

The State of MSME Development in Kyrgyzstan

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Introduction

The breakup of the Soviet Union led to the emergence of market economies in states where there had previously been planned economies. These institutional transformations have been unprecedented in recent times. Describing this transformation using the language of reform conceals the challenges of transition, and prevents one from recognizing that market economies in the former Soviet republics could not be “fixed” but were built from scratch.

In this context, privatization was not simply about transferring ownership from state-owned enterprises to private individuals. Privatization was a process of institutional change, whereby the managers of firms internalized private sector “template” (Johnson et al. 2000; Zahra et al. 2000). By the same token, the phenomenon of entrepreneurship, without which privatization would be meaningless, must also be considered in the context of transition.

The transition from communism rested on the establishment and growth of new firms. New enterprises were the economic units whose function was to create wealth. They were also the main driver of reform to end the state monopoly on wealth redistribution. The privatization of existing industries and collective farms might not create the additional channel necessary for market-based wealth redistribution. In other words, new firms were the key elements in an economic system based on decentralized wealth redistribution; this is why the study of entrepreneurship in transition countries is central (McMillan & Woodruff 2002).

Incentives that entrepreneurs in transition states can seize are created by the restructuring of the economy, rapid institutional change, and a mismatch between supply and demand. But these factors also forced entrepreneurs to cope with high level of uncertainty (Aidis & Estrin 2006). Transitioning to a market economy is not a smooth and linear process; actors tend to rely on old systems and practices when faced with uncertainty.

The literature on entrepreneurship in post-Soviet states recognizes the specificity of the transition. The extent to which post-Soviet entrepreneurs are different than their Western counterparts is the focus of many studies. The comparative importance of capital accumulation versus self-consumption distinguishes “proprietors” from “entrepreneurs” (Scase 2003) or “worms” and “caterpillars” (Rona-Tas 2002).¹ When considering the motivating factors for starting a business, we can differentiate between push and pull factors, that is, between cases where people were forced to start a business and cases where they did so by choice to exploit an opportunity (Smallbone & Welter 2001).

¹ “Caterpillars,” according to Rona-Tas are self-employed entrepreneurs with potential to grow into small and mid-sized business, “butterflies.” By contrast, “worms” are self-employed with no such potential for growth, and who contribute much less to the economy. Worms tend to rely on personal skills and contact whereas caterpillars are driven by market opportunities discovery and exploitation.

The specific institutional environment of the transition may also be approached by concepts borrowed from Institutional Economics. Such a framework is useful for the analysis of entrepreneurship in the context of transition (North 1997), because it recognizes the importance of formal institutions as well as the weight of informal practices. It focuses not only on formal rules and regulation, but allows on social networks and relations; both were important features of entrepreneurial ecosystems that flourished in post-communist economies. Informal economic practices that emerged alongside the new macroeconomic system were entrepreneurial responses to the shortages of central planned economies, and a creative utilization of available resources.

Taking this background into account is crucial. Smallbone and Welter showed how access to networks can give rise to different forms of entrepreneurship. “Nomenclatura entrepreneurship,” for example, uses political connections to protect market niches (Smallbone & Welter 2001). Aidis et al. (2008) and Aidis and Estrin (2006) examined the influences of formal (rule of law) and informal (networks) institutional constraints on entrepreneurship. Informal practices of *blat* consisting of a system of favors within one’s network is a condition of self-employment and small business survival. This practice was famously described by Ledeneva (1998). Rehn and Taalas (2004) showed how *blat*, understood as mundane activity, was at the center of the economics of everyday life and is the form that entrepreneurship took in Russia. Studies on entrepreneurship in uncertain environments – and the distinction made between different “sorts of entrepreneurship” — are tackling indirectly question related to the informal sector. Scholars still struggle with two features of informality: the diversity of informal activities and the economic potential of informal sectors for a country’s economy (Bangasser, 2000). Indeed, any study on entrepreneurship in transition and developing countries cannot escape the fact that the majority of entrepreneurs are individual entrepreneurs, also known as self-employed. Statistically individual farmers are sometimes counted separately, sometimes included in the group of self-employed. There is an important overlap between individual farmers and entrepreneurs (we will refer to them as “self-employed”) and the informal sector. The informal economy is constituted of licit but deregulated exchanges (Sassen 2006, 392-393) conducted primarily by self-employed.

Overall, however, empirically based studies on entrepreneurship in transition states remain limited.² Specific to our project, there is a paucity of scholarship on the Caucasus and Central Asia.³

² Manev and Manolova reviewed academic journals for the period between 1990 and 2007 and noted that articles on entrepreneurship in post-socialist countries represented only 3.2% of the work published over that period. Moreover, 80% of the articles were published in four journals: *Entrepreneurship Theory and Practice*, *Journal of Business Venturing*, *Journal Small Business Management* and *Small Business Economics*. We reviewed systemically these four journals from 2010 to 2016 and found 13 articles published on transition economies. Seven of these are on Chinese SMEs, three of them are on transition countries in general, one is a comparative analysis of the formal

