KR	National Statistics Committee of the Kyrgyz Republic
LLC	Limited liability company
LC KR	Labour Code of the Kyrgyz Republic

## 1. Introduction

This paper examines the social fabric of small and medium-sized businesses in Kyrgyzstan, using the business zone of Bishkek as an example.<sup>1</sup> Particular attention is paid to the role of women entrepreneurs in small and medium enterprises (SME). The paper focuses on the role of communications in the SME sector as a factor that can influence the dynamics of SME development.

The business environment in Kyrgyzstan is currently evolving. It is fluid, variable and chaotic. There is virtually no clear, coherent and focused public policy in the area of SME development. Government systems for business registration, reporting and monitoring are also nascent. Existing regulations are inconsistent and contain mutually conflicting provisions. For example, there are different definitions for what constitutes “small” and “medium” business.<sup>2</sup> Government statistics on SMEs are limited, especially with regard to gender dimensions of SME development.

Kyrgyzstan has virtually no history of business development in the modern sense of the term. In Soviet times there were some government and public mechanisms to regulate businesses, but there was no demand for such regulation, particularly in the areas of tax regulation or trade unions. Today, there is a need for such regulating mechanisms, and the country is forced to learn from its own experience. This study is an attempt to assess and analyse lessons to date.

Section one of this paper describes the differentiation criteria that were applied to the businesses under study. Mechanisms of and results of informal communications are discussed in section two. Section three examines small and medium businesses within the territorial context of Bishkek; as a phenomenon that can change the city’s infrastructure and social processes. Section four examines the problems faced by women who operate small and medium businesses in Kyrgyzstan, based on existing studies and in-depth interviews conducted during the course of research. This is followed by conclusions and recommendations. The rather unique Kyrgyz terminology that has developed in formal and information communications in the SME sector is presented in a glossary of terms (see Annex).

## 2. Goal, Objectives and Methodology of the Study

The goal of this study is to improve understanding of small and medium businesses in Kyrgyzstan, using Bishkek as example. The objectives are:

- Describe the social dimensions, strengths and weaknesses of SMEs in Kyrgyzstan;
- Describe informal communications related to SMEs; and
- Identify and describe the role of women in SMEs in Kyrgyzstan.

<sup>1</sup> The author would like to thank Gulnara Kurmanova for the opportunity to discuss the concept of the study; Daniyar Amanaliev and Buazhar Abdykadyrova for the opportunity to discuss individual sections of the report; Gulbara Omorova for taking part in field data collection; and all respondents – small and medium business operators, government officials and experts - who generously donated their time to be interviewed for this study.

<sup>2</sup> I.A. Arunova and A.K. Attokunov, *Inovatsionnyi potential malogo i srednego bisnesa v Kyrgyzskoi Respublike*, Natsionalnyi institut strategicheskikh issledovaniy, Bishkek 2013. .

The study used qualitative methodology, including meta-analysis of existing data, as well as the involvement of respondents from various circles related to SMEs. Research methods included participant observation; expert interviews; in-depth interviews with business owners and managers; mapping business areas; analysis of gender composition of the people involved in enterprise; analysis of the social profile of such people; and analysis of dimensions and operations of SMEs and the area under study.

**Sampling.** Respondents were selected for interviews to ensure the best possible representation of different groups associated with SMEs. Sixty-seven respondents were selected, including business owners, employees of business entities and government officials. Analysis was based on the data obtained during the in-depth interviews, and data obtained during short interactions with owners and employees during the mapping exercise.

**Mapping.** Mapping was carried out in three areas: streets of North-Eastern, South-Western and North-Western parts of Bishkek.<sup>3</sup> These included different types of areas, including a major throughway, an urban street with public transport and an urban street with no public transport, and the concentration of SME entities in these areas varied. Overall, more than 150 business entities were assessed externally, with 87 assessed for gender composition.<sup>4</sup>

**Study Limitations.** This paper omits those businesses that exist, develop and expand due to illegal activities of business owners, corruption and abuse of public authority. This study also omits those businesses that have been artificially split into smaller entities as a protection against criminal asset takeover. Business owners may also have incentives to divide their business into smaller parts to reduce their taxes. Formally, such entities may individually constitute SMEs, but together they are effectively owned by one person and are one large entity. Finally, this study omits internet-based businesses, and agricultural production or processing businesses.

### 3. Small and Medium Businesses in Kyrgyzstan: Differentiation and Cultural Specifics of Doing Business

#### Specifics of Modern Business in Kyrgyzstan

Research on the infrastructure of relations in SME in Kyrgyzstan indicates that informal relations prevail over formal institutions;<sup>5</sup> the Kyrgyz economy is dependent on informal players;<sup>6</sup> and there is a prevalent use of unstable and informal sources of finance, supplies and services.<sup>7</sup> These characteristics are not limited to the Kyrgyz small business sector, which has

<sup>3</sup> These streets are marked as “A”, “B” and “C”, respectively.

<sup>4</sup> Overall, more than 300 people are involved in the operations of these 87 business entities.

<sup>5</sup> Regine A.Spector, “Securing Property in Contemporary Kyrgyzstan,” *Post-Soviet Affairs*, 24, no.2, (2008): 149–176.

<sup>6</sup> Laura Birkman, Maria Kaloshkina, Maliha Khan, Umar Shavorov, Sarah Smallhouse, *Textile and Apparel Cluster in Kyrgyzstan*, Harvard Kennedy School, Harvard Business School (May 2012).

<sup>7</sup> *Issledovannie malogo i srednogo bisnesa v Kyrgyzstane. Resultaty anketnogo oprosa* M-Vektor, Bishkek, <http://ldp.kg/wp-content/uploads/2012/07/%D0%94%D0%BE%D1%81%D1%82%D1%83%D0%BF-%D0%9C%D0%A1%D0%91-%D0%BA-%D1%84%D0%B8%D0%BD%D0%B0%D0%BD%D1%81%D0%B0%D0%BC.pdf>

basically started from scratch since independence. It extends to other areas of Kyrgyzstan's economy and social life.

### **Informal Relations**

In addition to economic factors affecting business development, there is a strong system of informal relations, whose mechanisms are evolving and improving, and which have a strong influence over business development in Kyrgyzstan. These relationships exist among the people who primarily identify themselves as heirs of the traditional and modern Kyrgyz culture of communication, and only secondarily identify themselves as, for example, civil servants or citizens of their country. Such relations are rooted in, and have a goal of not just profit, but also something more abstract, namely, traditional customs and commitments which act as a condition of communication and encourage desirable practices; namely, actions that are aimed at beneficial cooperation not just now, but also in the future. Informal channels are created this way and they are broader than the channels of formal relations. For these relations to exist, they need to have restrictions, and these prohibitions are ultimately stronger than restrictions created by formal institutions.

### **“Shades” of Business**

The data collected during field studies was used to identify several types of businesses. “Shades” in this case mean types of small and medium businesses that were identified as a result of the study of the social fabric of the business environment and the communication mechanisms used in establishing and running a business. In addition to being in different industries or having different formal criteria, businesses may have different characters. The analysis of communications of business owners revealed three types of businesses, which were given the working names of “peripheral business”, “conscious business” and “smart business”.

### **Peripheral Business**

The use of “peripheral” in this case reflects the geographic location on the map of the city, but also the fact that such businesses are located on the edges of the economy. They minimally contribute towards economic development and the improvement of livelihoods of the general population and of the owners themselves. Most often, these businesses involve between one and five people. Such entities, despite being in business for up to 20 years in many cases, show no growth in sales, income or other performance indicators. The owners of this type of business are vulnerable because they depend on the physical environment (e.g. the closing of the bazaar). Their choice of place of business is usually based on chance or on advice of relatives and acquaintances. Most frequently, these businesses are retail shops; grocery stores, pavilions<sup>8</sup>, shoe repair shops, barber shops and small restaurants.

