

ENTREPRENEURSHIP AND MICROFINANCE:
ECONOMIC DEVELOPMENT AND WOMEN'S EMPOWERMENT
IN KYRGYZSTAN

by

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This thesis focuses on microfinance in Kyrgyzstan as a response to the initiation of economic, social and political reforms following Kyrgyzstan's independence in 1991. These reforms accelerated Kyrgyzstan's transition from a centrally-planned to a liberal market-based economy. Microfinance became a favored mechanism for encouraging individual entrepreneurship and thus economic development. Based on field research I conducted in Kyrgyzstan during the summer of 2009, this thesis examines the economic impact of these reforms on women entrepreneurs, as women were particularly vulnerable to the social fallout from such reforms. Through participatory observation, small focus groups and semi-structured interviews, I analyze myriad aspects of the lives of women entrepreneurs who have participated in a microfinance project. I argue that microfinance provides an empowering, sustainable path for them. However, the historical occupational divisions encouraged by the Soviet Union affect how people use microcredit. I conclude with suggestions on improving microfinance practices in Kyrgyzstan.

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I dedicate this thesis to my mother and to the women of Kyrgyzstan, whose courage and hard work continues to be a source of strength, admiration and inspiration for me.

TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION	1
Research Questions.....	4
Methodology	8
Methodological Notes: Validity and Other Issues	13
Choosing Research Sites.....	14
Significance of the Study	16
II. BRIEF ECONOMIC HISTORY OF KYRGYZSTAN.....	17
Country Profile.....	18
Historical Background: Kyrgyz Nomads.....	20
Economic Reforms: During the Soviet Union.....	22
Economic Reforms: After Independence	27
Power Shift: the Tulip Revolution of 2005.....	30
Power Shift: April 7, 2010 Events	31
What Lies Ahead?.....	33

Chapter	Page
III. MICROFINANCE AND THE PROMISE OF SOCIAL CHANGE	36
Microcredit and Development	36
Microfinance Models	40
Critiques of Microcredit.....	44
Microcredit and Entrepreneurship	47
Microfinance in Kyrgyzstan: History and Actors.....	54
IV. CASE STUDIES: REGIONAL DIFFERENCES.....	64
Case Study I: Osh and Uzgen, Multi-Ethnic Mixes.....	64
Overview of Osh and Uzgen.....	64
Issues Addressed.....	67
Interview Details.....	69
Case Study II: Pokrovka, Border Issues	76
Overview of Pokrovka and Talas.....	76
Interview Details.....	78
V. INTERPRETATIONS AND CONCLUSION	85
APPENDICES	94
A. FOCUS GROUP ACTIVITY RESULTS	94
B. SEMI-STRUCTURED INTERVIEW QUESTIONS	97
BIBLIOGRAPHY	99

LIST OF FIGURES

Figure	Page
1. Map of Kyrgyzstan	15
2. Kyrgyzstan in the world.....	19
3. Map of Central Asia.....	22

LIST OF TABLES

Table	Page
1. Macroeconomic Indicators in Kyrgyzstan, 1991-1997.....	29
2. Microcredit Institutions Client and Loan Portfolio Information.....	58
3. Microfinance Organizations and their Loan Portfolios	61

CHAPTER I

INTRODUCTION

The old Soviet education did not prepare us to the market-driven world. Many people who I studied with lost their jobs after the Soviet Union broke up. My wife and I were lucky we did not lose ourselves in chaos that was happening immediately after the independence. We secured a combination of loans from private banks, nonprofit organizations and relatives to buy machinery from the local Soviet plants. The government was dismembering machinery and selling parts to private investors in and mostly outside of the country. We wanted to keep the machinery in the country. Later, I was part of the training program initiated by the USAID through Consulting & Co. I attended workshops in California, USA where I learned ways of organically growing and fertilizing crops. In 2008 we had American farmers as guests in our house. They showed us techniques of canning tomatoes. The USAID program has been helping us to market and sell our products (Aman Aliev¹ and Bubusara Alieva, interview notes, Uzgen, 2009).

Kyrgyz entrepreneurs lack knowledge of their individual rights. They should learn about local and national laws, different roles and responsibilities of various government agencies. I noticed that even people with advanced education and degrees can become victims of excessive “check-ups”, taxes and unnecessary procedures (Clara Balykchieva, interview notes, Osh, 2009).

Entrepreneurs like Aman *baike*², Bubusara *eje*³ and Clara *eje* are a few examples of many struggling business owners in Kyrgyzstan. In the summer of 2009 I set out to

¹ Please note that all names mentioned in this thesis have been made up to protect interviewees' identities and privacy. The names were assigned in alphabetical order.

² *Baike* means older brother or uncle in Kyrgyz. It is used to refer respectfully to someone who is not related by blood.

³ *Eje* means older sister or aunt in Kyrgyz. It is used to refer respectfully to someone who is not related by blood.

explore an understanding of women's empowerment and economic development, specifically looking at a combination of entrepreneurship with microcredit and their relationship with the notion of women's empowerment. What I found was incredible stories of entrepreneurs of different ages, education, ethnic background and training who work everyday and make a difference not only in their lives, but also in their communities. My findings helped me understand how theories, studies and global perspectives work in the field, with real people and real problems. This thesis shares my interpretations of this collaboration, attempting to give voice to those affected by the global discourse regarding poverty, gender, entrepreneurship, microcredit, and economic development.

In the last couple of decades microfinance programs have flourished as a favored and effective tool to combat poverty. Explicitly, these programs (e.g. the Grameen Bank, Mercy Corps' Kompanion, FINCA Kyrgyzstan) often target women as their main clientele, working under the assumption that women have limited access to credit, which restricts their personal and economic development, and creates more barriers for them to enter the formal market economy (ADB Report, 2002).

Consequently, they fall further into the vicious cycle of poverty. Within this approach, microfinance programs often focus on women's empowerment as an inevitable result. However, this perspective fails to take into account the local context in which microfinance operates. It is important to account for local cultures, traditions and historical relationships among genders, people of various ethnic or caste backgrounds. More specifically, this approach can leave essential contextual dimensions of the multi-

faceted nature of poverty unexplored. I hope my thesis unveils complex issues that shape entrepreneurial and microfinance environment in Kyrgyzstan.

Based on the fieldwork done in Kyrgyzstan, this thesis explores the combination of entrepreneurship and microfinance as a viable tool for empowerment and women's development in two communities. Specifically, it investigates various challenges entrepreneurs face in economically and politically turbulent area. Through my interpretation of the women's own voices, the thesis presents the women's analysis of their participation in microfinance programs and evaluation of their experiences.

Chapter II provides a brief economic and political history of Kyrgyzstan. It begins with a country profile, its current economic situation and a short history of the Kyrgyz nomads. It then turns to different economic reforms that were implemented during the Soviet Union period that led to occupational division among different ethnic groups. Next it recounts economic reforms that happened after independence in 1991 that introduced the formerly closed economy to the market-driven economy. The last section of the chapter concludes with recounts of recent events such as the Tulip Revolution of March 2005 and the April 7, 2010 protests that resulted in 89 dead and some 500 protestors injured. The section concludes with the current economic and political environment of the country. This chapter is crucial for understanding the cultural, political and economic context of my research. It helps draw connections between historical events and the current situation and how these affect the lives and businesses of local entrepreneurs.

Chapter III introduces microfinance in the Kyrgyz cultural setting. It starts with an overview of microcredit in the development arena and identifies different types of

microcredit models. The chapter then discusses different aspects of entrepreneurship and challenges faced by entrepreneurs in post-communist countries, specifically Kyrgyzstan. It draws connections between the development of entrepreneurships and the provision of credit. The chapter concludes with a short history of microfinance in Kyrgyzstan and a discussion of the main organizations and their services. This chapter is important for this thesis as it helps to contextualize my research findings that are discussed in the following chapters.

Chapter IV presents two case studies: one in the south and the other in the north of the country. The chapter starts with an overview of the Osh Province and the city of Osh and the town of Uzgen, my first research sites. The chapter then discusses my interview findings and describes types of entrepreneurships and microfinance programs present in the area. It recounts successes and failures of entrepreneurs, their struggles and steps they took to overcome difficulties, as well as their suggestions to new coming entrepreneurs. Then the chapter discusses the second research site in the Talas Province, the small village of Pokrovka. The chapter presents interview findings of Pokrovka entrepreneurs and their visions of their business development. The thesis concludes with interpretations of the research questions and recommendations on improving microfinance industry and entrepreneurial climate in Kyrgyzstan.

Research Questions

Growing up in Kyrgyzstan during the last days of the Soviet Union, I have witnessed many changes sweep across my country. The rapid privatization of state-owned assets, introduction of a new currency, and the establishment of new democratic

institutions are a few examples of these changes. In a very short time, the place I knew so well as a child completely transformed in an effort to catch up with the western world. In the midst of this chaotic transition, I witnessed people's, including my parents', profound struggles as they grappled with their new reality in the new market-driven world.

Unlike my parents, who were used to living under communism, many people took the initiative of privatizing some government land and old equipment from industrial plants by taking out series of microloans. This thesis focuses on these entrepreneurs who were able to adjust to the new economy and successfully build small businesses. Their path, however, has not been an easy one. An unstable economic environment and constant political turmoil have made development of any kind difficult. Despite all these hardships, microfinance institutions have been thriving in Kyrgyzstan since the early 1990s.

Kyrgyzstan was part of the Soviet Union for more than 70 years. During the Soviet rule many economic and political policies had been implemented that have shaped current occupational divisions among various ethnic groups. For example, the Kyrgyz people were nomadic herders of sheep and horses who moved from one mountain range to another without ever settling in a four-wall house. They traded meat and animal skin for grain, salt and other products they did not grow. After the annexation to the Soviet Union, Kyrgyz nomads started settling down and learned to farm and grow crops for the winter. Dungan and Uigur minority groups have always been farmers who were successful working the land and growing crops. The Uzbeks were renowned as quick and witty hagglers in the bazaars, while the Russians as an educated and well-connected

ethnic group had always worked for educational and government institutions as administrators.

I have always been interested in examining these complex historical relationships among various ethnicities. How do political and economic processes shape the current situation and livelihood of people in a given area? Do people use economic resources to get out of poverty by means that they know best? In other words, do the Kyrgyz people, for example, use microcredit to develop businesses that involve animal husbandry, while Uzbeks use it to expand their ventures in the bazaars? To examine these dimensions, this thesis explores the following research questions:

- Does microfinance provide a sustainable path to development for entrepreneurs in Kyrgyzstan?
- Does the historical occupational division among various ethnic groups dictate the nature of their entrepreneurships? Since traditionally the Kyrgyz were herders and later farmers, Russians were administrators, and Uzbeks were in retail, do they use microcredit to develop their businesses related to their historical occupations?
- Do female entrepreneurs have a different experience than male entrepreneurs in accessing micro-loans and services for their businesses? Has access to credit moved women towards their expected vision of development? What suggestions do they have for improving microfinance practices in their areas?

The first research question raises an issue of sustainability, where in many cases it means environmental sustainability. In this research, however, sustainability means how entrepreneurs in Kyrgyzstan are able to effectively utilize their microloans to fund their businesses so they no longer need external funds to keep their businesses running in the future. It implies that entrepreneurs are able to earn enough profits to reinvest in their businesses and they have no need for additional loans for their ventures. Such

development also leads to sustainable development of communities entrepreneurs live in, and consequently the whole country.

The third research question raises an issue of empowerment because it directly asks participants' if they achieved their own vision of development. As empowerment can mean different things to different person, I did not attempt to define it in this thesis. On the contrary, I asked interviewees to define it for me. I was interested in examining empowerment issues from their perspective. What empowerment means to them? How their lives changed and what they feel about it? Chapter IV provides detailed account of answers to this question.

This research project is based on two principles. First, the research favors the women's own understanding of how participation in microfinance programs affect their entrepreneurships and their personal lives. The thesis attempts to utilize women's own voices in the presentation of the findings in Chapter IV. Robert Chambers (2008) equates it to listening to the people to interpret their situation from their perspective. Similarly, Bossen (1984, p.12) argues that this is "extremely valuable as a means of overcoming the limitations and biases of our own cultural traditions of scientific distance and statistical reduction."

Second, the research project attempts to be respectful of the personal and cultural boundaries of the interviewees, NGOs and all involved parties. Being from the same culture for the most part (when I interviewed Kyrgyz citizens) helped me to understand my boundaries. I knew what kind of questions I could ask and could not ask. In designing interview questions I was aware of their personal nature to women (and men), so I made

it aware to the respondents that they had an option of not answering questions if they felt uncomfortable.