This paper seeks to address this gap in our knowledge and lays the groundwork for a study on entrepreneurship in Kyrgyzstan. It will serve as a foundation for future research on barriers and opportunities that “globalization from below” — that is, based on transnational linkages instead state regulation — present to entrepreneurs in Central Asia and the Caucasus. The research network “Informal Markets and Trade in the Caucasus and Central Asia” focuses on petty traders, small entrepreneurs, and migrants laborers to understand how globalization from below shapes economic activities, cultural and social values, and negotiating of state structures. Based on data from the National Statistical Committee of the Kyrgyz Republic, it examines the contribution of self-employed, micro, small and mid-sized enterprises to the Kyrgyz economy and hope to clear the path for further investigation on the potential of informal entrepreneurship in Kyrgyzstan. Self-employed and micro-enterprises in post-Soviet republics often operate informal enterprises and are considered to be “entrepreneurs by default” or by “necessity” This paper look for indication of a transition to “entrepreneurship by choice” or by “opportunities”. As the saying goes, absence of evidence is not evidence of absence, all the more so when the investigation is based on official statistics. Official statistic cannot grasp entrepreneurial dynamic that are taking place “below its radar”. Additional survey targeting self-employed and qualitative studies on that socio-economic population category are needed. There is therefore a highly relevant complementarity between the different research focus of the “informal market and trade in the Caucasus and Central Asia” research group. Whereas the other researchers of the consortium explore the diverse strategies and practices entrepreneurs use to cope with economic and institutional changes, I try to place these strategies and practices in the larger context of economic development. It is a way to explore the linkages between the discipline of anthropology and development economics, between coping strategies and economic development.

This paper analyzes statistical data provided by the National Statistical Committee of the Kyrgyz Republic. The data reveals that the number of self-employed persons increased after 2000, but that this trend was not followed by small and mid-sized firms. Moreover, the share of contribution of the self-employed, and of the small and mid-sized firms, to the Kyrgyz GDP has remained stable. This indicates that these categories did not become more productive as the Kyrgyz GDP grew by an average of 4.4% since 2000. This has significant consequences for Kyrgyzstan’s political stability.

institutional environment between Russia and China, one is a case study of Russian food service venture, and one considers the weight of socialism on entrepreneurship in East Germany.

³ Aziz et al. (2013) examined entrepreneurial motives among 230 established entrepreneurs. Nurseiit and Nurseiit (2013) examined SME development in Kazakhstan. Turaeva (2014) studied how kinship, friendship and trust relations are resources for mobile entrepreneurs in Central Asia. Elo (2016) proposed a typology of diaspora entrepreneurship based on a case study of Uzbekistan.

Overview of Economic Conditions in Kyrgyzstan

Kyrgyzstan is a landlocked country bordering China, Kazakhstan, Tajikistan and Uzbekistan. It has 6.5% arable land; 95% of the country is mountainous. Unlike Kazakhstan and Turkmenistan, it does not have hydrocarbons to trade on world markets. Like in Georgia and Armenia, Kyrgyz enterprises must strive to integrate international value chains and develop their own value in the relevant sectors of the economy: agricultural products, tourism, trade, and services.

Agriculture accounts for 17% of the country's GDP and employs 32% of the economically active population. Manufacturing and industry accounts for 27% of GDP, while services account for 57%. Kyrgyzstan's GDP per capita today is approximately 1,100 USD, four-times lower than Georgia and about 800 USD lower than Moldova. It is one of the lowest among former Soviet republics, despite the fact that it has grown from 279 USD in 2000. Forty percent of Kyrgyzstan's rural population is considered to be living with an income that could only buy a minimum consumption basket (World Bank data⁴). The percentage of the urban population living at that poverty line is 26%. Differences in poverty between regions reflect regional differences in the structure of employment. In rural area, self-employment, defined as individual farmers or employee at farms, and individual entrepreneurs with or without registration account for 68% of the rural population. These categories of employment are associated with higher poverty. In comparison, self-employment occupies 46% of the urban population. Regional welfare disparities are in fact very high (Atamanov 2013). Kyrgyzstan is highly dependent on remittances, which accounts for 25% of its GDP, the highest among former Soviet Union republic after Tajikistan (World Bank data).

The majority of Kyrgyz migrants are in Russia, and this had an adverse effect on the Kyrgyz economy, given Russia's own economic crises since 2012.

On top of these socio-economic challenges, Kyrgyzstan faces environmental pressures, too. Climate change affects the agricultural sector, and food security can no longer be taken for granted (Tokbaeva 2012).

Hydroelectricity offers opportunities for infrastructure growth which could make Kyrgyzstan energy independent. Gold, mercury and uranium are presently being exported. The Kumtor gold mine is reportedly the second largest in the world (in fact, gold was the first commodity that was exported by Kyrgyzstan in 2014. Hydroelectricity and gold, while important for macroeconomic growth, do not offer much opportunities for small firms and independent workers.

Other important sectors for the development of micro, small and medium-size enterprises (MSME) are the textile, agricultural, and trade sectors.

⁴ World Bank data can be accessed at: <http://data.worldbank.org/>.

Textile production, which represents a dynamic sector of the Kyrgyz economy, was able to reinvent itself and survive the turmoil of transition; it principally consists of small firms. Today it represents about 2.7% of GDP, and employs between 7% and 14% of the working population. The textile industry suffered a decline of production of 73% during the first years of the transition period in the early 1990s. At that time, the production of fabrics and thread by a few large firms, from cotton harvested in Central Asia, represented 80% of the textile industry production. These large firms had to compete with Chinese firms after China opened its border to Kyrgyzstan. Today, imports of cheap Chinese fabric are used to produce “made in Kyrgyzstan” apparel, which represent 82% of the textile sector. It is being re-exported mostly to Russia, which buys 95% of the apparel produced in Kyrgyzstan. According to Botoeva and Spector (2013), the Kyrgyz clothing industry “was able to reconfigure past skills and utilize old or existing social connections to succeed in the new market economy” (Botoeva & Spector 2013: 489). These textile producers, the authors argue, are not entrepreneurs by default left with no other choice but to sew garments. They value their ability to re-use the skills and networks developed during the Soviet era and are proud of the cultural transmission of their know-how.