The analysis of the interviews identified several key reasons for the lack of growth and stability in peripheral businesses:

<sup>8</sup> “Pavilion” usually means a one-room small shop. This type of shop is mobile and can be set up anywhere. Usually there are no bathrooms in pavilions, but there is electricity. In colloquial use, the word “pavilion” has become synonymous with grocery store.



- **Initial philosophy:** Owners of peripheral businesses do not think about expansion or growth. Their primary reason for establishing a business is desperation or an attempt to find employment. Many owners establish their business because of acute need. Frequently, when they start a business they start an *ish*<sup>9</sup>, not a *business*. In Kyrgyz language small business is usually described with the word *ish*, while the word *business* is more frequently reserved for larger businesses. The word *businessman* in Kyrgyz has a negative connotation, for two reasons. The first reason is that in the eyes of many, modern businesses with significant sales were built with money that was earned not through labour.<sup>10</sup> The second reason is that the term *business*, when it first appeared in the “wild 1990-s”, was closely related to crime. Therefore, the word *businessman* is controversial.

*The words “entrepreneur” and “businessman” – these are words that have a particular flavour among our people. The word “biznesmen” has particularly negative connotations. When you talk to youth and ask them: “How do you describe a biznesmen?” they will give answers along the lines of: “A biznesmen wears sunglasses, drives an SUV, has power, is rich and is bad”. I think that given our cultural specifics we should rather use the word “ishker”. Even among the Russian-speakers here the words “entrepreneur” and “businessman” have negative flavour – all of this despite the fact that a major part of our society is actively involved in entrepreneurial activity.*

*(Uluk Kydyrbayev, Economist, Executive Director, Public Association “Chamber of Tax Consultants” and Founder, “Bizexpert” Analytical Center)*

*This is not “biznes”, this is just “ish”. “Biznes” is for big people, people who have power; we, on the other hand, merely want to survive, we sell to be able to pay for groceries and rent.*

*(Female hardware store owner, aged 45 years)*

The notion that an ‘*ish*’ has been created as a means of survival and not as something that will grow and expand is widely prevalent in Kyrgyzstan. Peripheral businesses are characterised by a pessimistic mood, depressed psychological state of the founders, difficulties accessing financing, inadequate education of the entrepreneurs themselves, and traditional and non-reciprocal financial obligations to relatives and friends, which do not allow for the accumulation of financial resources.

- **Lack of knowledge on running a business** and restricted access to financial resources are also among the reasons for the static nature of peripheral businesses. Some respondents mentioned failed expansion attempts. The principal causes of such failures, in their opinion, were lack of knowledge and skills in areas such as business planning, competition and risk analysis.

*We used to rent a shop in Orto Say Bazaar. The business was good, there were lots of customers there. After saving some money we decided to buy our own shop. At that time our acquaintances were selling this apartment, which had been converted into*

<sup>9</sup> Ish - work

<sup>10</sup> From interviews with the participants of business processes that were carried out as part of this study.

*a shop. So we bought this apartment, brought our merchandise here, but it turned out that the business here is bad – there are no customers here. When we decided to go back to our old shop, it turned out that the landlord had already found new tenants and our old space was now being rented by someone else. We don't know what to do now. In these past seven months, we didn't make anything.*

*(40 year old female grocery shop owner)*

- **Dependence on informal communications institutions** and a reliance on informal solutions are frequently rooted in corruption. To a certain extent, informal, trust-based communications are the basis of entrepreneurship. Such communications allow one to resolve problems in a cost-efficient way. However, informal communication also carries great risks. The more a business grows, the more problematic informal communications become, and at a certain stage informal communications become more costly than formal communications. Problems in this case means not just relations with government officials, but also problems arising from active participation in kinship and other social networks that are not directly related to the business itself.

*Every time my husband and I save enough money to expand our product range, someone dies or gets married and this forces us to spend this money. Every time when we want to buy a new shelf or do something to expand our business, my husband starts joking: "Please, let there be no more deaths among our relatives."*

*(Female owner of a clothing shop)*

Most entrepreneurs in this group operate on the basis of a patent or register as individual entrepreneurs. All monetary transactions in such environment are in cash. Owners of peripheral businesses usually have no personal or business bank accounts.

### Conscious Business

Conscious businesses are those that start small and show growth over time. They were identified based on the analysis of the information received from respondents and the history of their businesses. A typical success story is as follows: start with a small shop, expand the shop, buy or rent a larger place, then evolve into a larger entity, start acquiring property, such as real estate and machinery. This category of businesses includes medium-sized sewing shops, where the owners are very familiar with production and distribution and started their business with a couple of sewing machines, eventually expanding, taking calculated risks and using loans.

*I came to Bishkek from Balykchy in 1998. My parents had a small shop in the bazaar in Balykchy. Naturally, we had no money to pay for the university. So I found a job as a seamstress; I knew the job pretty well. I quickly learned everything I needed to know in my new job and in two years I became a technologist. This is when my sister came to Bishkek. I found her a job as a seamstress. This is when we started thinking about opening our own sewing shop. In 2004, we took out a loan and bought five sewing machines. By this time our brother finished school and joined our business. We started growing faster. Now we have 40 sewing machines. Two years ago we moved our shop to Balykchy, where we bought suitable premises for our shop. We bought a vehicle to move raw materials from, and finished products to, Bishkek. Our*

*shop is growing very well, we don't have enough sewing machines to fulfill all the orders ourselves, so we subcontract independent seamstresses.*

*(Female co-owner of a sewing shop, aged 32 years)*

Conscious businesses are capable of changing the infrastructure of their place of operation and of making a positive impact on the livelihoods of those involved with them. Such businesses create jobs for some and provide quality services and products to others. For example, at the end of 2012, a retail shop opened on Street "C". The owner bought an abandoned building that had been used by the homeless and alcoholics. Today it is a retail complex providing 16 jobs, and it includes a convenience store, a restaurant and a service station. The owner of this place believes that the only challenge to her business development will be in maintaining proper relations with government officials.

*What makes me particularly bitter is when I have tax inspectors or fire inspectors showing up at my door and starting to zealously search for violations, anything that would force me to offer a bribe. You know, the first time they came to me, they were rather polite, but as soon as they realised that we had no protection, that we were not owned by a government official, they changed their tone and manners. But what gives me encouragement are the warm words that I hear from the people who live in the neighborhood. They stop by and thank us for cleaning the place up and for offering quality goods and services.*

*(Female co-owner of a retail complex, aged 36 years)*

Conscious businesses also include young businesses that were established with extensive planning and analysis of competition and demand for their goods and services.

Some respondents in this group listed the following kinship-related factors as the reasons for the success of their businesses:

- Money for expansion was borrowed from a relative;
- Business was established in cooperation with the relatives;
- Most staff are trusted employees; and
- Relatives collected money to pay for an expansion.