Methodology

The research project included two phases: a preliminary phase and primary phase. The first phase lasted for about 3 days in each research site, while the second phase lasted for a week in each place. Overall I have spent a month traveling and conducting my research in both regions of Kyrgyzstan. I conducted my research in the Osh Province in the middle of August 2009 and in the Talas Province at the beginning of September 2009. Although quantitative data has been obtained from the interviews, this research mainly examines qualitative relationships among various variables.

The preliminary phase of the field research involved getting to know small groups of women (usually 5-6 people; on rare occasions I had groups of 10-15 women in Pokrovka). See Appendix A for focus group activity results. This was done differently from group to group. For example, the first group I met in Osh was in a small one-room clinic near the local bazaar that one of the interview respondents has opened. She was giving an IV to one of her patients while others waited. It turned out that the waiting patients were also using microloans for different reasons. I ended up talking to all of them about their struggles in keeping their businesses operational. Other groups I met were for specific occasion. In Pokrovka, I gathered a group of school teachers who used group loans to develop small-scale entrepreneurships besides their regular jobs, over a cup of tea in the high school cafeteria. There we had a discussion of the reasons they needed other sources of income besides their teacher salaries. They voiced their common

concerns about the current economic and political situation, as well as suggested ways to simplify procedures for future women clients.

The primary phase of the field research involved having individual semi-structured interviews with open-ended questions⁴. Each interview took about 30-45 minutes. Most of the individual interviews have been videotaped so as to have a digital record of the interviews as well as having something to give back to the communities. I received an oral consent from all respondents who agreed to be videotaped. I am currently working on a short documentary about women entrepreneurs in Kyrgyzstan, their struggles and triumphs as they develop and expand their businesses. I plan to distribute the video to all participants this coming summer, 2010.

The thesis uses the GAD (Gender and Development) approach that includes both genders in development planning through an enhanced understanding of women's roles and responsibilities within the context of gender relationships in society (Leach, 2003).

This approach

builds on the interest in participatory methods of engaging in development. It focused on the empowerment of women through increasing their awareness of the gendered structures and power relations within which they operate, their self-confidence and their participation in the development process (Leach, 2003, p.10).

As gender constructions vary by culture, GAD responds to differences amongst women and their relationship to men⁵ rather than seeing them as a homogeneous group (Jaquette and Summerfield, 2006). Rather than excluding men from this research, I have attempted to understand their role and place among entrepreneurs in Kyrgyzstan. Being

⁴ See Appendix B for semi-structured interview questions.

⁵ I have also interviewed several men to get a full perspective and compare experiences across genders.

predominantly a Muslim country with patriarchic traditions, power relations between men and women are complex. Men are the heads of households, primary decision makers, and holders and dispersers of financial resources. Women play a secondary role in decision-making, but still play an integral part in the family where they act as keepers of family honor who raise children and satisfy family obligations and traditions in front of the extended family network. To have a more holistic view of various struggles that entrepreneurs face, I have included 4 men (along with 24 women) in the research process.

GAD follows two main strands: the efficiency approach and the empowerment approach. The efficiency approach attempts to incorporate gender analysis in the planning through analyzing women's and men's roles and responsibilities by including women in economic development. On the contrary, the empowerment approach focuses on empowerment of women through educating them about gender structures and power relations within communities (Leach, 2003). This thesis incorporates both approaches where I include both genders in the research process and attempt to examine women's empowerment issues.

The thesis also uses Participatory Rural Appraisal (PRA) framework, which utilizes visual representation for participatory activities. PRA initially was developed as means of promoting community involvement in the development process; however, it is also appropriate for addressing gender inequalities (Leach, 2003). During focus group activities I engaged participatory tools such as maps, diagram and time lines to understand entrepreneurs' organizations and their future plans to expand their businesses. To view sample of these activities refer to Appendix 2. Central to PRA methodology is

the conviction that ordinary people are capable of critical reflection and analysis and that their input counts (Chambers, 1997). Participatory activities I engaged in my research gave voice to those who may otherwise be excluded in the decision-making and resource allocation processes.

Moreover, a key idea that has accompanied the development of PRA techniques is that of a new professionalism. Robert Chambers (1993, p. 145) explains this as follows:

The central thrusts of the [new] paradigm ... are decentralization and empowerment. Decentralization means that resources and discretion are devolved, turning back the inward and upward flows of resources and people. Empowerment means that people, especially poorer people, are enabled to take more control over their lives, and secure a better livelihood with ownership and control of productive assets as one key element. Decentralization and empowerment enable local people to exploit the diverse complexities of their own conditions, and to adapt to rapid change.

This discipline implies two-way learning, where development practitioners learn to both appreciate and lever the power of oral culture and the transformations that are possible within it. PRA not only encourages equal participation, but also the concept of empowerment. By using visual aids, this method enables people to take greater control of their lives. Fiona Leach (2003, p. 125) argues that

It is the participants' analysis of and reflection on their own social, economic, and political circumstances and the subsequent discussion of how these can be changed for the better that is crucial. Change will usually be achieved through gaining greater access to political processes and to resources, whether these are in the form of knowledge and information, or financial or material resources.

The assumption is that strengthening people's involvement in problem-definition, data-collection, decision-making, and implementation will facilitate capacity building, and build confidence, agreement, and accountability within communities.

In analyzing my research data I also draw knowledge from my internship experience with Mercy Corps founded Kompanion Financial Group. My internship lasted two months in the summer 2008 in Bishkek, Kyrgyzstan. During the internship, I was part of the Development Lending Group that develops, designs and packages financial instruments of the whole organization. As part of my internship duties, I have assisted my colleagues in researching educational micro-loans that target youth. I was able to suggest various terms and strategies for Kompanion to administer loans to needy students in my country. I learned a lot during the research and packaging process of this financial instrument. For example, some terms and conditions applied to federal loan recipients in the US cannot always apply to the recipients in Kyrgyzstan. Our team had to consult with Kompanion's legal department on recent bills and tax laws in the country to determine the best route for this initiative. All the efforts were paid off eventually. I was happy to find out that first set of educational loans have been offered to students in 2009.

I was also part of the Senior Credit Committee who was responsible to make final decisions whether Kompanion would provide loan to clients. The committee played an important role in making final recommendations on administering loans after initial investigations by the field managers. Field managers met clients on several occasions in order to determine their credit eligibility. After careful observations and analysis of economic (e.g. income levels, type of entrepreneurship, etc.) and social situation (e.g. marital status of the client, number of kids, education levels, age and children's age, etc.), field managers brought their cases to the Senior Credit Committee for final assessments. It became clear that many factors influence clients' credit accessibility such as their age,

marital status, number of children and their age (in case they take out a loan to pay for the wedding), credit history, existing risks, the importance of the type of the businesses, area they operate their entrepreneurship, and etc. This experience allowed me to see both sides of the coin, where I understood microfinance agencies' and clients' perspectives and struggles that allowed better contextualize my research findings in later chapters.

Methodological Notes: Validity and Other Issues

This section discusses various validity issues that occur when conducting qualitative research. It recounts the issues raised during and after the research project and steps I have taken to minimize methodological concerns. The following are the number of concerns and steps I took to alleviate them.

First, I was concerned with the validity of the findings because of the qualitative nature of the research. Since qualitative data requires interpretations through the lens of the researcher, it poses several challenges such as incorrect or too much interpretations of the cultural norms by the researcher. To avoid this, I tried to ask specific questions and ask them to explain what they mean. In addition, building on participant/observation methodology, I paid special attention to listening of how questions were answered, the significance of non-responses and body language.

Second, the research project could have been improved by including more participants from diverse ethnic backgrounds. The majority of interviewees were Kyrgyz, while only two were Uzbek, one Kazakh, and one was Russian. One could argue that such representation of ethnicities does not allow for accurate conclusions about women's

experiences with microcredit. Although my study lacks diversity of ethnic backgrounds among interviewees, it attempts to show how ethnic backgrounds influence credit and business development experiences of women in two provinces through interpretations of literature findings, interviews with minority groups as well as interviews with the Kyrgyz entrepreneurs who have an insight into the struggles of entrepreneurs from other ethnicities.

Third, the research project could have been improved by the use of a control population not receiving microfinance services. However, I believe that the absence of this data does not affect the findings. The goal of the research was to find positive correlations between women's participation in microfinance programs and the effects on their entrepreneurships. In addition, the voluntary participation in the interviews has allowed me to get a sufficient sample population that did not need a control group population for valid comparison.

Choosing Research Sites

It is important to explain the reasons for choosing Osh and Uzgen in the south and Pokrovka in the north as my research sites. Especially since I have excluded Bishkek, the political and economic capital where many microfinance agencies' headquarters are located, from the scope of my study. I was born and lived in Bishkek my whole life. Although considered the largest city in Kyrgyzstan, Bishkek's population is only a little over a million. It would have been easy to conduct my interviews in Bishkek, because of the abundance of local entrepreneurs, microfinance practitioners and resources. However, I thought for the purpose of my research it is important to focus on

people in rural to semi-rural areas since people in such places do not have the same economic opportunities as people in the capital.

Osh, Uzgen and Pokrovka are very interesting places because of their location, history and people. Please refer to figure 1 for a map of Kyrgyzstan that shows research areas. As it will become clear in the later chapters, there is a prominent social and cultural divide between people in the south and north. This divide has caused tensions and has manifested itself in the recent bloody events on April 7, 2010. In addition, I wanted to compare entrepreneurs in the south and north because of existing historical tribal rivalry as well as different mentalities. And lastly, I chose Osh, Uzgen and Pokrovka for pure convenience. I have relatives in all these places that made it easy to travel and do research in these areas.

Figure 1: Map of Kyrgyzstan

Source: CIA Factbook 2010. Retrieved from

<https://www.cia.gov/library/publications/the-world-factbook/geos/kg.html>



Significance of the Study

This research provides two valuable case studies in entrepreneurship, microfinance, poverty alleviation, and long-term sustainability in two areas of Kyrgyzstan. The current academic literature on entrepreneurship and microfinance in my country is lacking. This research study also hopes to empower women of Kyrgyzstan from diverse backgrounds by helping them voice and share their experiences in developing and expanding their small and medium sized businesses. By incorporating the experiences of these women into the micro-lending discourse, this research provides a valuable tool for development practitioners and future investors. Being a Kyrgyz woman puts me in a unique position where I understand Central Asian culture and traditions. This knowledge helped me effectively conduct my participatory research. Finally, this research project provides a different insight into economic development challenges and opportunities in Central Asia, where it highlights current political and economic environment, and struggles of entrepreneurs.

CHAPTER II

BRIEF ECONOMIC HISTORY OF KYRGYZSTAN

Since its independence from the Soviet Union in 1991, Kyrgyzstan adopted many dramatic economic, social and political reforms to accelerate its transition from a centrally-planned economy to a liberal market based economy. The newly established Kyrgyz Government rapidly privatized all of the previously state-owned assets, liberalized import restrictions and adopted its own currency. As did its “Big Brother” Russia, the Kyrgyz Republic pursued a shock therapy approach after the dismantling of centralized Soviet rule. All of these changes created much uneasiness among the population.

During the first years of independence, unemployment and inflation rose sharply. Many plants and factories were closed; the collective farms were privatized into thousands of private farms. People who lost their jobs had to find new ways of employment. Some engaged in ‘buy and sell’ retail business in the local bazaars; others stayed in low-paying government jobs, and those who were able to adjust to the new environment and foresee the future invested in some of the plants, land and equipment

from the Soviet factories and collective farms.⁶

This chapter presents a brief overview of Kyrgyzstan's economy. It starts with a country profile and an introduction of the Kyrgyz nomads before the Soviet invasion of their tribes. Next the chapter discusses specific economic and social reforms that were implemented during the Soviet Union and later after its independence to create a unique economic and political environment that gave rise to small business entrepreneurships. Then it provides examples of recent political and social shifts that shape current and future economic outlook of Kyrgyzstan and its neighbors. Finally, this chapter concludes with an outlook of the future economic and political situation of the country. It is important to understand these events as they help the reader to better contextualize my research findings.

Country Profile

The Kyrgyz Republic is one of the poorest countries in transition. Located in the heart of Central Asia (refer to figure 2 which shows country's location in the world map), it is a home for approximately 5.4 million people of different ethnicities. According to the 1999 national census, the predominant majority of the population is ethnic Kyrgyz (64.9%), the rest is comprised of Uzbek (13.8%), Russian (12.5%), Dungan (1.1%), Ukrainian (1%), Uygur (1%), and other (5.7%). Seventy five percent of the population is

⁶ Some people were able to foresee the future and buy-out lands and machinery from the Soviet collective farms, plants and factories because they were well-connected bureaucrats. Others were people who could change their mind-set to competitive capitalist system and adjust well to social, political and economic changes of the country. This paper focuses on the latter.