The agriculture sector is also one that underwent a significant transformation. Household farms replaced state farms, initiating a trend towards smaller subsistence farming. In fact, Kyrgyzstan sought an open land market early on (something which did not happen elsewhere in Central Asia). It rapidly dissolved large collective farms and shifted arable lands to the private sector. The right to own property was enshrined in the Constitution in 1998. Three-quarters of the former Soviet farms in the north are today privatized; all agricultural land in the south is privatized (Laruelle & Peyrouse 2013: 154).

Agriculture employs half of the working population. It is the most important sector of the Kyrgyz economy after trade in terms of its contribution to GDP (17% for agriculture and 21% for trade in 2015 according to the National Statistical Committee of the Kyrgyz Republic). The food processing industry accounts for 7.5% of GDP. By turnover, the processing of dairy products is the most important activity; followed by flour, sugar, meat and vegetables (Swinnen et al. 2011). Fruit and vegetables processing SMEs use about 30% of their capacity due to lack of knowledge of quality standards and poorly structured supply chain of raw material. It indicates nonetheless the high potential of the sector (Europe Aid, 2011).

The agriculture sector is badly in need of investment, especially in the form of mechanization. Productivity has stagnated since 2000 (Swinnen et al. 2011). The sector had fewer tractors per hectare than any other country in the region, including Tajikistan (Guadagni & Fileccia 2009). Kyrgyz farmer are young. Only 5% of them are more than 60 years old. But there is a mismatch between their education and their vocation. Only 7% of farmers have a degree in agriculture. 45% have degree in fields completely unrelated to agriculture including education (33%) or medicine (12%). These are farmers by default, due to lack of opportunities elsewhere. The potential for productivity growth is therefore significant and there is an urgent

need for upgrade necessary if the challenges posed by the land degradation and erosion and soil erosion (UNCTAD, 2016) and food security (Tokbaeva 2012) are to be met.

Because of its location between China and Kazakhstan, the Kyrgyz Republic is at the center of trade networks. Economic liberalization led to free trade agreements that gave Kyrgyz traders a comparative advantage over their Russian and Kazakh counterparts. Today, the mountainous republic is home to two of Asia's largest bazaars, Dordoi and Kara-Suu, where about 75,000 people conduct business. These bazaars represent a new market economy, where transnational linkages are formed and maintained. The mobility of people and flows of ideas are central to the functioning of bazaars. Dordoi and Kara-Suu are highly globalized spaces structured by transnational linkages (Karrar 2016). They represent a nexus in a new Silk Road. In Dordoi, business is conducted between people of different nationalities and ethnic background every day. Goods from China and Turkey are re-exported to Russia and Kazakhstan and across the greater post-Soviet region. Traders deal in multiple currencies and watch the fluctuation of the exchange rate on a daily basis.⁵ The potential of trade for economic development should not be overlooked. Bazaars and cross-border trade alleviate poverty by reducing the cost of trade, and thus providing products at cheaper prices. They also offer employment opportunities, especially for women, and play a central role in national and regional chains of production and distribution (Kaminski & Mitra 2010).

These challenges and opportunities in the above mentioned sector increase the importance of entrepreneurship as a primary driver of economic development. Defined generally as the process of discovering and exploiting opportunities (Shane & Vantakarram 2000), entrepreneurship is arguably a good marker of former Soviet republics' success in the transition from communism. Entrepreneurship is a factor in improved productivity in the agricultural sector; it is also a way to empower women and maximize benefits from trade. It is, finally, what allowed the textile industry to survive and rise to prominence, leading one to wonder whether the entrepreneurial spirit described by Botoeva and Spector (2013) is possible elsewhere? One of the purposes of their study was to identify potential barriers and enablers to entrepreneurship especially given how Kyrgyzstan is often held up as an example of shock therapy. A look at the state of micro, small and medium-size enterprises in the Kyrgyz Republic is a good place to start looking for the spirit of entrepreneurship.

⁵ This information is drawn from 20 semi-structured interviews conducted in Dordoi bazaar in August 2016 by the author and Karrar.

Micro, Small and Medium-size Enterprises (MSMEs) in Kyrgyzstan

The Kyrgyz Republic defines MSMEs according to two criteria: (1) The number of people employed and (2) the annual turnover. Small and medium enterprises are further grouped into two classes of economic activities according to the table below.⁶

Table 1. Class of Economic Activity Defining SMEs in the Kyrgyz Republic

Economic Activities Group 1	Economic Activities Group 2
Agriculture, hunting and forestry	Trade
Fishing, fish farming	Repair of automobiles, household goods and personal items
Mining	Hotels and restaurants
Manufacturing	Transport and communications
Production and distribution of electricity, gas and water	Financial activities
Construction	Real estate services
	Education
	Health and social services
	Communal, social and personal services

Furthermore, microenterprises are classified as employing between 1 and 15 people with a turnover of less than 150,000 soms for Group 1, and employing 1 to 7 people and less than 230,000 soms annual turnover for Group 2. Small enterprises have between 16 to 50 people and a turnover of less than 500,000 soms for Group 1, and 8 to 15 employees and less than 500,000 soms turnover for Group 2. Finally, medium-sized enterprises are those employing 51-200 people with an annual turnover between 500,000 and 2,000,000 soms for Group 1, and employing between 16 and 50 persons with an annual turnover between 500,000 to 2,000,000 soms for Group 2.