More than one-half of the respondents classified as conscious businesses are registered either as Individual Entrepreneurs (IE) or Limited Liability Companies (LLCs). The expectations of monitoring government authorities depend on the organisational form of a business:

*Operating as an Individual Entrepreneur is significantly less costly for me, but the drawback is that this organisational form is ill-suited for business with international organisations or large companies. This is why I registered another entity, a Limited Liability Company, in my brother's name. I even gave a different name to this entity. For some reason the government inspectors have higher expectations of LLCs.*

*(Male owner of a manufacturing business)*

### **Smart Business**

Smart businesses are those whose owners are aware of their place and opportunities in the realities of the Kyrgyz business scene. In this category of businesses, human factors, such

as characteristics of the owners themselves, are an important factor of business development. Owners of such businesses have a good education, graduate degrees in some cases, and have work experience from international organisations, civil society organisations or in the private sector. They frequently have successful careers, progressing from ordinary employee to top management. Some respondents continue their activities in organisations that are not related to their business. Owners of smart businesses always have an active civic position. Many are actively involved in various social activities, such as participation in television shows, interviews to online media and the initiation of youth-oriented educational programmes. Men in this category of businesses are very popular among both urban and rural youth.

Businesspeople in this category believe that the conditions for establishing and doing business in Kyrgyzstan are rather good.

*There is everything you need for business in Bishkek. Moreover, Kyrgyzstan is a good proving ground for your business ideas, which you can then clone elsewhere. There are examples of such successes.*

*(Elvira Sariyeva, Member of Bishkek City council, Chair, Commission for the 2020-2030 Strategic Development Plan for Bishkek City, and Founder, LOFT TSEKH (co-working community) and I-media)*

In some cases, conscious businesses are characterised by a conflict of interests. Holding positions in key positions in government, major non-governmental and international organisations, which consume products and services (such as printing services, educational services, advertising and marketing, real estate and transport services and catering services), allows the employers of these businesses to have detailed information about the demands/tenders of such organisations. This information and their opportunity to influence decision-making are often being used in order to get orders.

## **Internal Dynamics: Factors Affecting Business Development**

The factors discussed below are the driving factors of SME development in Kyrgyzstan. These factors are not necessarily always positive. They may feature participation of informal institutions, rely on corrupt mechanisms and may have a negative impact on the parties involved.

### **SME Human Resources**

Most people involved in SMEs as labour do not receive market-level wages and do not receive any guarantees from their employers. Employers also do not enjoy any guarantees. On the one hand, having an underpaid work force is one of the most important factors of SME development. It is this factor that allows the SME sector to survive in an environment where profit margins are otherwise insufficient to ensure the sustainability of the business when businesses themselves have not attracted sufficient investments. On the other hand, this lack of labour security is a barrier to the development and expansion of the businesses. While it does enhance sales today, it limits growth tomorrow.

Of the six owners of sewing shops surveyed (which cumulatively employ between 260 and 300 workers), not one owner has formal labour contracts with their employees. All relationships are based on verbal, informal understandings. Analysis indicates that the owners, regardless of the size, industry or pace of growth of their business, share a common concern – how to keep and register their employees. On the one hand, offering official employment hurts the already low bottom line, which may be critical for the business. On the other hand, not offering contracts undermines the loyalty of the most skilled workers.

As a result, employment in Kyrgyzstan is typically short-term. In the garment industry, workers are paid on a weekly basis, in retail, on a daily basis. One rarely hears people saying “I have found a job”. Much more frequently people prefer to say “*Jumushka kirdim*” (*jumush* – work, *kiryuyu* – enter, or “I have started working today”). It is usually clear that work that started in the morning may very well end in the evening, particularly in peripheral businesses. In most smart business, workers are employed on the basis of a *patent*.<sup>11</sup> Usually such workers work for several organisations and the same patent is used in all of them. In conscious businesses, it is the owner who buys the *patent* for several key workers, with the workers frequently not even knowing about this, while the remaining workers are employed without any registration. Respondents reported that there were cases when the *patent* was acquired in the names of relatives who had no actual participation in the operations and management of the business.

There are cases when business owners refuse to pay their workers for a variety of reasons and workers have no recourse. Additionally, it is rare for employees in the SME sector to discuss working conditions with their employers because little is likely to change, and moreover employees tend to change jobs very frequently.

### Intellectual Labour

Separate mention should be made of business in the creative spheres. Many Kyrgyz artists in the creative fields, such as cinema, theatre and graphic design receive orders from Kazakhstan. Some members of this group have a formal producer and creative studios and are registered as legal entities in Bishkek. However, when working for Kazakh customers they prefer to act as private citizens to simplify contractual and payment formalities. In other words, when dealing with customers from other countries such businesses position themselves as artists, not as entrepreneurs.

### Densely Populated Markets

Understanding local markets does not require much effort or significant investment from an entrepreneur, and can reduce costs significantly. Businesses within one industry frequently prefer to establish partnerships. However, focusing only on the domestic market limits expansion opportunities.

*I believe that the challenge for SME development in Kyrgyzstan is communications. We are not using new technology and innovations; things that the rest of the world*

<sup>11</sup> The ‘*patent*’ is a document that allows an entrepreneur to operate a business as an unincorporated entity. This is a simplified tax procedure that a business can apply for as long as its 12-months sales do not exceed 4 million Kyrgyz soms.



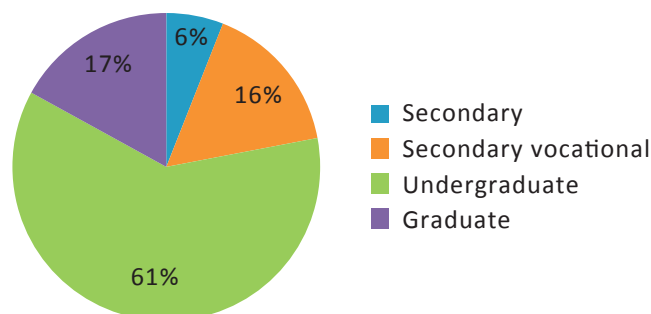
*is actively using. Things that reach us go through Russia first, and we get access to information only after it has been processed by and adapted for Russia. Therefore, I believe that it is very important for us at this stage to learn foreign languages so that we could get direct, first-hand access to the most recent information.*

*(Bakyt Asanov, Director General, Tekstonik CJSC)*

### Education and work experience

Education is a key factor that impacts business development. The vast majority of business owners that were interviewed have a higher education. Unfortunately the tertiary education they received was of poor quality and unrelated to labour market or business opportunities. Those that do not have higher education complained about the lack of knowledge that in the opinion of the majority hurts them when dealing with government officials.

**Figure 1. Educational Background of Business Owners**



*Even if I know that I am right, I am still unable to prove anything to the inspectors. I do not understand much in this paperwork. They will lie and take advantage of me, extort the bribe and leave. And I stand there, realising that I should have stood up for myself.*

*(Female owner of a jewelry and cosmetics shop, aged 48 years)*

At the same time, almost half (6 out of 14) of the respondents without a higher education, when responding to the question ‘Why did you decide to start your own business?’ answered ‘Since I had no education, I couldn’t find a decent job or pay a bribe to get a one’.

Lack of government jobs and general distrust of government were noted among most of the respondents.

*I trained to be a civil servant, I graduated from the Presidential Academy of Public Management. I became sick of the unfairness in the government sector. And the pay was miniscule. I felt so sad for wasting my potential there. I became so sick of it, so sick of not having any rights. I found a job in private sector, where I worked for three years in several organisations for little money. However, these jobs taught me how things should be run and last year I opened my own business. I always knew that I could do more and I have no regrets over quitting my government job.*

*(Female owner of a training centre, aged 28 years)*

### Previous Experience

Previous work experience of business owners is an important factor in the development of smart businesses. Successful entrepreneurs also bring extensive work experience in various sectors. Given the realities of the last two decades of the Kyrgyz education system, having formal education does not necessarily mean having actual knowledge or know-how.