Sunni Muslim, while 20% are Russian Orthodox and 5% practice other religions (CIA Factbook, 2009).

Figure 2: Kyrgyzstan in the world.

Source: Central Asia Travel 2010. Retrieved from http://www.centralasiatravel.com/images/central_asia_big.jpg



This isolated country of natural beauty and hospitable nomadic traditions has a primarily agricultural economy. Partly due to the reforms that were dictated from Moscow during the Soviet rule and partly because of the historical division of labor based on ethnicities, Kyrgyz people rely on cotton, tobacco, wool, and meat as the main agricultural products. Since Kyrgyzstan was one of the two resource-poor Soviet Republics (along with Tajikistan), the dismantling of the Union of Socialist Soviet Republics (USSR) left the country with very few export options. During the communist regime, all Soviet states produced goods in quantities dictated from the policy makers in Moscow. Since the nomadic peoples of the Central Asian mountains and steppes were

traditional herders, they were assigned to produce wool and raise cattle for meat. Other products were exported from the other states and distributed among the member countries.

There are few natural resources that Kyrgyzstan exports today. Among the few are gold, mercury, uranium, natural gas, and electricity. There are a few gold deposits in the country. The joint Kyrgyz-Canadian Kumtor Gold Company, in the northeast of the country, operates the biggest gold mining site. Ninety-four percent of the country's terrain is mountainous, which ensures rich sources of mountain-rivers that find their water sources from melting glaciers. There is an abundance of hydroelectric power if used properly. However, low investment in building or repairing rundown infrastructure (which often was not tested since the Soviet times) to create efficient extraction of hydroelectric power. There are also several mercury and uranium mining sites throughout the country. These sites were closely monitored and regulated during the Soviet Union, however, quickly abandoned after the independence. Some decades later serious after-effects have been found in villages living close to these sites. Many villagers suffer health problems, birth defects, respiratory problems and in severe cases even cancer.

Historical Background: Kyrgyz Nomads

It is important to understand the historical procession of events that led to the current economic and political situation in Kyrgyzstan. Many reforms and changes were implemented during the Soviet and post-Soviet eras that created a unique environment that paved the road to the new ways of development, and particularly made it favorable

for microfinance companies provide its services to the people of Kyrgyzstan. Before discussing these economic reforms, I will provide a brief overview of the Kyrgyz people and their livelihood before the Soviet invasion.

The earliest Kyrgyz history dates back to 201 B.C. when the earliest descendent of the Kyrgyz (who were of a Turkish decent) lived in the northeastern part of what is currently Mongolia. Refer to the figure 3 for the map of Central Asia in the next page. Later, some of the tribes migrated to the region that is currently southern Siberia and settled along the Yenisey River, where they stayed from the 6th until the 8th centuries. The tribes have quickly spread across what is now the Tuva region of Russia, where they remained until the rise of the Mongol Empire in the 13th century. By that time, the Kyrgyz started migrating south and have adopted Islam as their predominant religion. Today most Kyrgyz are Sunni Muslims of the Hanafi School.⁷ (USDS Diplomacy in Action, 2009)

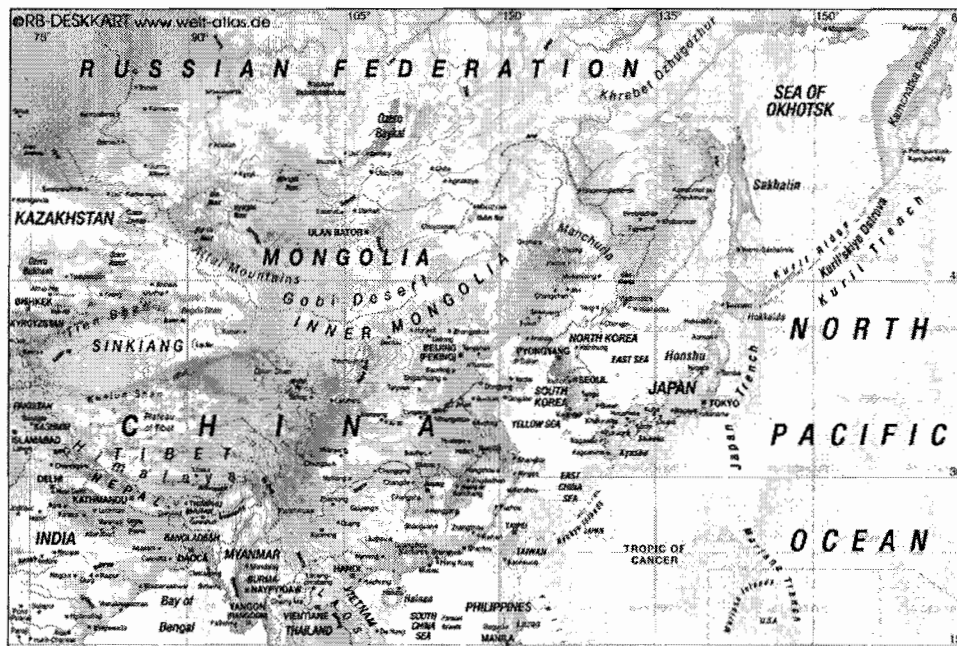
During the 15th-16th centuries, the Kyrgyz people settled in the area that is currently known as Kyrgyzstan. By the early 19th century, the southern territory of Kyrgyzstan came under the control of the Kokand Khanate. During the Khanate, Kyrgyzstan's southern towns such as Osh and Uzgen have flourished as trading routes of the Great Silk Road. The Kyrgyz traditionally nomadic herders have moved from one mountain range to another. Other ethnic groups such as the Uigur, Dungan, Uzbek, Tatar and other minorities have migrated to the area before and shortly after Kyrgyzstan joined the Russian Empire. (USDS Diplomacy in Action, 2009)

⁷ Before the Kyrgyz adopted Islam as their main religion in the 12th-13th centuries, the tribes followed pagan beliefs, where they prayed to the powers of wind, fire, water, and etc.

Figure 3: Map of Central Asia

Source: Atlas of the World 2010. Retrieved from

<http://www.welt-atlas.de/datenbank/karten/karte-0-9015.gif>



The Soviet power was initially established in the region in 1918. In 1924 the Kara-Kyrgyz Autonomous Oblast⁸ was created within the Russian Federal Socialist Republic. In 1926, it became the Kyrgyz Autonomous Soviet Socialist Republic. On December 5, 1936 the Kyrgyz Soviet Socialist Republic was established as a full Union Republic of the U.S.S.R. (USDS Diplomacy in Action, 2009)

Economic Reforms: During the Soviet Union

In 1876 Russian troops defeated the northern tribes of Kyrgyzstan and within several years annexed other parts of the country as part of the Russian Empire. Although the Kyrgyz slowly integrated themselves into the economy, Russian policies never

⁸ The term Kara-Kyrgyz was used until the mid-1920s by the Russians to distinguish them from the Kazakhs, who were also referred to as Kyrgyz.

intended to educate the local populations, thus many ethnic Kyrgyz remained illiterate. Most Kyrgyz lived semi-nomadic lifestyles, moving from one mountain range to another with their household. Consequently, there was no need for electricity or permanent housing. As part of the integration and development scheme, large numbers of Russian and Ukrainian settlers moved to the northern parts of Kyrgyzstan, including the capital city Pishpek (later Frunze and now Bishkek). Some of these settlers moved voluntarily because of economic incentives, while others were forcibly moved. (Mongabay Country Studies, 2009)

Immediately after arrival, Russian and Ukrainian settlers began construction of housing, mining, schools and roads. Their number grew rapidly over the next several decades, with large numbers of Slavic people from the European side of the USSR being moved to the Central Asian steppes and mountains. By 1915 recognition of the negative effects of the Russian Empire's policies was shared across all Central Asian peoples. Along with other nomads, the Kyrgyz suffered from confiscation of their land, taxation, forced labor and price policies that targeted especially the indigenous population that was not accustomed to money systems (Mongabay Country Studies, 2009). All these harsh repressive policies led to a bloody uprising in the summer of 1916 in Uzbekistan and quickly spread to neighboring Kyrgyzstan, Kazakhstan, and Turkmenistan. Several thousand of Slavic settlers and local people were killed, leading to the flee of one-third of the Kyrgyz population to China. Most of them came back to Russian-ruled Kyrgyzstan, because of the ruthless repressions from the Chinese. However, there is still a large population of Kyrgyz that lives in mountainous Xinjiang province of China nowadays.

In the following decades, the Soviet leaders adopted drastic economic and political reforms throughout the Soviet Union to develop its economy and unite diverse peoples of the vast territory. According to Abazov (1999, p. 237),

“the Soviet leaders interpreted the concept of economic modernization as persistent and accelerated development of the industrial sector, collectivization of the agricultural sector of the economy, centralized rational economic planning and economic equalization. This policy sometimes ignored both cost-effectiveness and social factors.”

The industrial sector of Kyrgyzstan grew rapidly within several years of annexation. The Soviet leaders paid special attention to the development of heavy and agricultural machinery, electric motors and light manufacturing (Abazov, 1999). A number of industrial plants (i.e. light bulb manufacturing) were built in and around the capital Frunze during the first wave of industrialization from 1929 to 1939 (Abazov, 1999). According to the History of Kyrgyz SSR (1986), the industrial production grew 736 times from 1913 to 1938. Unfortunately, many plants produced only one or two parts of a machine (i.e. agrarian), not the whole machine. Other parts were manufactured in neighboring countries and then were shipped to a location specified by the policy makers in Moscow. Then they were assembled and shipped back to countries that produced the parts of the machine. The Soviet leaders justified such economic division of production as creating efficiencies. However, after the collapse of the communism, many of these countries were left with industrial plants that were useless for the most part because they could not assemble an end product in the country.

The second wave of industrialization came during and after the World War II (WWII). During this wave several plants, mainly military, were relocated from the

European part of the USSR to the Central Asian Republics (CARs) as a way of protection from the German enemy. The workers, engineers and technical staff of these plants were also moved, contributing to the inflow of Slavic people to Kyrgyzstan. During the ‘Great Patriotic War’ these plants and factories produced heavy machinery used in military actions. Even after the war they remained in the republic, changing the course of its industrial production.

A third industrialization wave happened in the 1960s and 1970s, when “Moscow allocated large investments to the republic’s hydroelectric power generating sector, mining and metallurgical plants” (Abazov, 1999, p. 239). Some argue that Moscow continued its investments in Kyrgyzstan’s industrial sector partly due to the shortage of labor in the Eastern parts of the USSR after the WWII, low birth rates in European parts of the Soviet Union, and due to the relatively high birth rates in Kyrgyzstan and other CARs. During these years, the Soviet government gradually transitioned from the Stalinist approach of ruling with the “iron fist” to a more liberal economy, especially in the agricultural sector.

The agricultural sector of Kyrgyzstan has also experienced Soviet style reforms, where thousands of private households were brought together to form large state-run collective farms or *kolkhozy*.⁹ The Soviet leaders launched collectivization campaigns to turn the Kyrgyz *ails*¹⁰ into *kolkhozy*. Within several years of this campaign, virtually all Kyrgyz peasants were part of the *kolkhoz* system that dictated how many sheep, cow and

⁹ *Kolkhozy* is a Soviet term that is no longer used in Kyrgyzstan. After the independence, the Kyrgyz government dissolved all of *kolkhozy* into thousands of privately owned farms at the household level. Some farmers choose to form *ails* with their extended families and tribal ties, they are now called.

¹⁰ *Ail* is a kind of tribal and extended family unit.

other livestock a household could have. For nomadic Kyrgyz people living in one place and working on a land took some adjustment because they were not allowed to take off to spend a summer in the mountains herding as they traditionally did, but instead they had to live in settlements. This campaign had long-lasting consequences. First, these changes introduced large-scale farming and mechanization in the agricultural sector. Second, the social and ethnic culture of the *ails* changed because many mechanics, shop owners and teachers were moved from the European side of the USSR to these *kolkhozy*. (Abazov, 1999 and History of the Kyrgyz SSR, 1986)

In the late 1960s and 1970s the standards of living in the Soviet Union increased that led to the growth in the agricultural sector of Kyrgyzstan, which provided Russia and other northern Soviet republics with fruits, vegetables, meat, wheat and other foods (Abazov, 1999). The growth in the agricultural sector coupled with Soviet efforts for modernization allowed Kyrgyzstan to create an advanced educational system, science, technology, public health, and welfare system. This Soviet legacy stayed on to this day. Unlike many other underdeveloped countries, Kyrgyzstan enjoys high adult literacy rates (close to 100% for both men and women). Today Kyrgyzstan's Human Development Index is 0.71 (UNDP Human Development Index Report, 2009), ranking the country in 20th place among 182 countries.