It is important to note that individual enterprises are excluded from this definition, as well as individual peasant farms. These are essentially subsistence farmers who were classified as “peasant farmers” by the government in the beginning of land privatization process.

There are about 350,688 individual entrepreneurs, which is about 30 times more than the number of small firms (12,712). The number of farms (384,318) equals the number of individual entrepreneurs. A report issued by the FAO in 2009 indicated that peasant farms and

⁶ Decree by the Government of the Kyrgyz Republic from August 29, 2002 N 590.

household farms producing on small agricultural plot and considered as subsistence farming represented 98% of all farms (Guadagni & Fileccia 2009). With only 793 medium-sized firms, this category of enterprises is virtually absent from the economic landscape of Kyrgyzstan.

Indeed, mid-sized enterprises contribute 4% of the GDP of Kyrgyzstan and small enterprises contribute 7%. The main portion of the GDP — about 60% — comes from large firms. By comparison, in OECD countries, SMEs account for between 30% and 70% of value added. Individual entrepreneurs generate 23% of the Kyrgyz GDP and farmers contribute to 8%. Thus farmers and individual entrepreneurs account for about 90% of the enterprises population (the total number of enterprises), but only for 30% of the GDP. This indicates low workforce productivity in the overwhelming majority of Kyrgyz economic units.

SMEs’ low contribution to employment underscores the social side of this issue. Small and mid-sized enterprises employ each 2% of the economically active population of Kyrgyzstan. Individual entrepreneurs and farmers account each for 15% and 32% of the economically active population. As for the remainder of the employed population, about 50% is employed by large enterprises and the public sector as displayed in Figures 1 and 2.

Figure 1. Contributions of Enterprises to Employment in the Kyrgyz Republic (2014).
Source: National Statistic Committee of the Kyrgyz Republic

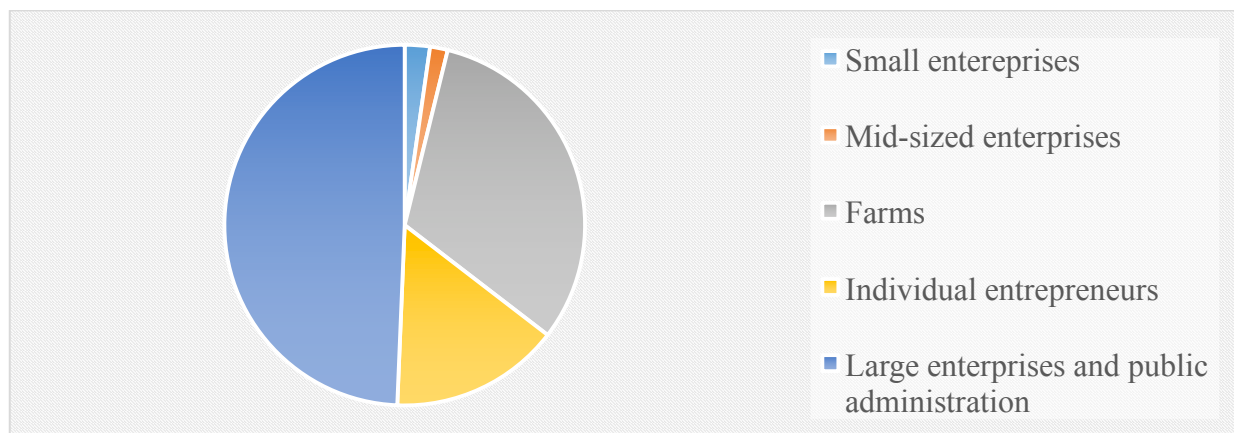
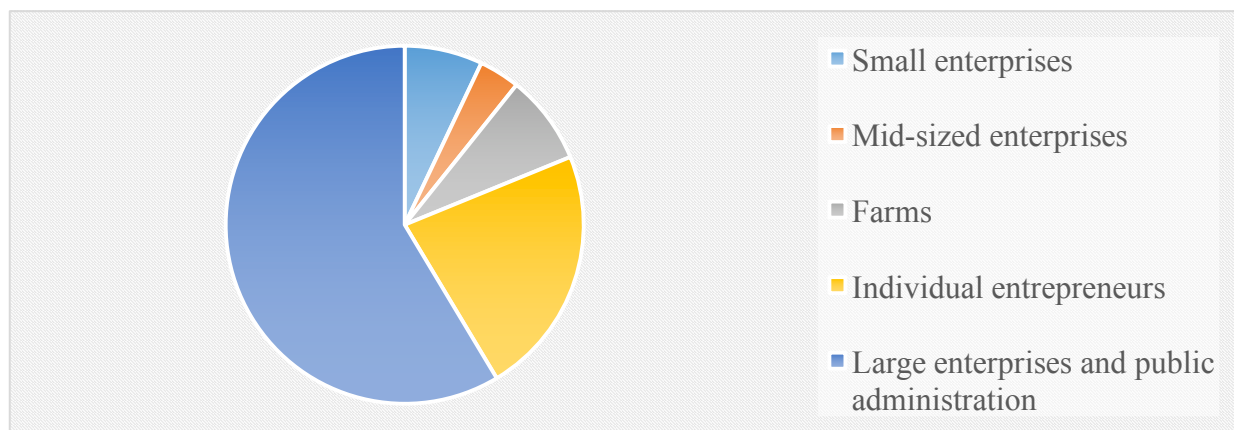