## 4. Role of Informal Communications and Traditional Institutions in Establishing and Operating Businesses in Kyrgyzstan

The “grayer” or less formal a business, the higher the role of informal relations and the more sophisticated are the mechanisms of informal communications guiding those relations. Informal relations cover the gaps in the types of business knowledge that are needed. Informal relations ensure relatively comfortable operations for a business and, to a certain extent, even more effective management. For example, business owners try to report to those tax inspectorates or branches of the Social Fund where they have *taanysh* (acquaintances) who can “support” them. This support could include helping them to skip the queue (even though one can submit reports in electronic form), to explain regulations (even though providing such explanations is part of their job), admit late reports (even though one can submit reports in time); all for a fee, of course. Alternatively, such actions of a government official could be a result of a friendship between the government official and the entrepreneur. This type of relationship exists as long as the two are equally useful to each other.

Informal relations with government inspectors provide a comfortable environment for business owners, minimising the inconveniences that arise due to gaps in education and poor planning.

Of course, the distinction between such relations and corruption is very thin. However, even in cases where corruption is obvious, participants in such relations do not view their actions as corrupt. Of seventy entrepreneurs whose businesses are located along Street “C”, seven did not have state registration. Bribing a local inspector is half the cost of a *patent*, which, in this area, is equal to 1,500 Kyrgyz Soms or USD 30.

*I used to buy patents. I would go to the local tax inspectorate and they had tax inspectors with stone faces. Then there is a queue, which you had to stand in. Then one time an inspector came to my place and it turned out that my patent was expired. I offered him money on the spot, but he refused. This is my third month operating without a patent. We have polite boys from the tax inspectorate that come to us and we have informal arrangements. If you go and get a patent yourself, you will also need to get that pink thing<sup>12</sup> as well. Under our informal arrangements I have to pay only one-third. I think that the tax boys are willing to help the elderly people like me. They are good boys, they ask about my health and wish me success in my business.*

*(Female owner of a lingerie shop, aged 60 years)*

<sup>12</sup> This refers to the Social Insurance Certificate, which proves that the bearer has made all appropriate social and pension contributions to the Social Fund.

Virtually all government organisations with oversight functions have an informal division of labour, that allows for both vertical and horizontal career growth. Horizontal career growth means having authority over lucrative spots; access to such “creamy” spots depends on how strong a patron one has within the government department. The logic is the same as with vertical advancement:

*I don't even know what departments are in the Tax Inspectorate. We are the SME people, we have our own company. We don't talk much to other departments, but we know where people work. We know who has “creamy” spots and who has “not so creamy” spots. My area, for example, is not very creamy, because the guy who helped me get hired does not have too much power. He does, however, have enough power to help me survive the shake-ups. This is why for the past seven years, I have remained a lowly inspector.*

*(Tax officer)*

Impressions from interactions with respondents from the Fire Inspectorate are ambiguous. On one hand, fire inspectors know regulations very well. On the other hand, complying with all these regulations is hardly possible. Four of the respondents interviewed indicated that spending about USD 250 helps to keep fire inspectors looking the other way.

Respondents from smart businesses noted the simplification of business regulations, such as registration, licenses, permits, audits, including customs audits, has occurred over the past three years. They are a group that is highly informed about the regulatory environment and have contacts in government to help them in navigating the regulations. Those in peripheral conscious businesses are unacquainted with regulatory changes and do not benefit from more favourable conditions.

In all aspects of business, informal communications among partners, (customers, government officials, hired labour, competitors and the media), play an enormous role. However, the degree of reliance on informal communications varies depends on the category of business. In smart businesses, personal contacts are used to secure orders, to search for information, to establish partnerships, to accelerate the resolution of individual issues, and to build relations within the team. Informal relations in these businesses do not go beyond business relationships and areas where business is conducted. In peripheral and conscious businesses, informal relations go beyond business and involve physical and financial resources and interactions outside the business environment, such as house visits and joint leisure activities, which in the opinion of entrepreneurs, reduce the need to maintain formal records of transactions. In conscious businesses, informal relations involve giving jobs to relatives and acquaintances; family businesses; providing trust-based loans to relatives; having influential friends and relatives who provide patronage to the business; operations without contracts or other records to protect the rights of workers; informal relations with representatives of government inspectorates; and close relationships with the people in your organisation, and with suppliers and customers.

*There is little sense in being a patron of a medium-sized business. Having a high-ranking relative or a patron is very expensive. It is easier to work directly with*



*the field officers of government authorities; the lower the rank of the government official, the lower the guy's price tag."*

*(Owner of a medium-sized business)*

*I can't operate without such informal relations. This is the only way to go for us. We get inspectors from everyone and his brother: the Social Fund, Tax Inspectorate, Sanitary Inspectorate, Fire Inspectorate, even the Anticorruption Commission started visiting us. And each of these guys has to be paid off, otherwise they will keep harassing our business.*

*( Co-owner of a sewing shop, aged 28 years)*

*My "Sales on Credit" number for this month has already exceeded 80,000 soms (around US\$1,600); my total stock is 350,000 soms (around US\$7,000). I cannot sell more than 80,000 som on credit, taking the customer at her word because I will have a reduced product range and I will have less things to sell. But on the other hand, unless I give customers credit I won't sell anything. This is a nerve wracking way of doing business.*

*(Female owner of a grocery shop, aged 34 years)*

There are no formal contracts or official guarantees between wholesalers and retail outlets. Guarantees are usually simply vouches by common acquaintances, relatives and friends. Customer history also serves as a form of assurance for the supplier, and is a gauge of success of the partner's business and loyalty. Reputation in this environment is proven by informal guarantors. Business journal entries do not contain any formal data, just the first name of suppliers, place of transaction and phone number.

In sewing shops, clothing designs do not have model numbers or indices. All the shops produce roughly the same products. However, since there are many shops, designs are named after a distinguishing feature, material or decorative detail; For example, "shiny", "staple", "American", "Bolero", or "blouse". There are manufacturers that pay more attention to improving the quality of their products and these businesses introduce new names and codes for their products. This, however, is usually done at the request of customers, and not on the initiative of the sewing shop itself.

Competitors also develop informal relationships. For example, there are several large printing houses in Bishkek that they provide printing services for the whole city through small printing houses-intermediaries. Intermediaries do not do the work itself since they just collect orders and place them in big printing houses. Under this arrangement, the small printing houses bear more risks as they interact directly with the customer and are responsible for the quality of a product which they do not produce. Small publishing houses pay all the taxes, because customers need receipts for their reporting. Larger companies will add 12 to 15 percent to the costs, if the customer requires all appropriate documentation, which forces smaller printing houses to order products from larger printing houses without documentation. No official records are kept for such collaboration, because the members of such arrangements are bound by informal, friendly relations. However, these friendly relations do not go beyond business, while such expansion of relations is a normal practice for participants of peripheral businesses.

Informal relations may continue after the completion of services. For example, in Bishkek, there is a practice of registering one's employees with other companies. Workers that are actually employed with one company, are formally registered as employees of another. This allows the employing company to understate their actual number of employees (in order to hide income received cash without proving documents), while companies where the employees are registered with (but which do not register their own employees), are able to formally exist and operate and to increase their expenses in order to pay less tax profit. The companies that register employees as a pure formality are those with high revenues but few employees. By artificially inflating the number of employees they reduce the suspicion of tax authorities that something is not in order.

In sewing shops, informal institutions prevail over formal institutions in both external and internal communications. Hiring arrangements between owners and seamstresses are verbal. Managers of sewing shops have developed various mechanisms to reduce their risks.