The economic transformation through rapid collectivization and industrialization of Kyrgyzstan created massive movements of labor. Beginning with the initial Russian and Ukrainian settlers in the northern parts of present Kyrgyzstan, the Soviet leaders moved thousands of Soviet citizens of European descent to Central Asian Republics.

According to Abazov (1999, p. 240), “the number of ethnic Russians in Kyrgyzstan increased almost three-fold from 116,000 in 1926 to 302,000 in 1939 and the Ukrainians from 64,000 to 134,000 in the same period.” According to the same source, during and after WWII, the number of German, Turkish, Tatars, Greeks, Koreans and others increased dramatically. Most of the immigrants settled in the urban areas because of their occupation as teachers, technical support, mechanics and administrators. This led to historical divisions of occupations among European settlers and the indigenous people. While many Russians, Germans and Ukrainians occupied administrative jobs and lived in cities, Kyrgyz people worked with in the agricultural sector and mainly lived in the rural areas.

By the end of the 1980s the Soviet government experienced high budget deficits and problems in several areas. Many people did not get paid for months and when they finally did get paid it was through food stamps or food staples such as meat, flour, potatoes, etc. The central government in Moscow was economically and politically exhausted from mitigating between many states and was ready for changes.

Economic Reforms: After Independence

By 1990 the Soviet Union faced serious social and economic problems. Rapid change in the economic and the political environment gave rise to internal turmoil and the eventual collapse of the Soviet Union. Kyrgyzstan gained its independence on August 31, 1991. The country’s capital, Frunze, was renamed to Bishkek. The government was in the hands of the former Communist Party Leaders, one of whom, Askar Akaev, promised dramatic changes. As promised, “Kyrgyzstan was among first to carry out progressive

market reforms such as an improved regulatory system and land reform” (CIA Factbook, 2009). The newly established Kyrgyz government followed Russia’s approach of rapid liberalization of the economy and the ‘shock therapy’ approach. While Russia pursued a voucher scheme with mass transfers of property and ownership to privileged bureaucrats and eventually creating a new class of ‘oligarchs’ (Kornai, 2000), Kyrgyzstan initially seized all enterprises that were formerly controlled by Moscow and then sold them out to private hands (Koichuev, 2001). According to Abazov (1999), in 1991 Akaev’s administration stated its intentions to deregulate the country’s economy, liberalize prices and apply a deep restructuring and decentralizing of the state administration system. A year later both Russia and Kyrgyzstan liberalized its prices, although the latter “retained subsidies for bread, meat, coal and public transport for two years” (Abazov, 1999, p.243).

As part of the ‘shock therapy’ approach to liberalize its economy, the Kyrgyz government began massive privatization of state-owned enterprises. As in the case of Russia, these enterprises went to the hands of well-connected Soviet bureaucrats. However, Kyrgyzstan having less fortune than Russia with deposits of natural resources, it never gave rise to the class of “oligarchs”. It was estimated that from 1991 to 1996, 8500 enterprises were privatized (Abazov, 1999).

The agricultural sector has also experienced dramatic changes. The 1996 UNDP Country Report stated that close to 82 percent of *kolkhozy* were transformed into privately owned small farms. Abazov (1999, p. 243) states that these collective farms were transformed into “more than 32,200 peasant-type private farms, 687 agricultural co-operatives, 73 joint-stock companies and 226 associations of farmers.” Some farmers

were able to see ahead and secure some farmland, equipment and infrastructure for their own use in the future through serious of loans, bribery, and other means (Jolosheva field research, 2009).

Overall Kyrgyzstan like many other Soviet states underwent uneasy and turbulent transition. Introduction of the Kyrgyz national currency, *som*, in 1993 created new problems. It hindered trade with neighbors and traditional partners like Kazakhstan, Uzbekistan, Tajikistan, and Russia. The consumer price inflation shot up from 170 in 1991 to 1259 in 1992 and to 1363 in 1993 (ERBD Transition Report, 1997). Please refer to Table 1 which shows detailed macroeconomic indicators for the period of 1991-1997. Unemployment rose during the early years of transition, although the official statistics does not back up this information.

Table 1: Macroeconomic Indicators in Kyrgyzstan, 1991-1997

	1991	1992	1993	1994	1995	1996*	1997*
Real GDP Growth (%)	-5	-19	-16	-20	1.3	5.6	6
Industry	-0.3	-26	-25	-28	-12.5	10.8	n/a
Agriculture	-10	-5	-10	-15	4	13	n/a
Govt Balance (% of GDP)	4.6	-17.4	-14.2	-7.7	-13.5	-6.4	-5.3
Unemployment rate (% of Labor Force)**	0.0	0.1	0.2	0.7	3.0	4.5	3.0
Consumer price Inflation (end-year)	170	1259	1363	96	32	35	24

Note: * are estimates. ** Unemployment is registered only.

Source: European Bank for Reconstruction and Development Transition Report (1997).

Kyrgyzstan was the first country in the Commonwealth of Independent States (CIS) to join the World Trade Organization after its independence. In the following years

Akaev's administration adopted the country's first constitution and a sequence of social and economic reforms. By mid and late 1990s the macroeconomic situation of the country seemed to stabilize, although the government treasury suffered fiscal deficits (World Bank Country Study, 2005). The presidential administration announced its commitment to fight corruption, restructure domestic industries and attract foreign investments to promote growth of the economy. In 2003 a national referendum was passed that significantly expanded the powers of the president and limited the weight of the legislative branch. (CIA Factbook, 2009)

Power Shift: the Tulip Revolution of 2005

The president was on his third term in spring of 2005, when popular discontent over low standards of living, corruption among government officials and low levels of employment led to large demonstrations in front of the government building (Juraev, 2008 and Radnitz, 2006). For several days the country was in turmoil as thousands of people marched into the government building and looted it. This came to be known as the Tulip Revolution. President Akaev and his family fled the country to Russia, where they remain today. The revolution resulted in a power shift from northern leaders to political leader and activist from the south of the country, Kurmanbek Bakiev. He remained president until April 7 of this year, when bloody protests erupted across the country and the capital Bishkek. Although Bakiev has promised that his administration will fight corruption and bring positive social and economic change to the people at the beginning of his term, four and a half years of his government did not change the situation in

Kyrgyzstan. Some even say that the economic and political situation has worsened. Corruption, bribery, favoritism, and nepotism increased with Bakiev's presidency.

Power Shift: April 7, 2010 Events

Since the revolution in 2005, political, economic and social environments did not change much in Kyrgyzstan. Nepotism, corruption and bribery that were predominant during Akaev's presidency have worsened with Bakiev's rule. Bakiev appointed his brothers and close relatives to key government positions, while bribery and corruption dramatically increased. Once called "the island of democracy in Central Asia", Kyrgyzstan started experiencing human rights violations, press and media control and even threats to lives of journalists and politicians who openly criticized the government. In a few years Kyrgyzstan's reputation for a free press, tolerance and openness have dramatically changed.

Tensions and people's discontent had been growing for months before the April 7 events. Soaring utility rates that rose by 200% since the new year, high unemployment, bribery, and corruption have pushed people to the edge of existence. The protests started in the provincial city Talas on Tuesday, April 6, where hundreds of protestors took over the provincial government building. The last drop in the bucket was when the opposition leaders were rounded up and jailed during the night from April 6 to 7. The discontent quickly spread to the neighboring province of Naryn and later to the capital city Bishkek, where thousands gathered and marched towards the government building (*New York Times*, April 7, 2010).

According to the *New York Times* (April 8, 2010), a local human rights group was monitoring the protests when the riot police officers started shooting at the crowd. When the crowd started marching toward the presidential building, hired snipers on the roof opened fire with real bullets, killing and injuring protestors. Overall, 89 people were killed and more than 500 injured that day, making the April 7 event one of the bloodiest uprisings in recent Kyrgyz history.

The unrest, however, did not stop at these events. Immediately after the popular protests, President Bakiev fled the capital to the American Airbase, located in the Manas International Airport, about 20 miles from the city (RT video news, 2010). There he tried to get political refuge in Kazakhstan and Russia, but was refused. He finally took refuge in the south of Kyrgyzstan in his native village near Jalal-Abad. Guarded by heavily armed gunmen and close relatives, he refused to give up the presidency for a week after the April 7 events.

Finally persuaded by the international community, the new interim government led by Roza Otunbaeva, the former foreign affairs minister, granted political safety to Bakiev and his immediate family to leave the country so he could resign his post as president. On April 15, Kurmanbek Bakiev resigned, giving the interim government freedom to restore order. Bakiev then left to Belorussia where Belorussian president, Alexander Lukashenko, provided support and refuge. Immediately after his resignation, Bakiev backed out on his word, saying that he was forcefully made to resign and claiming that he is still president of Kyrgyzstan. This has made it more difficult for the

interim government to ensure order around the country, and especially in the capital where looters have vandalized local businesses, grocery and other stores.

Immediately after the bloody protests in the capital square in Bishkek, hundreds of men and women looted local businesses around the city. Since the same thing happened after the Tulip Revolution in 2005, businesses owners were expecting more protection from the government this time around. Disappointingly, the police who now were on the protestors' side did not have much control over the crowd of looters. As a result, entrepreneurs again suffered extensive financial losses.

The days that followed the April 7 events created much uneasiness among the people. Hundreds of volunteers formed citizens squads of 10 to 15 people to help fight off looters from vandalizing local businesses (AkiPress Kyrgyzstan, 2010). Roza Otunbayeva, the interim leader, said: " You can call this revolution. You can call this people's revolt. Either way, it is our way of saying that we want justice and democracy" (*New York Times*, April 8, 2010).

What Lies Ahead?

Today Kyrgyzstan has an uncertain future. The economic and political situation of the country is highly unstable, especially after the recent events of April 7. The new interim government faces numerous challenges in restoring order, fighting corruption, bribery, and favoritism. In addition to these challenges, the interim government has to address factionalism and competition among various party leaders who want to be the next president of the country. The country's unstable political future influences its

economic prospects as many investors are unsure their investments will reap profits. This has a profound effect on entrepreneurs who now have added struggles.

After the April 7 events, the international donor community responded with financial aid to the interim government so order and peace could be restored in the region. However, it is too early to say how microfinance agencies responded to the struggles of the Kyrgyz entrepreneurs after the lootings. It is interesting to follow the progression of events and see how entrepreneurs in Bishkek and other regions are coping with political and economic instability in the country.

Kyrgyzstan and its people had lived under the Soviet Union for 70 years. It was natural that people were lost and disoriented immediately after its collapse. Things that were prohibited or not available during the Soviet rule now became abundant. During the first decade of independence, Kyrgyzstan and its people adjusted to the new market economy that promoted competition, entrepreneurship, and innovation. People who were too slow to catch up were left behind. Others who were able to foresee the future and were able to attain land and equipment from collective farms and machinery from plants and factories, often put these assets to good use to establish their businesses. Many of these people have used available microloans to establish and develop their businesses.

The reforms of the Soviet era and the transitional period resulted in a unique economic environment where microfinance was available to provide wider channels of economic and social development to people of Kyrgyzstan. It is also evident that in addition to access to credit, people of Kyrgyzstan need to have skills training to ensure

their success in the market-driven economy. These issues are taken up in the next chapter which discusses microcredit and entrepreneurship in Kyrgyzstan.

CHAPTER III

MICROFINANCE AND THE PROMISE OF SOCIAL CHANGE

This chapter introduces the concept of microcredit in encouraging development. It starts with a short history of microcredit and presents an overview of the various models of microcredit. It discusses how microcredit combined with entrepreneurship can be a viable tool for poverty alleviation and empowerment of women in many regions of the world. It explores various difficulties business owners face because of historical, economic, political, and social factors. Later it discusses the rise of microfinance and microcredit as a development strategy in Kyrgyzstan. The chapter concludes with information on the kinds of microcredit groups operating in Kyrgyzstan and how microfinance was able to provide alternative sources of funding for people to develop small business entrepreneurships when no other support was available. This chapter helps the reader to contextualize my research findings discussed in later chapters with microcredit and entrepreneurship literature.