Figure 2. Contributions of Enterprises to GDP in the Kyrgyz Republic (2014). Source: National Statistic Committee of the Kyrgyz Republic



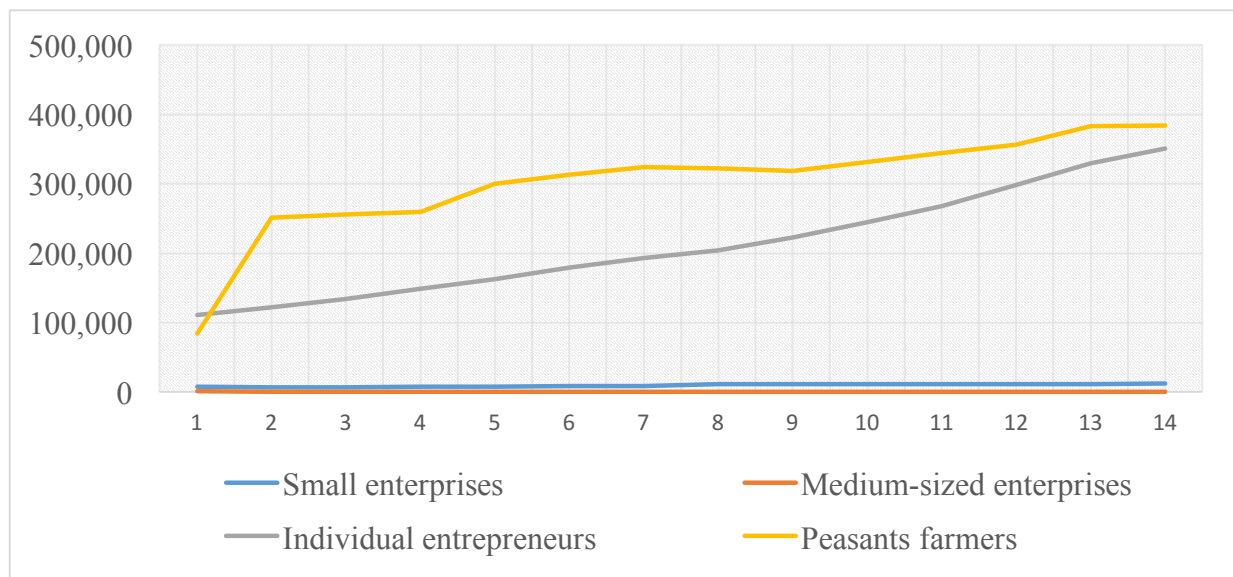
This overview of the private sector, and of SMEs sector in particular, does not lead one to conclude that the transition has been a success. The role that SMEs play in generating employment and spurring innovation and competition seems to be clear (Van Praag & Versloot 2008; Henrekson & Johansson 2010) even if the debate is still not closed (Biggs 2002).

With so few small and mid-sized enterprises, which contribute so little to GDP and employment, I contend that the privatization of the Kyrgyz economy has yet to lead to the development of SMEs. In other words, the bottom-up development of a diversified economy has not yet taken place.

The low level of productivity of Kyrgyz SMEs undermines their capacity to compete at the regional level, let alone internationally, and poses a serious challenge for their integration into regional and global value chains. This impasse has negative implications for the country's prospects of sustainable economic development. A look at the development of SMEs these past 15 years reinforces this argument.

National statistics provide an overview of small-scale enterprises from 2001 to 2014. It shows that the number of individual entrepreneurs increased significantly from 111,295 to 350,688. The number of farms increased similarly from 84,692 to 384,318. The number of small and medium-sized businesses, low in comparison to farms and individual entrepreneurs, did not grow very much. Kyrgyzstan counted 7,555 small businesses in 2001, and 12,712 in 2014. The number of mid-sized businesses actually decreased from 1,024 to 793. Figure 3 gives a clear view of the difference between these two trends.