*We pay our people every week. However, I pay not at the end of the week, but in the middle – on Wednesday, and for the previous week. In other words if a seamstress decides to leave, she will not get paid for her last three days.*

*(Technologist of a sewing manufactory, 45 years)*

Four of the six managers of sewing shops interviewed have similar arrangements with their workers.

*I have five or six people who form the core of my team. I buy patents and [social] insurance policies for them. These are the people who I count on when I accept orders from my customers. With the rest of my workers, the arrangements are verbal. You know the market is so big that they know very well that even if they leave this job in the morning, they will find another job at another place on the same day.*

*(Female owner of a sewing shop, aged 32 years)*

When it comes to external communications, owners of sewing shops prefer to work with proven customers; *a friend you know is worth two you don't know*<sup>13</sup>. To reduce their risks, entrepreneurs work with old proven customers, and do not pursue new markets and opportunities.

### **Role of Relatives and Kinship in SME**

There are several arrangements for the participation of relatives in business:

Relatives are equal players with clearly distinct functions. One relative manages operations, another is responsible for marketing, and a third relative oversees distribution;

A relative provides patronage for the business, receiving tangible (money, goods, services) and intangible (invitations to house, place of honour during the festivities) rewards in return; and

<sup>13</sup> From interviews with the participants of business processes that were carried out as part of this study.

A relative serves as an investor. A relative who has the capital opens a business and then hires relatives because: *They won't lie; they are easier to control since I know more about their life; and Relatives can be flexible with getting paid.*<sup>14</sup>

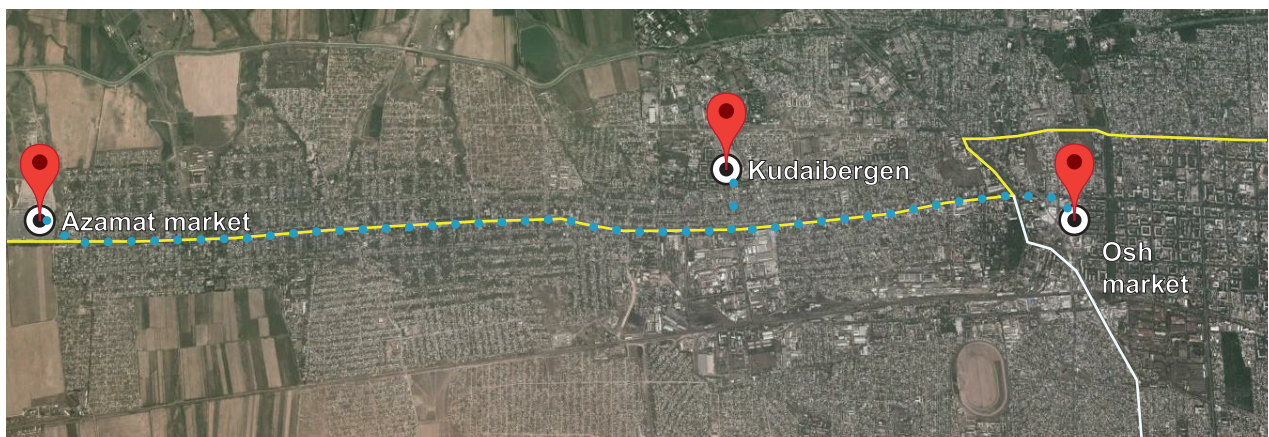
It should be noted that terms denoting informal payment for services indicate the frequency of their prevalence and the various levels of complexity of these mechanisms. (See Annex for glossary of terms).

## 5. SME Map of Bishkek: Bishkek as a Business Zone

The development of small and medium businesses can alter the structure of a city, affecting the routes of public transportation, the number of structures and the external appearance of the city as a whole. Entrepreneurs have both negative<sup>15</sup> and positive impacts, often without realising it, on the development of infrastructure in the place of business. An example of how the growth of small and medium-sized businesses has a qualitative impact on the livelihoods of the people in a particular area, can be found in western Bishkek.

Bishkek's western section starts from Fucik Street and follows Deng Xiaoping Street towards the west and north-west. This area is a zone with a high concentration of shops and vehicle service stations, where a wide variety of services is offered. Deng Xiaoping Street is a main thoroughway leading from Bishkek to Talas and all southern oblasts of Kyrgyzstan.

**Figure 2. Thoroughway Leading from Bishkek to Talas and Southern Oblasts**



This area is a city within the city, with its own infrastructure. All businesses here are built around vehicle maintenance, and include restaurants, spare parts shops, small shops, baths, and housing for rent. This development began in the mid-1990s, with the establishment of two major bazaars in the area, the Azamat Auto Bazaar and the Kudaibergen Auto Spare Parts Bazaar.

<sup>14</sup> From interviews with the participants of business processes that were carried out as part of this study.

<sup>15</sup> For example, bazaars in Bishkek are created without regard to presence of schools in the neighborhood, which increases risks of traffic accidents involving schoolchildren.

Currently, this part of Bishkek is the largest business district in the city in terms of the scale of trade, range of services offered, and the area occupied. It is unlikely that buyers in this district get any sort of receipt or financial documents for the money they spend there, but this district offers a wide range of goods and services and low prices. The high concentration of services and intensity of customer traffic in this area, coupled with the presence of other bazaars (Kudaibargen Auto Spare Parts Bazaar, Azamat Auto Bazaar, Osh Bazaar and the Dor-doi Dyikan agricultural products bazaar), multiple *toi kanas*<sup>16</sup> and shops create heavy traffic and constant traffic jams at the exits. There are more than 10 *toi kanas* at the beginning of the main street alone. These places serve the needs of guests from the regions and host *tois* (festivities) of between 100 and 250 people.

*I opened my restaurant here along this throughway on purpose. I come from the regions and I know how much difficulty people from the regions have navigating the city. This is why I was specifically looking for a location along this throughway. I bought this old house, renovated it and now, as you can see, it is a beautiful restaurant that can host 'tois' of up to 120 people.*

*(Male, owner of a toi kana, aged 50 years)*

In contrast, the central part of the city, if one excludes shops, is dominated by businesses specialising in daytime and night-time entertainment, such as restaurants, bars and entertainment centres, beauty salons and multiple educational institutions. The high-rise housing estates that form micro-districts are called 'bedroom districts' and feature multiple educational facilities for people of various ages; pre-school, primary and secondary schools, some higher education establishments, and beauty salons. Service providers, in the fields of law, trade, health, beauty and sport are spread evenly throughout the whole city. Sewing shops are concentrated in the eastern part of the city due to the presence of vacant factories that were built in the Soviet era.

**Mapping of Street "A"**<sup>17</sup> and the 87 operational business entities provided data to analyse the following dimensions of the businesses:

- SME infrastructure;
- Profile and area of coverage of SMEs; and
- Type of formal registration of SMEs.

### **SME Infrastructure**

The SMEs in this area obtain electricity from nearby houses or power poles. Their premises are not centrally heated, and are heated by portable electric heaters. Most enterprises have no water supply. As a rule, micro-businesses<sup>18</sup> have access to electricity but no water supply or toilets. Solid domestic waste is deposited into dumpsters of nearby residential houses

<sup>16</sup> *Toi kana* (*toi* – festivity, *kana* – venue) is a place that specialises in hosting festivities for large groups of people.

<sup>17</sup> The street is 2.1 kilometres long and it takes 26 minutes by foot and 5 minutes by car to travel from one end to another.

<sup>18</sup> Micro-entrepreneurship is an activity of individuals with low incomes who, due to financial constraints, are unable to access financial resources. Their business activity usually involves only themselves or members of their household. This paper views micro-entrepreneurship as a social, rather than economic phenomenon.