Microcredit and Development

Over the past three decades, Microfinance Institutions (MFIs) and NGOs have provided loans to people around the world as an attempt to combat poverty and inequity. Often these institutions were inspired by the Grameen Bank model, which has proven that

lending to the poor can be financially sustainable and is more effective channel in delivering wider social benefits (Armendariz and Morduch, 2005). Most microcredit models follow the Grameen Bank, where small loans are given to a group of women with no collateral at low interest rates. In Central Asia microcredit follows another path. In Kyrgyzstan in particular, many financial institutions provide small loans to entrepreneurs who are usually well educated, have existing businesses or are interested in starting one and can provide some form of collateral (exceptions exist for group loans).

Before starting the dialogue on microcredit in Kyrgyzstan, this section provides a discussion on microcredit history, economics of microfinance, basic models and rules. Muhammad Yunus—the founder of the Grameen Bank, 2006 Nobel Peace Prize Winner, and the author of the *Banker to the Poor* and *Creating a World Without Poverty*—is a pioneer in the field because of his innovative approach of lending to the poorest of the poor in rural Bangladesh. Dr. Yunus and the Grameen Bank changed the conventional banking system to a lending system that requires no collateral because it is based on mutual trust, honor and accountability of all members of the group. Yunus argues that providing small loans to the poor with appropriate and reasonable conditions serves as a powerful tool for poverty alleviation. He further states that “these millions of small people with their millions of small pursuits can add up to create the biggest development wonder” (Grameen Bank, 2010). This claim has proved to be true where Grameen Bank has changed the lives of many micro entrepreneurs in Bangladesh. According to the Grameen Bank website, the bank has 8.04 million borrowers as of February 2010, where 97 percent of them are women.

Consultative Group to Assist the Poor (CGAP) officially defines microfinance as:

providing very poor families with small loans (microcredit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor who lack access to traditional formal financial institutions require a variety of financial products (CGAP, 2010).

CGAP is an independent research and policy center dedicated to promoting access to financial resources for the world's poor. Over thirty development agencies and private foundations that share a common goal of alleviating poverty support the center. CGAP provides latest market research, develops innovative solutions and offers advisory and expert services to governments, microfinance providers, donors, and investors around the world (CGAP, 2010).

Gary Woller (2001) states that microfinance provides loans to poor people for self-employment projects that generate income. He (2001, p. 271) further states that microfinance "is based on the explicit recognition of the extent and importance of the informal economy...the key role played by financial capital is raising the labor productivity of the poor within the sector." Woller goes on to argue that in areas where formal employment is severely limited and social security system is weak, the poor must increasingly rely on their own hard work to build a stable future. Access to credit acts as a tool for poor to develop and grow their businesses that will help them secure such future. Woller (2001, p.271) identifies that microfinance follows five fundamental principles:

1. The poor possess an irrepressible desire and innate capacity to lift themselves and their children out of poverty, if given access to economic inputs.
2. Formal credit markets discriminate against the poor.

3. The poor can be a good credit risks, particularly in the context of mutual responsibility system.
4. Microcredit allows the poor to work their way out of poverty with time and with dignity.
5. The self-employed already comprises over 50% of the labor force in developing countries, and in many cases this figure is larger. Thus, poor already possess and entrepreneurial spirit and demonstrable survival skills. Microcredit capitalizes on these attributes.

So one may ask why microcredit works well as a vehicle for development in areas where other attempts met failure? Armendariz de Aghion and Morduch (2005) argue that credit market interventions are justified because of their efficiency and their effects on the distribution of resources. In other words “the first issue relates to ‘how large the pie is’ and the second to ‘how the pie is sliced’,” (Armendariz de Aghion and Morduch, 2005, p. 29). The authors contend that without intervention, moneylenders act as monopolists and restrict the number of loans to drive up interest rates. As a result, they get inefficient outcomes because the quantity of capital is limited. Where moneylenders are able to perfectly adjust interest rates to clients’ demands, they will not restrict quantities of loans to drive up prices. In its place, they will lend “efficient” quantities at interest rate that remove the entire “consumer surplus” from the clients. These lenders will “raise interest rates just to the point at which each client is indifferent between borrowing or not, and the moneylender will then reduce the price by a small notch to convince clients to borrow” (Armendariz de Aghion and Morduch, 2005, p. 35). This strategy leads to the potential exploitation by the moneylender, where the overall economic pie grows, but the borrower’s slices shrink. These examples show the importance of pro-poor credit interventions.

Microfinance Models

There are many different programs and lending structures within the microfinance arena. These lending mechanisms are somewhat determined by the microfinance program's take on general approaches of microfinance theory: the institutionist approach and the welfarist approach (Woller and Woodworth, 1999).

The institutionist approach's focus is to create a financial institutional system that serves clients who have problems accessing such services in the formal sector. Great emphasis is placed on achieving financial self-sufficiency. Institutionists argue that financial deepening is best done through building strong, financially solvent institutions, which is most important factor to help the poor. This approach assumes positive impacts. Within this approach, some argue that the importance of financial and institutional indicators put higher than social objectives and priorities. I argue that microfinance programs should prioritize in serving poor people's needs first, and then focus on institutional sustainability. Hays-Mitchell (1999) argues that this drive to institutional sustainability can have serious consequences on women's ability to receive loans because such programs will gravitate towards lower risk clientele (i.e. owning collateral, have regular jobs, family structure, age, etc.), which often excludes women.

Welfarists, on the other hand, focus on improving the welfare of program participants. They emphasize depth of outreach and concentrate on the family as a unit of social development. Welfarists believe in using financial services to alleviate poverty among program participants where formal financial institutions have failed. Although it seems most of microfinance programs take after the institutionist approach, which has

become widespread and popular, many microfinance programs somewhere between institutionist and welfarist approaches (Woller and Woodworth, 1999).

There are five organizational models of microfinance that agencies follow. The first kind is *intermediary institutions* that are generally run by NGOs and offer grassroots groups access to formal financial sources. Examples include Women's World Banking and ACCION International. The second type is *parallel programs* that are informal programs that function like a bank where they set up independent capital pools for on-line lending to groups and individuals. Examples include the KIVA and the Working Women's Forum. (Mehra et. al., 1995; Mayoux, 1998; and Armendariz de Aghion and Morduch, 2005)

The third kind is *poverty-oriented development banks*, which are officially registered banks that reach a large number of poor borrowers. They often offer limited range of services where the main focus is provision of credit. Examples include the Grameen Bank, the Asian Development Bank, and the Kyrgyz National Bank. The fourth model is *multi-sectoral NGOs* which are NGOs that have a credit component as part of a broad-based their economic and social development strategy. Examples include the Bangladesh Rural Advancement Committee (BRAC) and CARE. The fifth model is *small-scale NGO projects or village banking* which are usually decentralized lending programs that are generally rural and involve a small number of people (usually women). The most popular methodology within this model is village banking. Village banking consists of an external NGO providing capital to a community based organization that lends the money to groups and individuals participating in the village bank. This type of

lending is usually combined with a savings program. (Mehra et. al., 1995; Mayoux, 1998; and Armendariz de Aghion and Morduch, 2005)

There are three kinds of lending mechanisms: group solidarity lending, individual lending, and complementary services. *Group solidarity lending* is the most popular and flexible lending mechanism currently utilized in microfinance. This type of lending requires

... arrangements by individuals without collateral who get together and form groups with the aim of obtaining loans from a lender. The special feature is that the loans are made individually to group members, but all in the group face consequences if any member runs into serious repayment difficulties. In the Grameen Bank case, the groups are made up of five people. In the BancoSol case, groups can be as small as three people, and in the village banking system pioneered by FINCA groups can range from ten to fifty women. The fundamental idea of “group responsibility” (sometimes, called “joint liability”) coupled with regular group meetings is common across approaches (Armendariz de Aghion and Morduch, 2005, p.85).

This type of lending replaces the need for physical collateral because it relies on the joint responsibility of each group member. The microloans are usually given on a predetermined schedule, which requires weekly or monthly repayment. The loan duration range from six months to a year. When a group successfully completes the cycle, they have an option of securing loans at higher levels. However, “successful completion” simply means that the group has paid their loan in a given time period. It does not indicate whether each of the individual member of the group was able to successfully utilize their credit or even repay it. Critics say that individuals that are unable to repay credit are excluded from subsequent lending cycles. In addition, critics claim that self-selection often excluded poorer members of the community and therefore creates further socio-economic divide within communities (Mayoux 1997).

The second type of lending is *individual lending* where microfinance programs give loans directly to the individual client. This type of loan requires collateral and some time of business plan that proves viability of the project. The loans are usually larger than those offered in group lending. Requiring collateral stands as serious barrier for many poor clients. In individual lending debt becomes the responsibility of the individual, there are more risks associated with this type of lending. On the other hand, individual lending involves less risk for the lending program because of the collateral and because they have more resources to collect from those who defaulted (Armendariz de Aghion and Morduch, 2005).

The third type of lending is *complementary services* where microfinance programs in addition to credit offer supplementary services. Such services include educational, health and training components. The reason for the need in additional services is that access to credit is not enough to fight multi-faceted dimensions of poverty. Poor people should be given other training opportunities that will allow them to use credit effectively and sustainably. Some critics argue that having ‘credit plus’ model increases program costs substantially which can lead to program’s failure. Others, who support the idea, assert that microfinance should be viewed as a poverty alleviation strategy that should have subsidies if needed (Mehra et. al., 1995).

Guy Vincent (2005) estimates that about 90 percent of people in developing countries have limited or no access to credit from financial institutions that further exacerbates the “Vicious Cycle of Poverty”. When people in poor countries have low-income levels, thus low savings and low capital accumulation, their productivity and

growth is limited. The Grameen Bank and other MFIs try to reverse this cycle into “low income, injection of credit, investment, more income, more savings, more investment, more income” (Grameen Bank, 2010) thus breaking this circle. A lack of credit seriously hinders entrepreneur’s ability to start up or continue operating a business, “...inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially or environmentally sustainable” (Vincent, 2005, p. 1). In turn, microfinance serves as a tool to financially empower the poor and provides a path for economic development. Along with access to credit, entrepreneurs all over the world face challenges that can hinder their growth. These obstacles are discussed in detail in the later section of this chapter. However before starting the discussion of entrepreneurial obstacles, I will provide a brief discussion on criticisms of microcredit.

Critiques of Microcredit

To understand and see a more holistic picture of microfinance, it is important to discuss some criticisms that exist in the field. Although decades of practice and social impact research show mostly positive effects of microfinance, there are several weaknesses of this type of development. First, giving credit to poor people who cannot repay results in more poverty where poor fall further in debt. Lamia Karim (2008) gives an example of women in the village of Krishnonagar, Bangladesh who, after waiting for one of their group members at the center who did not show up, march to her house to shame and to force her payback the loan. To explain their actions women voiced their struggles to maintain good credit history with the lending institution that was forcing them act in such manner. Moreover, Karim (2008) contends that group lending in rural

Bangladesh, which often depends on joint-responsibility and the honor system, can create problems for women and their families who are unable to repay their debts.

Second, microfinance programs do not reach the extreme poor because most of these programs require either collateral or some kind of capital to ensure recipients pay back what they have borrowed. This is particularly true in Kyrgyzstan, where almost all of the interview recipients had to provide one or another form of collateral to receive the loan, which often excluded those who did not possess a house or a car for collateral.

Third, extensive studies report that a significant number of women do not control the full use of the loan, but instead they act as ‘intermediaries’, giving loan to their husbands who in turn make family financial decisions (Goetz and Sen Gupta, 1996; Ackerly, 1995; and Dowla and Barua, 2006). While women bear a burden of debt within their household, they very often do not necessarily have control over their financial resources. Consequently, this makes it hard to measure changes in women’s empowerment, and economic and social position within the household.

Fourth, critics argue that microfinance programs push western-style development onto people in developing countries. Pam Simmons (1992) says that

The call to integrate women into development has been taken up by the international development institutions to suit their own purposes. Adopted, as it invariably has been, in a simplistic form, it is a dangerous slogan that threatens to reduce third world women to “resources” for the international economy. It is also wrongly implies that women in industrialized countries are progressing to a position of equality (Simmons, 1992, p. 16).

Integrating women into the formal economy creates many problems that vary from one culture to another. For example, it creates further burden on women who besides their regular household chores and raising children now have to work and earn money. This

also does not take into account women's mobility issues where in some societies women are not allowed to move freely.

Fifth, many microfinance programs often do not take into account natural disasters in the risk profile while administering loans. Anne Hastings, director of the Haitian Fondasyon Kole Zepol, or Shoulder-to-Shoulder Foundation that was launched in 2003, argues that besides overwhelming poverty and crippling natural disasters, Haiti's microfinance programs are reaching primarily the upper half of the poor. She goes on to assert that the poorest of the poor that comprise the majority in Haiti cannot make a living solely on microcredit. Very often these credits become additional burden for the poor, who fall further indebt (Lindsay, 2005).