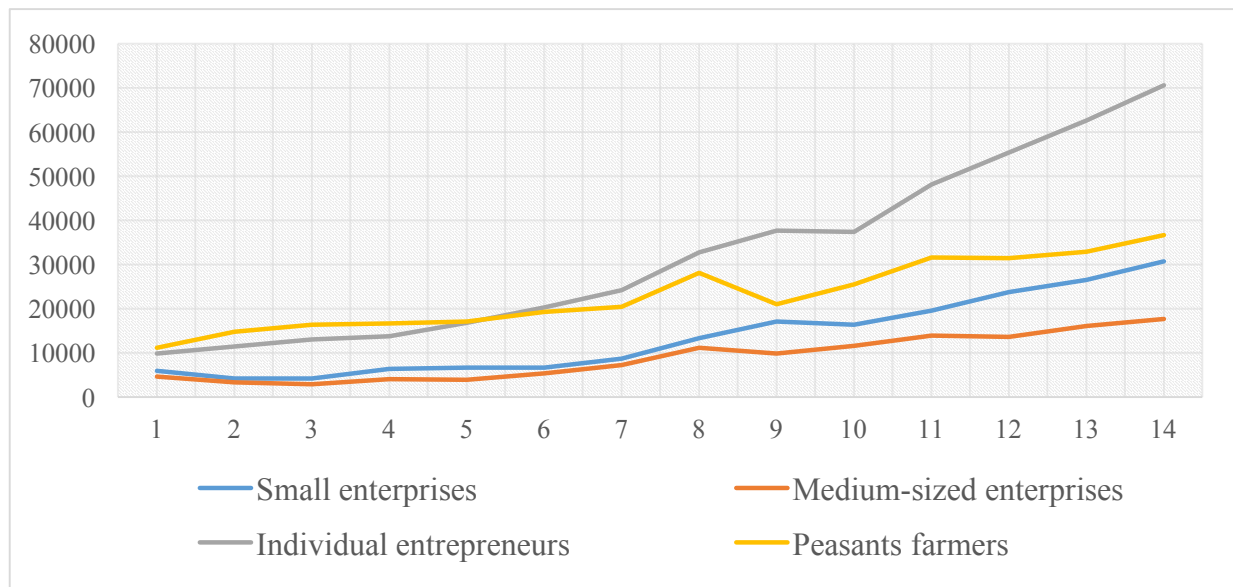
Figure 3. Number of SMEs, Farms and Individual Entrepreneurs, from 2001 to 2014.
Source: National Statistic Committee of the Kyrgyz Republic



The share of gross value added by small business decreased from 8.1% to 7.7%. The share of mid-sized business decreased from 6.2% to 4.4% in 2014. Peasant farmers contributed 15.2%

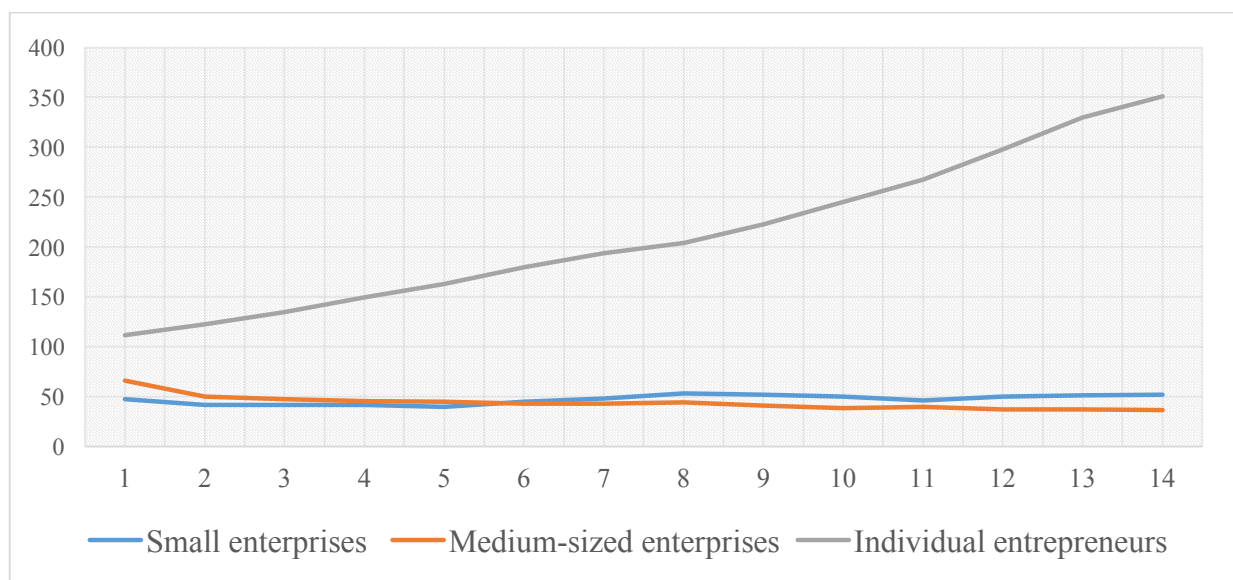
of GDP in 2001, and 9.2% in 2014. Only individual entrepreneurs increased their share of GDP contribution in that period from 13.4% to 17.7%. Figure 4 below gives a visual overview of these different trends. Considered as group forming the Kyrgyz SMEs, their contribution to GDP decreased from 43% in 2001 to 39% in 2014. The main part of GDP growth for that period was therefore captured by large enterprises.

Figure 4. Value Added of SMEs in Million Soms, from 2001 to 2014. Source: National Statistic Committee of the Kyrgyz Republic



Unsurprisingly, contributions of these different categories to employment follow the same trend, as shown in Figure 5, with small and medium-sized businesses employing a smaller proportion of the economically active population in 2014 than in 2011. The contribution of medium-sized businesses halved in absolute terms from 66,000 in 2001 to 36,000 in 2014.

Figure 5. Number of Employees in SMEs and Individual Entrepreneurs, in thousands 2001-2014. Source: National Statistic Committee of the Kyrgyz Republic



There is no single sector of the Kyrgyz economy where medium-sized businesses contribute more than individual entrepreneurs, small firms, and large ones. Large firms produce 77% of industrial output. Agricultural output is dominated by peasant farms. Wholesale and retail trade are the domains of individual entrepreneurs (45%) and small businesses (33%). So is the hospitality sector, where individual entrepreneurs account for 51% of the output and small businesses for 40%. The transportation sector is divided between large firms and individual entrepreneurs, 46% and 47% respectively.