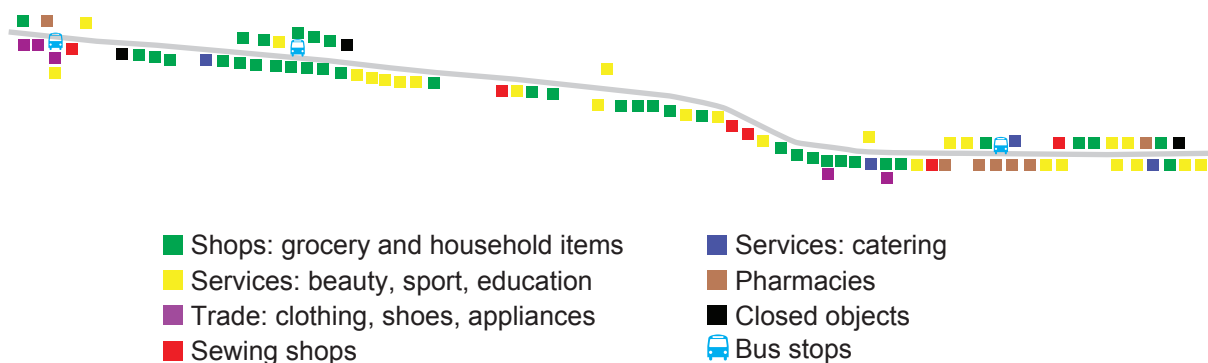
or placed along the road to be picked up by specialised municipal services. There are no special access roads; roads for residential houses serve as access roads. Vehicles are parked on roadsides, which creates difficulties navigating throughout the city. This situation led to a new profession; a person who regulates the parking and safe exit of traffic in the areas with a high concentration of retail outlets. Such inconveniences are caused by the fact that businesses develop in a chaotic and spontaneous way. Any infrastructure is created by the entrepreneurs themselves. Oversight by government authorities is superficial and does not ensure the safety of businesses or the area for entrepreneurs or residents.

Many business premises are actually factory premises built during Soviet times and later sold to entrepreneurs.<sup>19</sup> Another category of business premises are private houses that had been converted into office, commercial or warehouse space. Finally, *pavilions* are in small, temporary structures. A typical street with businesses usually has several *pavilions* and a few residential houses converted into commercial space.

### Profile and Area of Coverage

Businesses in Bishkek tend to be oriented to their immediate surroundings and are fairly static. They focus on nearby neighbourhoods, and do not reach beyond the area of their physical location. On Street “A”, as many as 43 percent of businesses are grocery shops (see Figure 3). Survey results indicate that three enterprises located on Street “A” serve customers in other parts of the city; a water dispenser and water delivery company, an advertising agency and a computer sale and repair shop. Two of these three also work in other regions of the country. Additionally, six sewing shops are export-oriented,<sup>20</sup> four sell their products to Dordoi bazar<sup>21</sup> traders, and two larger sewing shops supply their products directly to Russian consumers. All other businesses only serve the Street “A” neighbourhood.

Figure 3. Business Map of Street “A”



<sup>19</sup> Buying real estate for the purpose of renting it out is a separate type of business; owners of such businesses are usually “invisible,” that is they are usually not registered and paying taxes and prize their anonymity.

<sup>20</sup> This street, like other streets in eastern Bishkek and unlike other parts of Bishkek, has many sewing shops.

<sup>21</sup> The Dordoi Bazar is a massive complex of container lined streets selling a huge assortment of manufactured goods, garments, instruments, etc and is the largest wholesale market in Central Asia.

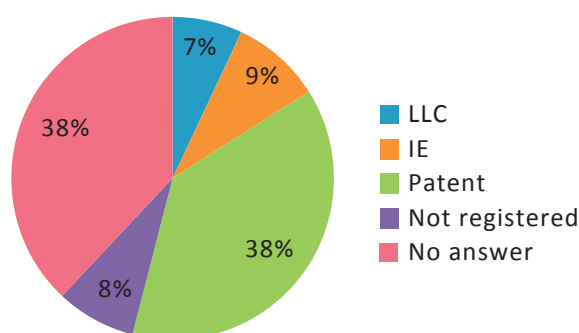
Figure 4. SME Entities by Profile



### Formal Registration of SMEs

Of the 87 entities surveyed, 54 were prepared to answer the question about their registration status. Of these, six are registered as limited liability companies (LLCs), eight are registered as Individual Entrepreneurs (IE), 33 operate on the basis of a *patent*, and 7 have no formal registration.

Figure 5. Type of Business Registration



Micro-businesses prefer to operate on the basis of patents. Entities with higher sales are usually double registered as LLCs and IEs, depending on which juridical form is most suitable for the given transaction. Of the 87 entities surveyed, only two formally declared having employees; a laboratory and a pharmacy both of whom were branches of major businesses that have presence throughout the city. Another form of business operations is activity conducted from vehicles or from outdoor tables. These entities have no formal registration and their interaction with government inspectors (usually the neighbourhood police inspector) usually includes paying a bribe.

## 6. Position of Women in Kyrgyz SME

Existing studies on gender and development in Kyrgyzstan focus primarily on politics, education, health care, poverty and economic development. Studies that focus on gender and Kyrgyz enterprise are far less common, and most discussions in this area focus on the accessibility of financing for women. This study examined three components of women and entrepreneurship:

- Formal conditions for women entrepreneurs;
- Informal advantages enjoyed by and restrictions applied to women entrepreneurs; and
- The role of women in business development.

Kyrgyz legislation declares the equality of rights of men and women to create and operate a business.

There is no official data to determine the share and role of women entrepreneurship in SME development. The National Statistics Committee of the Kyrgyz Republic does not provide gender data in this field, and does not include any information that could be used to study the position of women in the SME sector.<sup>22</sup>

*Record keeping should not just involve the Statistics Committee. To properly maintain gender records of SMEs, we need to cooperate with various agencies. For example, let's take micro-finance organisations that interact with the Central Bank. The Central Bank should develop record-keeping mechanisms and require the banks to maintain such records.*

*(Kulipa Kochumanova, Head, Social Statistics Department, NSC KR.)*

Earlier studies identify various factors that hamper the development of women's enterprise in Kyrgyzstan.<sup>23</sup> These factors can be summarised as follows:

- Inadequate government support;
- Treatment and role of women in the traditional kinship system;
- Education (business literacy and readiness to learn);
- Access to financial resources; and
- Gender-based discrimination (pregnancy, maternity).

Some barriers identified in the research, such as inadequate level of business literacy and inability to secure financing are not gender-specific.

<sup>22</sup> *Zhenshchiny i Muzhchiny Kyrgyzskoi Respubliki*, Natsionalnyi statisticheskiy komitet Kyrgyzskoi Respubliki, Bishkek 2013.

<sup>23</sup> Gulnara Ibraeva, Zhamiliia Zheenbaeva, *Prioritety gendernogo ravenstva is nadelenie shenshin polnomochiiamy i finansovye potoki pomoshchi dlia razvitiia Kyrgyzskuiu Respubliku*. Bishkek 2013. *Issledovanie problem zhenskogo predprinimatelstva v KR*. SIAR, Bishkek 2012. Женщины в бизнесе. Promotion of Kyrgyzstan's Economy. The European Union's Central Asia Invest Programme for Kyrgyzstan. [http://www.cci.kg/admin/editor/uploads/files/Guideline\\_Women\\_in\\_Business.pdf](http://www.cci.kg/admin/editor/uploads/files/Guideline_Women_in_Business.pdf) Rafkat Khasanov, Slatanat Biybosunova, Saviia Khasanova, *Otsentka biznes-sredy dlia zhenshoko predprinimatelstva v Kyrgyzskoi Respyblike*. SOT, Moscow 2009.