Sixth, since most of the microfinance programs target women as their clientele with a goal of empowering them, extensive research has been conducted relating to microfinance and a notion of women's empowerment. However, the research data is often of qualitative nature, where it is hard to measure empowerment. Empowerment can mean different things to different people. It is hard to quantify various levels of empowerment and compare across households, genders, communities, countries, and cultures.

Finally, many microcredit programs are criticized for having aggressive terms and conditions that do not favor the poor. According to Pereira (1998), many NGO officials admit that often development solely depends on microcredit where additional pro-poor services should accompany the provision of loans. Karim (2008) further claims that interest charged by the Grameen Bank on loans come to over 50 percent, making them

equal to the rates charged by many moneylenders. During my research in the summer of 2009 in Kyrgyzstan, many interviewees have also voiced their concerns about high interest rates, and inflexible terms and conditions of the loans.

Microcredit and Entrepreneurship

Almost two decades since its independence from the Soviet Union, Kyrgyzstan is still experiencing volatility in economic, social and political spheres. From the early days of its sovereignty, many international organizations introduced various forms of aid to help the country in its path to democratic development. However, many efforts have been restrained by corruption, bribery and favoritism. The only form of aid that was successful and sustainable since the collapse of the U.S.S.R. was the help to local entrepreneurs who sought loans to start up small and medium-scale businesses. During the Soviet era, the economy of the whole Union depended on what and how much was produced by each state. This led to mutual interdependence between countries in the Soviet Union, which meant that after its collapse most of the countries were not self-sustainable. Danis and Shipilov (2002) argue that the best way to transform such underdeveloped economies and achieve economic growth is through creation of private business ventures or entrepreneurships. This particularly applies to Kyrgyzstan's case where it has been already proved that providing loans to entrepreneurs can help boost the local economy.

However, the establishment and particularly the survival of private entrepreneurships is challenging in many ways, especially in transitional economies. Yalcin and Kapu (2008) argue:

When we consider the nature of transitional countries, i.e., economic transition from non-ownership of business in the Communist period to liberal full-ownership of business in the Capitalist era, establishment, development and survival of entrepreneurial ventures in the transition countries of former Soviet Union are expected to be a challenging one. This is taking into account the need to learn the rules of capitalist business practices, the difficulty to deal with domestic and foreign competition, and to open and develop a business where governmental support as well as institutional environment is weak.

As I have mentioned in the previous chapter, many current entrepreneurs in Kyrgyzstan were able to assimilate themselves successfully into the new market-driven economy and get used to the capitalist mind-set. Unfortunately, the majority of people were not able to change their views. This thesis focuses on the first group of people.

Entrepreneurs everywhere in the world face obstacles. However, entrepreneurs in transitional or poor economies face more substantial obstacles because in addition to securing credit and averting risks of developing a business they have to worry about political and economic environment of their countries. Hubner (2000) says that in order to succeed entrepreneurs not only should have favorable macroeconomic conditions that provide incentives, but also should have programs for effective development, training, financial support, and necessary infrastructure. This will ensure they have a strong government and economy in which to operate their businesses.

Moreover, Luthans and Ibrayeva (2006, p. 92) contend “the environment is very difficult and even hostile for entrepreneurs” in most former Soviet Union countries because of constant political turmoil, economic instability and social unrest. They further argue that additional problems exist that put roadblocks for entrepreneurs:

Resistance to change within the government, religious, business, and

social institutions; failing energy, transportation, educational, and healthcare infrastructure; underdeveloped legal and financial systems; restrictive and inconsistent taxation; high interest rates and inflation; and a lack of management skills (Luthans and Ibrayeva, 2006, p. 92).

These impediments are similar across most of the former Soviet Union countries, where in addition to bureaucratic difficulties, many social, religious and cultural norms may stumble start-up entrepreneurs.

As discussed in the previous chapter, Kyrgyzstan's economic and political history has not been smooth since its independence. Recent political upheaval in the form of the April 7, 2010 events and the Tulip Revolution in 2005 resulted in massive looting and burning of local shops and businesses around Bishkek, the country's capital. Many entrepreneurs are suffering severe financial losses. The government's attempt to help business owners recover their losses immediately after the revolution in 2005 was only partially successful. As a result it was clear that the Kyrgyz Government lacks the necessary institutional power to protect the rights of the country's entrepreneurs. However, there are many other efforts have been started since independence. For example, the government joined the Organization for Economic Cooperation and Development (OECD) in 2003 with the main objectives of fighting corruption at all levels of the government, promoting economic and social development of its citizens (ACN for Transition Economies Report, 2004). The OECD's Anti-Corruption Network for Eastern European and Central Asian states was established in 1998 with a goal of supporting their members in the effort of anti-corruption activities, exchange of information and donor coordination (OECD website, 2010). The Kyrgyz Government has

also sought technical support from the Asian Development Bank for capacity building in savings and credit unions and micro-financial systems.

However, the most recent events that resulted in 79 protestors dead and over 500 wounded has proved that Kyrgyzstan still lacks infrastructure to protect local entrepreneurs from looters. Immediately after the bloody protests, the interim government struggled to control crowds of looters that burned, stole, and rampaged stores and businesses around Bishkek. The same night hundreds of citizens volunteered to protect people's property against looters. Groups of 15 to 30 people have patrolled major streets and businesses throughout the night and scared off any intruders. Although this attempt was successful, still many entrepreneurs have again suffered severe financial losses.

This thesis focuses on entrepreneurs living in smaller towns than Bishkek and argues that entrepreneurship and business development is the only practical option for boosting the local economy. As Luthans and Ibrayeva (2006, p.93) put it, "despite the serious roadblocks, entrepreneurship is still identified as the business activity most likely to lead to the successful economic change in transition economies." According to the Organization for Economic Cooperation and Development (OECD, 1999) report, in many transitional economies where military and industrial production used to be a primary source of income, entrepreneurs are the crucial players in creating and stabilizing democratic economies.

Many studies show that there are mainly two reasons why entrepreneurs in the transitional economies have a hard time establishing a business than their counterparts in developed countries. The first reason is the difference between infrastructures, where

“new start ups in developed markets are almost always more resource-rich than those in transitional economies.” This can prevent businesses develop efficiently and exchange between entrepreneurs in the market. The second reason is that markets transition economies, particularly the ones in Central Asia, are in more dynamic and hostile compared to the markets in developed economies (Luthans and Ibrayeva, 2006).

Fogel (2001) states that entrepreneurs in Hungary face problems such as high taxation and the lack of low-cost and long-term financial support. He argues that to fix these, there needs to be low-cost borrowing and venture capital opportunities, different training programs, tax incentives, technical and technological support, and network of financial and regulatory institutions to provide support and check and balances to stimulate entrepreneurial growth. I argue that investing in small and medium-sized entrepreneurships can help former Soviet Union economies and particularly Kyrgyzstan’s economy to develop grounds-up. Danis and Shipilov (2002) found that entrepreneurial development in Ukraine and Hungary is largely affected by political, social, historical, and economic factors. The communist business and work habits are still prevalent, so there is a need for governments’ support. Liargovas and Chionis (2002) report that entrepreneurs in south-eastern Europe have barriers to adapt to the new market economy such as communist business environment, old attitudes and values, lack of technical, and entrepreneurial knowledge and skills. Kyrgyzstan’s case is not an exception. My interviewees have mentioned that they need knowledge about market economies and training in issues such as taxes, local laws, marketing, and financing. I discuss these issues in detail in the next chapter of this thesis.

Since there is very little research on entrepreneurs in Kyrgyzstan, I will be providing research findings from other former Soviet Union countries and tie it to the case of Kyrgyzstan. Although I do not generalize Kyrgyzstan's case with other countries, I argue many challenges entrepreneurs face are similar among U.S.S.R. economies. For example, Paradis and Cervin (1998) found that Russian entrepreneurs face erratic taxation from regional, local and state entities that change rates without notice, unstable regulations and legislature, bribery, red tape, excessive control, and great amount of documentation requirements. Most of this true is in the case of Kyrgyzstan, where "corruption, red tape, security, lack of institutional environment, and insufficient infrastructure" drown country's efforts for economic development (Yalcin and Kapu, 2008, p.193). Regardless of these roadblocks, Kyrgyzstan is one of the most politically and economically liberal countries in Central Asia.

According to Kuznetsov et.al. (2000), Russian entrepreneurs face high transaction and start-up costs as a result of unreliable legal and financial regulations; lack of security and checks-balances system among financial institutions; absence of structural assistance and unfavorable credit terms to small and medium-sized entrepreneurships. Likewise, Izyumov and Razumnova (2000) state that Russian female entrepreneurs face number of bureaucratic obstacles in order to establish a business. It is said that they have to go through several government agencies to get paperwork in order and very often they have to pay some form of a bribe. Similar concerns were voiced during the interviews I conducted in Kyrgyzstan, where many entrepreneurs complained about bureaucratic

procedures and excessive requirements of documentations (license requirements, medical history, etc.)

Microfinance and entrepreneurship in Kyrgyzstan follows a unique path. Unlike many countries in Eastern Europe, Central Asian states have different cultural, political, historical, and social traits that hinder growth and development in the region. As discussed above, some of these reasons are

“...high administrative barriers that suppress market entry and economic activity are common and are the root of the large entrepreneurial gap plaguing the regional economies. The business environment in the region suffers from excessive regulatory and licensing requirements, inspections by a variety of enforcement agencies, complex and arbitrary taxation, a weak financial sector, and poor banking practices” (Yalcin and Kapu, 2008, p.193).

This is exacerbated further through weak government regulations and lack of support.

Yalcin and Kapu (2008) interviewed 71 local entrepreneurs and government agency workers (State Commission for Small and Medium-Sized Business Support under the Kyrgyz Republic) in Bishkek, the national capital. The authors found that even though the Kyrgyz government has made an effort in the past to give subsidies to large enterprises, small and medium-sized companies still have little or no access to credit. In addition, the study states that many entrepreneurs avoid taking out loans from commercial banks because of high interest rates, rigid restrictions and high collateral. Similarly, the study conducted by Suhir and Kovach (2003) concluded that small businesses in Kyrgyzstan experience high taxes, excessive inspections, unavailability of credit, bribery, and favoritism. Yalcina and Kapu (2008) have also identified red tape as another major problem in Kyrgyzstan like in many other FSU countries, where redundant bureaucratic procedures hinder decision-making.

All of the above were examples of institutional and economic challenges for entrepreneurial development in Kyrgyzstan. In addition to these, there are also cultural roadblocks that hinder any attempt for development. Some of these roadblocks, I argue, are tribalism and nepotism. For example, entrepreneurs instead of hiring someone from the outside, may hire their relatives because of strong family ties and family pressure. This can turn sour because one cannot demand the same standards from family members as they would from someone unrelated. The Kyrgyz politics also falls into the same pit. For example, the former president has given key government and businesses positions all over the country to his seven brothers, numerous relatives and children. This led to popular discontent and resulted in the recent event on April 7, 2010.

This section of the chapter explored various difficulties entrepreneurs in Kyrgyzstan and other former Soviet Union countries face. It has provided compelling examples of why microcredit and entrepreneurship is a good path for economic development among transition economies. The next section of the chapter explores in detail microcredit in Kyrgyzstan. It presents its history, important actors, and current situation.

Microfinance in Kyrgyzstan: History and Actors

In Central Asia where microfinance is a relatively new development method, MFIs and NGOs have offered their services to well-educated but impoverished populations who otherwise would not be able to receive loans from sources in the private sector (Policy Monitor, 2009). This is particularly true in Kyrgyzstan, which since independence in 1991 has experienced sharp economic decline, and political and social

instability. Tripling of food and commodity prices in recent years across all Central Asian states coupled with constant political upheavals, including the Tulip revolution of 2005 and most recent bloody coup in April 7, 2010, have weakened financial and democratic systems at all levels of government. These in turn have forced many educated individuals to leave their low-paying jobs and seek new opportunities as small business entrepreneurs. As a result, many MFIs and NGOs have stepped in to provide an alternative solution through small business loans.

The legislation “On Microfinance Organizations in the Kyrgyz Republic” that was adopted in 2002 specifies that

The purpose of microfinance institutions is to provide accessible microfinance services to overcome poverty, raise the level of employment, and to promote the development of entrepreneurship and social mobilization of the population in the Kyrgyz Republic (Shamshieva, 2006, p.1).