The picture of SME development at the regional level provides additional reasons to argue that entrepreneurship has yet to emerge in Kyrgyzstan. Consider that 62% of small and mid-sized businesses are concentrated in Bishkek Municipality. Chuy Province (adjacent to Bishkek) and Osh Municipality come second and third with 12% and 7% of the SMEs. The revenue generated by SMEs follows this proportion, as shown in Figure 7.

Figure 6. Number of SMEs by Regions of the Kyrgyz Republic, 2015. Source: National Statistic Committee of the Kyrgyz Republic

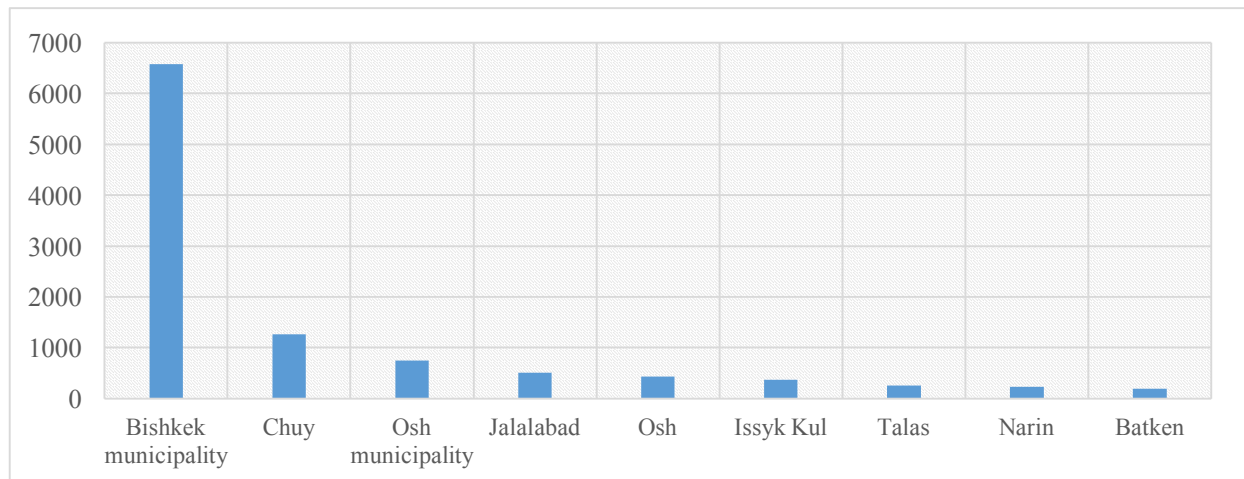
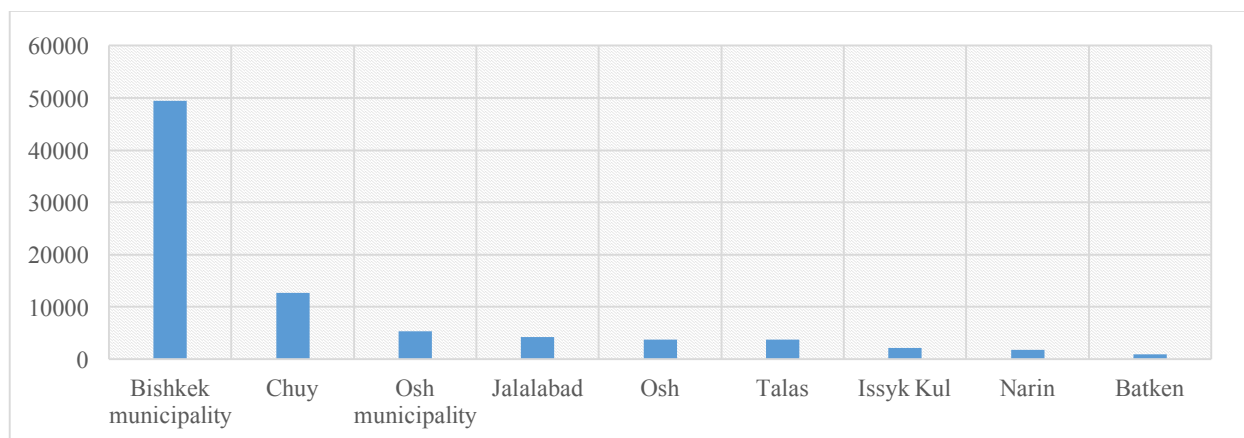


Figure 7. Revenue from Sales of SMEs by Regions of the Kyrgyz Republic, 2015. Source: National Statistic Committee of the Kyrgyz Republic



This brief description of the state of SME development of the Kyrgyz economy provides ample reason to question the success of the privatization process. One can evaluate the progress made by this small republic depending on the perspective adopted, as the example of the privatization of land shows.