Most studies examine the restrictions faced by women who have already started their own enterprise. The barriers that prevent women from starting their own business in the first place have received less attention. Women may face gender-specific challenges due to lack of property that can be used as collateral. Women with no decision-making authority in their household and no formal relation to household property are unlikely to start a business. A woman may have no property rights for two reasons; the couple is not formally registered as a couple, or, if the couple is registered, the property's title has been registered in husband's name prior to the registration of the marriage.

*I think that my success in business was partially due to unfavourable starting conditions. I knew very well that if I failed my classes, if I failed to earn decent income, if I failed to buy a residence in Bishkek, then I would be forced to go back to my home town and flip burgers.*

*(Female owner of an advertising and marketing agency, aged 27 years)*

The equality of starting conditions, both financial and psychological, deserves a separate study, and is an important factor in fostering enterprise development by women.

While there is discrimination against women in Kyrgyzstan due to potential maternity leave, as there is elsewhere in the world, in informal employment there is no such discrimination. Basically, the private sector provides as few social benefits to both men and women as allowed under the law. Workers' terms with one employer are usually short, with average stays in the SME sector measured in days and weeks and not in months and years.

The results of the interviews indicate that the traditional image of women conflicts with modern realities. All men surveyed in recent sociological studies noted the exceptional role of women in SME development in Kyrgyzstan.<sup>24</sup> However, this general acknowledgment is not always *reflected in practice*.

*When I started my own business, my husband was quite skeptical. During the first year of my business, he was always pressuring me into closing the shop down. I remember that the first time my husband saw the balance in my business account – several hundred thousand soms - he was shocked. He was amazed that I made it. Household chores and looking after the children are still my responsibility, but at least my husband stopped humiliating me and expecting me to be a servant to his relatives.*

*(Female owner of a printing studio, aged 34 years)*

Some researchers report gender-based discrimination of women entrepreneurs in their interactions with government authorities,<sup>25</sup> including sexual abuse. However, no respondents in this study reported being discriminated against on the basis of gender. In fact, responses indicated a rather more positive state of gender relations. When dealing with customers, partners and government officials, women entrepreneurs reported that they enjoy more fa-

<sup>24</sup> *Issledovanie problem zhenskogo predprinimatelstva v KR*. SIAR, Bishkek 2012.

<sup>25</sup> Rafkat Khasanov, Slatanat Biybosunova, Saviia Khasanova, *Otsentka biznes-sredy dlia zhenshogo predprinimatelstva v Kyrgyzskoi Respyblike*. SOT, Moscow 2009.



avourable treatment because of their sex. Problems reported by most female business owners were related not to running a business, but to managing relations within a household and with relatives. All female respondents agreed that it was easier for women to do business for the following reasons:

- Male customers are always easy on shortcomings of a female entrepreneur.
- During negotiations, when most of the participants are male, men easily give decision-making and moderating authority to women.
- In conversations with partners, a woman can always use the excuse “I have a headache” to delay making a decision, while men cannot get away with that.
- Government inspectors always treat women with more leniency.

*For more than ten years I have been delivering fruits to Kazakhstan. The entire process, starting with procuring fruits from farmers, finding trucks, clearing customs is on my shoulders only. If my husband does it, we end up having much higher costs. Drivers always quote higher prices. When I come and hire drivers, I sense that they treat me differently, much nicer. Once when the shipment was escorted by my husband, he got stuck at the border and we lost the entire shipment. Now whenever we travel together he stays away from customs. When we come to the market, the locals also try to help me with getting my products sold. I am convinced that such treatment is a sign of respect to my age and gender.*

*(Female entrepreneur, aged 56 years)*

There are traditionally men-dominated and women-dominated specialisations in micro-enterprise; these divisions usually reflect traditional views of the gender division of labour. Men in Kyrgyzstan generally do not teach, are not engaged in looking after children and do not work as pharmacists. These are exclusively female occupations. Men traditionally dominate vehicle repair and technical services. Merchandising does not have gender-based division.

The words “*biznes-ledi*”, “*biznes woman*” are used to describe women who have a certain image and possessions, including a separate office or a car. Women’s involvement in micro-enterprise is not viewed as a business with risks and investments. The same is true of men who run a business that employs only one person (the owner) – such businesses are viewed as a sign of desperation, rather than a solution to a situation.

The results of business mapping revealed a significant prevalence of women among both owners and workers in small and medium business. The 87 SME entities located along Street “B” employ more than 300 people, of which over 250 are women. In 80 percent of cases, the business is managed by a woman. When an enterprise is a family-run business, the participation of men (sons and husbands) is only periodic. For example, a man in a family may temporarily serve as a substitute for a female member of the family, when she needs to complete household chores or engage in activities, such as visiting sick friends and relatives and attending celebrations, that maintain social and kinship relations.

The problems women entrepreneurs in Kyrgyzstan face are not related to accessibility of financing, lack of education or government indifference. In fact, according to official statistics, educated women are strongly represented in the SME sector. The problems women entrepre-

neurs face stem from their role of in their family, and traditional views of women's role in society. In the eyes of their closest family members and even in their own eyes, a woman is seen as first of all, a wife, a daughter-in-law, mother, daughter or sister-in-law. Only after these roles are fulfilled is she viewed as a socially active member of society. Household chores, parenting, maintaining relations with relatives remain the exclusive domain of women.

This study, which interviewed 44 women, demonstrates that businesses run by women can be successful. The principal problem faced by women entrepreneurs is gender-based discrimination rooted in family life, not the outside world, the difficulties in building relations with other family members. For many family members, a woman's place is primarily in the home. If a woman is successful in both roles at the same time, she is able to continue her business.

## 7. Conclusions

The SME environment in Kyrgyzstan is very uneven. An examination of communications revealed differences in doing business, which then served as a basis for the following classification of businesses into peripheral, conscious, smart businesses.

The "grayer" (more informal) the business, the higher the role of informal relations, and the distinction between informal communication mechanisms and corruption is very small. Informal communications often strengthen corruption. Quite frequently people involved in corrupt relations do not realise that they are engaging in corruption.

Organisations with formal relations, tend to employ informal communications to grow a business, but not to develop closer relations. This is different from businesses that rely on informal relations and resort to illegal ways of resolving disputes and issues.

The need to use informal channels of communication stems from inadequate business literacy and strong traditional customs, which spill over from social life to the entrepreneurship sector. Such informal channels help fill gaps in knowledge, while allowing businesses to progress. However, lack of formalised relations can eventually become a more expensive option due to the lack of regulation of informal undertakings.

In general, when building internal and external communications in see the SME sector in Kyrgyzstan, informal mechanisms of communication prevail. An inclination towards this minimises the need to maintain formal documents and reduces the government's ability to monitor and improve the situation.

The owners of small businesses do not feel the need to maintain internal accounts; records are kept only to the extent required by authorities. As a result, the books of businesses may meet statutory requirements but do not help with streamlining internal processes in small and medium business.

Civil servants contribute to the development and expansion of informal communications because these result in more personal income for them.

Most surveyed businesses are formally registered (mainly via a *patent*). However, the ability to operate as an unincorporated entity increases the number of people involved in SMEs.

Employment in SME is usually short-term. Obtaining maternity and other forms of paid leave stipulated by the Labour Code of the Kyrgyz Republic is unrealistic for SME employees.