Therefore, the concept of microcredit does not depend on the size of the loan, but rather it is defined by the loan’s purpose. This concept is examined in more detail in Chapter IV.

Microfinance has been widely recognized as an effective tool in overcoming and reducing poverty since Kyrgyzstan’s independence. Consequently it became part of the National Poverty Reduction Program (Shamshieva, 2006). Today, the role of microfinance in Kyrgyzstan is limited to microcredit only, where the majority of microfinance institutions do not offer micro insurance, education microloans, savings, and deposit services.

The current climate for microfinance is somewhat stable. According to the FINCA Kyrgyzstan website (2010), most laws, regulations, and taxes governing

businesses are confusing and change frequently. Many microfinance clients learn rules and tax requirements through their experience with microfinance programs. Secondly, Kyrgyz citizens from all backgrounds are starting informal businesses to generate alternative sources of income. Many of the unemployed work in local bazaars that play a very important role in the economy.

Today there are several hundred MFIs and NGOs that are present throughout Kyrgyzstan. Their services range from providing health consultations and trainings to giving microloans to business entrepreneurs. Previous research suggests that access to credit helps to alleviate poverty and enhances women's autonomous control of household resources (Ngo and Wahhaj, 2008; Armendariz and Morduch, 2005; and Undeland, 2008). The argument is that women are more likely to invest their business profits towards healthcare and education of their children and family, thus increasing the Human Development Index (HDI) of the country.

As of 2004 more than 40 percent of the population lived under the poverty line (CIA Factbook, 2009). Studies have shown that the main reasons of poverty in Kyrgyzstan are a lack of work places, high unemployment, and unavailability of the financial resources to open businesses. Many citizens, because of many reasons such as "lack of collateral, necessary documents and credit history, have no access to credit resources of traditional institutes, and experience huge need in financial resources" (ADB Report, 2004). To promote economic development the Kyrgyz Government has initiated various steps to promote development of the microfinance sector and to meet the

requirements of entrepreneurs, small and medium-sized enterprises who were not able to get credit from the formal banking system.

For example, the Kyrgyz government instituted a number of laws such as the law “On Credit Unions” (1999) and the law 2002 “On Microfinance Organizations of the Kyrgyz Republic”, to fill the gap left by commercial financial banks, develop rural financial support, and resolve financial and social services to all clients regardless their ethnicity, religion, education, and financial standing in the community. The laws determined 3 types of microfinance institutions (ADB, 2004):

- 1) Microcredit agencies (MCA), established as non-commercial microfinance organizations;
- 2) Microcredit companies (MCC), established as non-dividend-paying commercial legal entities;
- 3) Microfinance companies (MFC), established as joint stock companies.

In addition, the Kyrgyz government has worked in collaboration with the Asian Development Bank since 1996 to establish country’s first savings and credit unions (SCU). This initiative has resulted in the success of the Rural Finance Institution Project that began its operations in 1998. The project’s goals are to establish a sustainable rural finance network based in SCUs that can provide credit and support to the rural populations (ADB, 2002).

The SCU network has been growing since the establishment of the Rural Finance Project. As of July 1, 2004, Kyrgyzstan had the following number of registered organizations (ADB, 2004):

- 1) 66 microcredit agencies (MCA);
- 2) 20 microcredit companies (MCC);

- 3) 303 credit unions (CU), “which are non-commercial organizations, created for the purposes of helping to their members by merging private savings of credit union participants, and mutual use of these funds for mutual crediting.”
- 4) Kyrgyz Agricultural Financial Company (KAFC);
- 5) 17 commercial banks;
- 6) Fund for development of entrepreneurship.

The combined microloan portfolio of the above institutions amounts to \$75 million, where 108,700 people received microfinance services (ADB, 2004). Table 2 provides information on microcredit services as of July 1, 2004 (ADB, 2004). The Kyrgyz Agricultural Financial Cooperation has the largest number of clients and has the

Table 2: Microcredit Institutions Client and Loan Portfolio Information

	Active Clients	% of total # of clients	Loan portfolio (mln US\$)	% from total loan portfolio	Average size of loan (US\$)
Microcredit agencies	19,703	18.1	7.9	10.5	401
Microcredit companies	21,592	19.9	7.4	9.9	345
Credit Unions	21,295	19.6	9.6	12.8	451
Kyrgyz Agricultural Financial Cooperation	36,188	33.3	35.1	47.0	971
Commercial banks	9,973	9.2	14.8	19.7	1,480
Fund for Development of Entrepreneurship	1,586	1.5	3.2	N/A	2,006
Total	108,747	100	74.8	100	

Source: Asian Development Bank Report, 2004.

biggest loan portfolio of \$35.1 million. On the other hand the Fund for Development of Entrepreneurship has the lowest number of active clients, but provides the highest average size of a loan.

To provide a holistic view of the microfinance industry in Kyrgyzstan, next I will provide a brief discussion on the largest MFIs in the country. The Kyrgyz Agricultural Financial Corporation (KAFC) is the largest financial institution with a wide network of 11 branches and 47 representative offices all over the country. According to the ADB report (2004), KAFC provides loans for the following:

- Agriculture (i.e., plant and livestock growing, poultry farming, beekeeping, fishery);
- Agro-business (i.e., food processing, packing, farming, fertilization);
- Service sector (i.e., tourism, catering, marketing, transport and other services for people living in rural areas);
- Trade and income generating activities (i.e. buy and sell retail services, handicraft, etc.).

The KAFC provides two types of loans: collateralized individual loans and group loans for Self Help Groups with no collateral. People who work with property, transport, agricultural machinery, livestock, equipment and other assets mainly use the individual loans, while people using group loans work in various fields. Since the individual loan recipients are required to provide some collateral (usually their house, a car or other property), their average size of the loan is higher than the group loan recipients'.

According the report by the ADB (2004), as of 2004 the minimum size of an individual loan was 20,000 soms (about \$448) and maximum of 500,000 soms (about \$12,205). In contrast, the group loans ranged from 10,000 – 15,000 soms (\$224 - \$336). The interest rate on loans from KAFC is from 14%- 21% per year. During my research I spoke with several people who used loans from KAFC for various ventures that range from agricultural stock accumulation and expansion to food processing. They were overall

pleased with the KAFC loans, but have always mentioned high interest rates as being a drawback.

Likewise, MCAs and MCCs offer loans at even higher interest rates of around 18%-30% per year. Despite this, they are able to reach and provide services to the poorest clients all over the country. MCAs and MCCs provide individual (the average size of a loan is \$401) and group loans (the average size of loan is \$250-\$350 per group of 5-10 members), (ADB, 2004). From speaking with people about their experiences with various MFIs during my research, it became clear that all of these organizations vary from each other. These differences may be due to a location, funding sources, sectors of interest, clientele base, staff qualification, offered interest rates, requirement on documentations, etc. Since there is little research available that compares various MFIs in Kyrgyzstan, I hope my thesis will add to the study of microfinance organizations and their influence on women entrepreneurs' lives in Kyrgyzstan.

Steady growth in the microfinance sector was made possible through donor support of the United States Agency for International Development (USAID), UNDP, Mercy Corps International, Eurasia Foundation, International Financial Cooperation, Asian Development Bank, and many other organizations (ADB, 2004). The financial support and technical assistance of donor agencies established several financially sustainable microcredit agencies that provide services women across the country. Some examples of these organizations are Small and Medium Enterprise (SME) Credit Program (began operating in 1998) and the Women's Microcredit Program (established in 1997), both managed by Mercy Corps Kyrgyzstan (present in the country since 1994).

Another microcredit agency that offers its services to Kyrgyz entrepreneurs is Bai-Tushum Financial Fund, established by American ACDI/VOCA NGO and Swiss program CARITAS in 2000. Today, it is one of the most stable and reliable microcredit agencies in the country with 7 branches and 37 sub-offices throughout Kyrgyzstan (Bai-Tushum, 2010). It offers loans that range from \$400 to \$20,000 to entrepreneurs working on crop production, livestock breeding, dairy, agro-processing, trade, and tourism at the lowest interest rate of 18% per year (ADB, 2004).

Additionally, FINCA Kyrgyzstan was created in 1995 with a \$6.2 million grant from USAID (FINCA Kyrgyzstan, 2010). Like in many parts of the developing world, Kyrgyz women play an active role in the economy, especially in trade. Since 70% of the unemployed in Kyrgyzstan are women, FINCA has targeted female bazaar workers as its primary clients. The agency provides individual and group lending services. Table 3 shows loan portfolios of biggest microfinance organizations in Kyrgyzstan as of 2004.

Table 3: Microfinance Organizations and their Loan Portfolios

Microfinance Organizations	Loan portfolio	Share
MCC FINCA	US \$6,904,636	47%
MCA Bai-Tushum	US \$3,179,841	21%
MCA Ai-Ken	US \$1,021,864	7%
Women Credit Program of Mercy Corps	US \$2,411,932	16%
The rest of MC Organizations	US \$1,351,273	9%
Total	US \$14,869,546	100%

Source: Asian Development Bank Report, 2004.

As mentioned in the previous chapter, after the collapse of the Soviet Union some people were able to foresee the future and invest into equipment and machinery from plants and factories. These people were either well-connected bureaucrats or opportunistic people who quickly adjusted to the market-driven economy. The latter people invested into land from broken-up *kolkhozy* or bought-out equipment and machinery from plants and factories through series of loans. I interviewed several people who had done so. For example, one person took out microloans from various organizations such as Bai-Tushum, FINCA Kyrgyzstan, and Mercy Corps' Kompanion to buy 20 acres of milk-farm land with its buildings and equipment. This person has converted the farm to produce and process wheat. Another person I interviewed bought-out food-preserving equipment from the Soviet plant in the early 1990s. She has used a microloan from a local NGO to buy the technology that works well to this day. As a result, she has opened a food-preserving mini-factory that makes winter salads and preserves jams and fruits and sells them to a Russian company based in Siberia. These examples highlight how some people were able to utilize their skills and knowledge they received from their Soviet education with new ideas. These individuals are only a few examples of people who were able to adjust to the social, economic and political changes. More examples and types of businesses are described in the next chapter of this thesis.

It is also argued that in addition to access to credit, people need to have certain kinds of skills in order to be successful. Since the Soviet educational system, left more than 99% of population literate and with high levels of education, I argue that there are other additional skills that are need for a person to succeed in his or her entrepreneurship.

During my summer research (2009), I found that most desired and needed skills to start or own a business is the knowledge of accounting, local taxation laws, regulatory and legislative agencies, entrepreneurs' rights, language and computer skills, as well as marketing experience.

As mentioned above, little research on entrepreneurship and microfinance is available in Kyrgyzstan. This thesis, as a case study, seeks to breach the research gap that exists today. Kyrgyzstan, whose case is unique in many ways, given its history, culture, location, and people. The next chapter discusses research findings on microfinance in Osh and Talas regions of Kyrgyzstan. It explores the experiences of various entrepreneurs and their struggles, triumphs, lessons learned, and advice to new generations of entrepreneurs.

CHAPTER IV

CASE STUDIES: REGIONAL DIFFERENCES

As I stepped out of a mini van, I saw a beautiful scenery: snow-capped mountains, scraping white fluffy clouds, enormous blue water reservoir that stretched from one mountain range to another. I never knew my country was so beautiful. We've been on the road for 10 hours now. All of the riders, including the driver, were tired. It was getting dark and cold. As I sat back in my seat and the van took off, I started thinking that it's been 15 years since I visited Osh and Uzgen. The last time I visited was when I was 10 years old. I thought many things might have changed in the south: perhaps people's outlook on life or their livelihood styles. I was hoping we would get there soon (Research Diary, August, 2009).