Bloch commented on the privatization of land in Kyrgyzstan in 2002 in the following way: “If land reform is narrowly defined as an initial distribution of land and other assets from state-owned to private entities, then land reform in Kyrgyzstan is almost complete” (Bloch 2002: 61). This legal perspective reduced privatization to the legal transfer of ownership from state to private actors. It does not tell us if privatization succeeded. An economic perspective would analyze productivity in the agricultural sector. A comparison in 2013 of the GDP contribution of different kinds of farms in Kyrgyzstan and their respective arable land use shows that peasant and household farms outperformed large commercial agricultural farms inherited from the Soviet Union. Growth in the agricultural sector is primarily driven by household farming (Lerman 2013). This calls into question the label of “subsistence farms” (Guadagni & Fileccia 2009). Nevertheless, the economic perspective neglects the institutional environment necessary to create a market in agricultural products. It considers the value of the land only and the possibility it gives to a farmer to plant and harvest. Reducing the process of privatization in the agricultural sector to land reform or land productivity overlooks the complexity of the institutional setting needed for land to be valued as a market asset. A broad array of institutions outside the agricultural sector are necessary for a land to have a “second life,” as Jones put it (Jones 2003: 261). Examples of such institutions include: (a) an efficient financial system able to evaluate land, (b) clear registration procedures with mapping, (c) a market for land with open price information and (d) transparent legal procedures. Moreover, if farmers in Kyrgyzstan are theoretically free to sell their products at world market prices, the market infrastructure that would allow them to do so is absent and prices fluctuation of inputs such as gasoline is problematic. “It is cheaper to take a flight to China and bring back food products from there [for resale]. That is what many of those who used to farm actually do now,” acknowledged a farmer interviewed in 2012 (Tokbaeva 2012). The institutional view does not invalidate the fact that household and peasant farms are most certainly more productive than commercial farms. It does, however, caution against an early assumption of success regarding the transition process and points to social and political problems that may result from an institutionally flawed market.

Conclusion

This paper sought to fill a gap in the literature on economic development in Central Asia by looking at the state of the MSME sector. The structure of the MSME sector, their growth and performance are indicators of entrepreneurial activities. MSME statistics show that the transition in Kyrgyzstan produced a myriad of independent entrepreneurs and peasant farmers, but very few small and mid-sized firms. Small and mid-sized enterprises in Kyrgyzstan

contribute respectively to 7% and 4% to GDP and employ 2% of the economically active population; furthermore, their contribution to GDP and employment has decreased over time. Moreover, small and mid-sized firms are concentrated in Bishkek, potentially reinforcing the regional welfare disparities. On the other hand, the number of individual entrepreneurs and peasant farmers has steadily grown, but their productivity, according to official statistics, does not follow the same pattern. In terms of employment, individual entrepreneurs and peasant farmers represent an overwhelming part of the country, while in terms of productivity, only a third. Official data on the MSME sector show a stagnating sector while self-employed (necessity-based?) entrepreneurial activities have grown. This call for further investigation in the relationship between survival strategies and the opportunity-based entrepreneurial activities. One interesting research direction would ask if informal network is really an asset when it comes to developing formal small enterprises.

As stated earlier, informal network relations are a distinctive feature of post-Soviet economies. The shortage economy of the Soviet era forced people to rely on their social networks for survival. Kuehnast and Dudwick's study of personal network in Kyrgyzstan (2004) showed that while social networks are still an integral part of people's everyday life in Kyrgyzstan, these networks have been modified by the rapid transformation of the state's institutions and the economic liberalization. In particular, the networks of the poorest segments of the Kyrgyz society, previously centered around the workplace, have deteriorated. While the poor's networks have become more horizontal, binding people in similar economic situations, the non-poor have been able to use cash as a substitute for connections, bypassing traditional and well-established networks. Radnitz et al.'s (2009) search for the roots of social capital in Central Asia point in the same direction. Disentangling social capital into norms of reciprocity, interpersonal trust, and networking showed that these elements are not necessarily reinforcing each other. In particular, norms and trust, on the one hand, and networking, on the other hand, are negatively correlated. Thus, in Kyrgyzstan, the rise of NGOs and the decrease of state control over society allowed people to form new networks beyond their traditional ones. Yet, that did not translate into greater interpersonal trust and stronger social norms. The reverse is true in Uzbekistan, according to the authors.

These findings help explain how social ties have structured migration flows from Central Asia to Russia. The local presence of compatriots, friends, and family is the main factor influencing the choice to migrate for 90% of Kyrgyzstan citizens in Russia and 78% of those in Kazakhstan (Vinokurov 2013). These findings are also relevant to understand the functioning of bazaars. Karrar's study (2016) of bazaars such as Dordoi and Kara-Suu shows how social networks are the center of the bazaar's functioning.

But the social fabric that produces and maintains these linkages useful for survival might also prevent the formation of general trust — trust in formal institutions — on which market economy relies. General trust and interpersonal trust are also termed “bridging” and “bonding” social capital. Menyashev and Polishchuk (2011) used data from a major, nation-wide survey

administered throughout Russia to investigate the effects of bridging and bonding on socio-economic development. At the systemic level, they found that bonding social capital had negative effects on development, as measured by socio-economic conditions, and local government performance, while bridging social capital had positive ones. This empirical finding confirms the argument that social capital can have adverse effects (Portes & Landolt, 1996). The literature cited in the introduction of this working paper considers informal networks as a resource for entrepreneurial venture. Thus further investigation could focus on the role of informal networks. They might be a resource for survival, and an asset for certain entrepreneurial venture, such as migration and trading, but might not provide the ingredients micro enterprises need to grow.

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