The role of women in enterprise development is recognized by society but women entrepreneurs still face difficulties related to the fact that most of the family, kinship and household functions remain the responsibility of women. Most studies of women in entrepreneurship overlook the issue of starting conditions for establishing and running a business.

Despite real barriers to women's participation in enterprise, women in this study did not report any gender-based discrimination. In fact they identify their gender as a resource that facilitates successful negotiations and business.

The physical environment of a business is created by the entrepreneurs themselves. The lower the amount of capital, the worse the working and physical conditions of the business.

SME development in Bishkek has an impact on the city and its structure. High concentrations of SMEs lead to unplanned changes in the city's structure. For example, bazaars are established without regard for nearby educational institutions, and narrow streets become important transport corridors for entrepreneurs, causing safety problems and congestion.

SMEs in Bishkek usually target local clientele and entrepreneurs focus on a narrow circle of customers. With the exception of garment shops, there is little practice of establishing export-oriented businesses or businesses that target customs outside their local area.

## 8. Recommendations

### **For Government:**

- Clarify public policy in SME; define medium- and long-term development goals; develop a system of indicators and mechanisms for its implementation and monitoring.
- Simplify state registration, licensing and reporting procedures for SMEs.
- Tighten control over the activities of government officials and fight corruption in the SME sector.
- Ensure meaningful participation of SMEs in decision-making related to SMEs, including participation at the level of the Government and Parliament.
- Monitor compliance with labour legislation in SME sector.
- Adopt laws that reduce the tax burden if the entity invests in the improvement of social infrastructure.
- Explain the purpose of collecting entrepreneurship-related statistical information; where this information will be used, for what specific purposes and what decisions will this information affect.

### **For Labour Unions:**

- Initiate and encourage development of trade unions in the SME sector.
- Create precedents of the successful introduction of labour unions in the SME sector.
- Provide assistance protecting workers rights in the SME sector.

### **For SME owners:**

- Establish public associations of SME owners to protect the sector interests.
- Coordinate efforts of SMEs in influencing decisions that are most important for the sector.
- For the research and academic community:
- Initiate studies that focus on the starting conditions faced by women entrepreneurs in the current business environment.
- Create a platform to discuss academic issues related to SME development.
- Facilitate the publication and distribution of research results.

### **For civil society organisations:**

- Increase business awareness and business literacy of the population by:
- Creating a public platform for wide discussions of SME-related issues;
- Organise an annual conference on issues faced by SMEs.
- Encourage the development of business consulting services (especially those targeting micro-businesses) that educate entrepreneurs about their rights and the provisions of relevant business legislation through mass media and handouts.
- Monitor the quality of services provided by public servants.
- Disseminate information on labour legislation of the Kyrgyz Republic.
- Provide free legal advice on gender issues to workers.
- Support the development of trade unions in the SME sector.

### **For the City Administration:**

- Emphasise the physical environment of SMEs.
- Ensure comprehensive development of urban infrastructure.

- Include commercial and service provision zones in planning new urban neighbourhoods.

**For banks, microfinance institutions and international donors:**

- Create instruments to support women entrepreneurs and contribute towards evening out starting conditions for women who want to start their own business.
- Support social entrepreneurship.
- Provide free or subsidised business classes, including training for entrepreneurs.

**For the mass media:**

- Support broad public discussion of issues related to SMEs.

## Annex

### Glossary of Kyrgyz-language terms used in SME milieu

**Alasa-berese** (literally: take and give) – cash and financial obligations of members of informal networks, as well as certain communication processes implemented in informal ways.

**Akchalai** – cash payment.

**Alyp-satar** (literally: *alyp* – having taken, *satar* – having sold) – a businessman who purchases goods at wholesale markets and owns a container/shop to retail them.

**Aiash** – friends of the spouse.

**Bashtyk** (literally: a bag) – a gift bag that normally contains chocolate candies and alcoholic beverages.

**Birdeme** (literally: something) – a small graft.

**Bir nerse desh kerek** (literally: something has got to be said) – a bribe of a small amount and in various forms: a bag, a collective “small party.” Akin to the saying: “Many words will not fill a bushel.”

**Chailyk** – tip.

**Chai ichip koi** (literally: drink tea) – a graft up to 1000 Kyrgyz som (USD 20).

**Chotur** 1) a special form of *otkat* that does not clearly identify the amount: a business owner gives it at their discretion to an acquaintance/relative for information/contract that the latter has in their control thanks to their job; 2) percentage of profit for participation in a business activity (e.g. in transportation, for referral/identification of customers) 3) “*rabotat’ na chotur*” (work for *chotur*) means to work for 50 %, “fifty-fifty.”

**ChP** (*Chastnyi predprinimatel* – Private Entrepreneur) – a synonym for IP (*Individualnyi predprinimatel* or Individual Entrepreneur), rarely used by the businesspeople.

**Jerdeshe** – a fellow, a person born and raised in the same village/town/province.

**Kagaz** (literally: paper) – an official document.

**Karyzga jazdyruu** (literally: take on a record) – take various goods (foodstuffs, clothes, household appliances) on credit.

**Katysh** – a special form of relations in the Kyrgyz communication system that entails certain physical, financial and emotional obligations of the participants to one another. Participants in these relations maintain an emotional bond that is based kinship, friendship and fellowship identities.

**Kishing barby?** (literally: do you have an insider man?) – this question is meant to inquire whether there is a person who can informally facilitate a resolution of certain issues.

**Kolgo beruu** (literally: give to hands) – make payment bypassing the cashier register.

**Kolun mailoo** (literally: rub hands with fat) – a bribe at the beginning of an arrangement as a form of guarantee.

**Krysha** – care and protection of a business owner by an influential person.

**Kyrgyzcha** – an informal resolution of issues, bypassing formal institutions, normally by paying a bribe.

**Navar** – profit.

**Otkat** – a certain percentage (up to 30 percent) of the total contract value gained thanks to participation (provision of information, known secured success in a bid, etc.), in return for a secured contract.

**Pavilion** – a one-room shop, a mobile one that is installed anywhere, normally lacking a bathroom but with electricity installed. In everyday speech, the word “pavilion” has become a synonym for a shop.

**Paida** (literally: benefit) – profit.

**Paideger/paidakech** (from *paida* – benefit) – owner.

**Peresmenka** – in retail, a system of making an interim account and handover of goods to a shift relief sales associate.

**Realizator** – this word has become a synonym for “sales associate” and is used more frequently.

**Soodager** – a sales associate, a widely used term, one of the few that were already in use during Soviet times.

**Sooda** – retail, one of the few terms that was already in use during Soviet times.

**Stolik** – a small mobile facility (about 0.5 m<sup>2</sup>) for petty retail.

**Taanysh** (literally: an acquaintance) – a person who can facilitate the resolution of disputes and problematic issues by abusing their power.

**Toi kana** (*toi* – festivity, *kana* – place) – a venue of a new type that emerged a few years ago, specialising in mass festive activities and serving a large number of people (from 120 to 400).

**Tuuganchylyk** – kinship, family sentiments, kinship relations.

**Uruu** – individuals related by kinship and/or imaginary family identity. Each *uruu* has its own identity based on name, pedigree, totem, geographic origin/residence and history. Some *uruu* have specific structures and arrangements (hierarchy, budget).

**Uruk-tuugan** (from *uruk* – seed, *tuugan* – relative) – relatives, kin.

**Yraazy kyluu** (literally: contentment, make) – thanking for a service, for a resolution of problematic issues.

**Yraja** – a system of cash turnover among relatives/friends encompassing a strong internal logic and clear-cut internal mechanism. This system is created in the context of no social protection of the population, resulting in financial burdens and the loss of benefits for participants.



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