Case Study I: Osh and Uzgen, Multi-Ethnic Mixes

Overview of Osh and Uzgen

Little did I know that it would take us 17 hours to arrive at Osh, where my uncle met us at 4 am in the morning. My mother and I were both exhausted from the long and strenuous journey. The next day we visited some extended family and explored the city. Osh is the second largest city in Kyrgyzstan after Bishkek. It is more than 3,000 years old and is located in the Ferghana Valley in the south of Kyrgyzstan, along the borderline with Uzbekistan. Osh is an ancient city that lies on the root of the Great Silk Road. The city serves as an administrative center for Osh Province, one of Kyrgyzstan's 7 provinces. The city has an ethnically mixed population of more than 253,900 comprising

Kyrgyz, Uzbeks, Tajiks, Russians and other minorities (National Statistical Committee, 2009). The Osh province itself has a little over a million people living there. Culture and languages are diverse in this area. People are mainly employed via trading businesses in local bazaars, farming, walnut-tree growing, rice farming, etc. Between the 10th-12th centuries, Osh was the third largest city of the Ferghana Valley and it joined the Kokand Khanate in 1762. Later in 1865 along with northern tribes of Kyrgyzstan, Osh joined the Russian Empire. Osh is surrounded by numerous smaller villages. (Kyrgyz Traveler, 2010)

The city itself hosts many important historical, traditional and archeological sites. Besides the famous bazaar that stretches over a kilometer by the riverbank, the city has monuments and religious sites that became regular religious pilgrimage destinations for people in Central Asia. Among them is the “Sulaiman Too” (the “Solomon’s Mountain”) that towers over the city. It is said that the Muslim prophet Suleyman Sheikh was buried at the foot of the mountain and since then the mountain carries a religious significance. On top of the mountain one finds a mosque that was built in 1497. It is said that Babur Khan himself, who later became the founder of the Mogul dynasty in India, has prayed there. I have visited the site last summer and was impressed by its simplistic beauty. (Kyrgyz Traveler, 2010)

There is also a small museum that is carved into the mountain. The museum hosts historical-ethnographic findings that span from the Great Silk Road times Soviet Rule. In addition, Osh is home for the natural Kyrgyz hero, Kurmanjan Datka, who was known as the “Queen of the South”. She opposed the Russian expansion in the region and fought

Russian imperialists before they were forced to join with the northern tribes. (Kyrgyz Traveler, 2010)

Uzgen is a capital town of Uzgen District in Osh Province. It is located at the far eastern end of the Ferghana Valley. It is 30 miles northeast of Osh and 20 miles southeast of Jalal-Abad on the banks of Kara-Darya River. The Uzgen District is a home for 228,600 people, while the town of Uzgen is home for 49,400 (National Statistical Committee, 2009). Uzgen like Osh also lies on the ancient Silk Road trade route. The town center is home for minaret and a mausoleum, which are both over 800 years old. It is said that these structures were built during the Karakhanid era that occupied Uzgen during the 10th to 12th centuries. The Karakhanids brought Islam to the region, which is still the predominant religion today. During this time, Uzgen was a thriving economic and cultural center. The Karakhanid era ended when Ghengis Kahn's armies invaded the area. Despite the invasion, Uzgen continued to thrive under the reign of the Golden Hoard. After Khan's empire disintegrated, the region was left war torn and poor. Uzgen lost its reputation as a Silk Road trading city and became merely a village. It remained in this condition until the area was brought under the Tsarist Russia. In 1918 Uzgen along with other southern towns entered the newly formed Soviet Union. (Kyrgyz SSR Encyclopedia, 1986 and Kyrgyz Traveler website, 2010)

The climate in the southern part of Kyrgyzstan is warmer than in the north, which enabled for massive cotton growth during the Soviet Union. Fruits and vegetables are in abundance. Fresh water supplies from mountain-rivers act as natural irrigation systems. There is also many hot water springs sprinkled around the Osh Province that attract

people from other parts of the country for health-related reasons. People mostly work in agriculture and in buy-sell retail businesses in the local bazaars. In addition, because of low economic opportunities in the area, many young men and women travel to Siberia, Russia to work and send remittances to their families.

Issues Addressed

As discussed in Chapter II, entrepreneurs in Kyrgyzstan face many challenges in opening, operating, and expanding their businesses. Not only they have to worry about securing loans at low interest rates, account for market and entrepreneurial risks, but also have to worry about constant political turmoil, and unpredictable economic and social future. The recent events on April 7, 2010 posed additional challenges to entrepreneurs in Kyrgyzstan. Since the event, the Kyrgyz borders with Kazakhstan, Uzbekistan, China, and Tajikistan have been sealed off and only opened at the end of May 2010. Any travel and trading opportunities became stagnant, which negatively impacts entrepreneurship in Kyrgyzstan.

The south of Kyrgyzstan is a melting pot of various ethnicities. The Ferghana Valley was divided so that the western part of the valley is in eastern Uzbekistan, the northern part in southern Kyrgyzstan, and the remainder is in northern Tajikistan. As a result of this division, major Diaspora groups were created. The city of Osh, for example, had an ethnic Uzbek majority, yet it was given to Kyrgyzstan. Many Uzbeks found themselves residents of the Kyrgyz and Tajik republics, while hundreds of thousands of Tajiks by the same politics became residents of Uzbekistan. Thus, very large numbers of Uzbeks, Tajiks, and Kyrgyz ended up living as minorities outside the borders of their

own newly created ethnic republics.

While during the Soviet period, the borders were only ceremonial as they were open and all citizens were considered Soviet citizens. However, after the break up of the Soviet Union, the borderlines are no longer invisible as they used to be. With independence, these territories are now separate countries with their own rules, regulations, and laws. As a result, tensions between minority and majority groups have arisen and ethnic identities have sharpened. Ensuing poverty has led to competition for jobs, resources and foreign aid. Local minorities now demand clearer ethnic rights. This is especially true for the ethnic Uzbeks in both Tajikistan and Kyrgyzstan as they form the largest ethnic group in Central Asia and Uzbekistan has a strategic importance as economic and political ally. The region has become the “trouble spot” of ethnic tensions in Central Asia. In 1990, Osh and Uzgen experienced violent ethnic clashes between the Kyrgyz and Uzbek groups. In 1999, violence erupted over water allocation between Tajik refugees and local Kyrgyz residents in the villages of Chet-Kyzyl and Bai-Karak in the Batken province of Kyrgyzstan (Lubin and Rubin, 1999).

The south region of Kyrgyzstan is isolated from Bishkek, the country’s administrative, political and economic capital, by mountains, which makes it hard to travel and trade. Osh and Uzgen’s proximity to the Uzbek and Tajik borders also create additional burdens such as ethnic confrontations, difficulties of trading, various laws and regulations. However, entrepreneurs I interviewed in the summer were able to successfully secure financial resources to develop and sustain their businesses.

Interview Details

I interviewed ten individuals (7 women and 3 men) who used microloans to start up or further develop their businesses during my stay in Osh and Uzgen. The types of businesses ranged from small one-person medical clinic to medium-sized food processing and canning enterprise. The age of the interviewees ranged from 28 to 53. The loan sizes ranged from \$555 to \$12,000 with a duration that ranged from 1 to 3 years. I have selected clients by the following criteria:

1. Adult women (and men) engaged in income generating activities and using microcredit loans (in a 25-55 age group).
2. Owning a small and medium-sized business that operates in the informal or formal economy.
3. Having been in operation for at least 3 months with the loan.

The interview results showed that microfinance is indeed providing a sustainable path for economic development of entrepreneurs in the south of Kyrgyzstan. As discussed previously, sustainability in this context means economic viability of businesses, where entrepreneurs can sustain their ventures without additional loans in the future. When asked how has microcredit changed their lives, all respondents answered that credit positively affected their lives. The positivity of the loans was due to different reasons. The following are direct quotes of responses,

Positively. Having credit allowed us increase the volume of our production by two folds. Before we had to wait to sell our canned goods to use the profit money to invest into more products. However, now we are able to expand our operations without waiting to sell what is in the warehouse (Aman Aliev and Bubusara

Alieva, 53 and 49 years old husband and wife, owners of the food processing and canning enterprise, Osh, 2009).

Positively. By obtaining microcredit, I was able to pay for my one-room clinic for women and pay for a small amount of medical supplies. Once I opened my clinic near the local bazaar, I started seeing 15-25 women per day for a small fee. Earning money and being able to repay my loan in small installments, motivated to earn more money so I can send my two children to good universities in the future (Clara Balykchieva, 35 years old female, owner of a medical center “Saikal”, Osh, 2009).

Positively. Being a teacher of the Kyrgyz language and literature in high school does not allow me to have extra money for my family. Since teachers get the lowest salary in the nation, we have to do something extra to be able to live. Other school teachers and I have been using microcredit since the spring of 2005, when we secured a group loan to raise cows, sheep, and chickens for meat. Since we live in a small village of Kyzyl-Too (close to Uzgen), we have an abundance of forest with apples, grass and other feeds for the animals. However, to expand our scope, we need to have more government support, access to equipment, and training (Damir Dolotbaev, 44 years old male, teacher, Uzgen, 2009).

Positively. Being in a kind of businesses where it is important to have large sums of money to be able to infuse into my operations, microcredit comes in very handy. The fact that I get a large sum of money at once and can repay it back in small installments over the next few months is very convenient for the entrepreneurs like me (Elmira Elegeshova, 39 years old female, owner of the buy and sell retail shop in the largest bazaar in Osh, 2009).

All of the described entrepreneurship range in size, nature and differs in kind of people operates them. However, these businesses share several commonalities. First, people who were educated and trained during the Soviet era through Soviet-style education established these business ventures. This means they have never had formal lessons on entrepreneurship, market economy, and risks. They had to either educate themselves or received a training from the microfinance programs that provided them loans. Second, all the respondents were literate and well educated with higher degrees. Third, interviewees formed businesses either related to their formal training (such as

Clara *eje* who is a gynecologist, Aman *baike* who received master's degree in food processing and canning) or were inherently good at doing something their families have been doing for centuries (Damir *baike* who used loans to care for livestock).

In addition to entrepreneurs' opinion on the affects of microfinance programs on their lives, I was interested in exploring whether they have experienced any difficulties in securing the loans. I was interested if there were any structural changes they thought should be adopted by the NGOs to effectively provide loans to entrepreneurs in their area. And what procedures were excessive and not necessary? The majority of respondents answered that it took them somewhere between one week to a month to receive the loan. None have complained that their gender or ethnicity played any role how quickly they received loans or treated by the microfinance programs workers. Both women and men respondents thought that their access to credit was unilateral across genders and ethnic backgrounds.

The majority of entrepreneurs voiced several concerns they had opening and operating their businesses in the southern Kyrgyzstan. First, they were concerned with excessive check ups by numerous government agencies. As one of the respondents put it: "I had 4 different people in one day coming to check my tax books. I wish someone would protect us, entrepreneurs, against vultures that pretend they are on official duty. Sometime, these 'regulators' even ask for bribes." As discussed in chapter II, entrepreneurs in post Soviet countries suffer red tape, excessive and unnecessary check-ups by government agencies. Corruption and bribery makes it hard for entrepreneurs to expand their businesses. Kyrgyzstan is not an exception, where some corrupted officials

take advantage of entrepreneurs and their lack of knowledge of taxes, laws, and regulations.

Second, many entrepreneurs complained about the necessities of renewing licenses to operate their businesses because of its redundancy and complications. They shared how different government officials would show up to check their licenses every other day. Third, many criticized NGO procedures of having additional co-signers for every new loan. One respondent gave an example of a woman who suddenly got divorced and was forced to provide additional co-signer for her loan because her family situation was changing. Another example was when an entrepreneur wanted to get an “express loan” on top of her existing loan, the NGO officials asked her to provide additional co-signer. A co-signer is responsible for paying the loan back to the NGO if something happens to the loan recipient. A co-signer must be unrelated to and should be residing in the same city/village as the loan recipient. Every additional loan requires a new co-signer. This poses many problems for entrepreneurs, especially for those who need money at a short notice.

To understand a more holistic view about entrepreneurs in Kyrgyzstan and the role of microcredit in boosting the local economy, I inquired from the entrepreneurs on their opinion about skills needed to achieve success in starting a business in Kyrgyzstan. The answers differed from one person to another. The common skills that entrepreneurs thought people needed were knowledge of latest technology, laws and regulations, and entrepreneurship. For example, Aman *baike* and his wife, Bubusara *eje*, said that in their line of work of processing and canning food one should know well old and new

technology that is used for processing food. Both of them graduated from the Bishkek's Polytech University in the 1980s. Their colleague in the food processing field, Fatima *eje*, has also added that as an employer of twenty or more people, it is crucial to be knowledgeable of management and local laws, besides technical skills.

All of the respondents expressed their regret that entrepreneurship has never been taught to them in schools and universities. As one of the female entrepreneurs put it:

Most of the entrepreneurs I know received education from the old Soviet institutions. As you know, we were mainly taught sciences, literature, and math in schools. In universities one learned only what he needed to learn. For example, if one was a medical student, he learned just medicine. However, since the break up of the Soviet Union, I realized that we ought to be taught business, free-market economics, finance, and entrepreneurship to survive. None of us was prepared to meet challenges of operating a business, because we don't know much about it.

This was a common concern among entrepreneurs. All of them expressed hopes that current school and university curriculums will include classes on entrepreneurship, finance, business development, and economics classes.

The majorities of respondents also expressed that future entrepreneurs should know what they are signing up for, and be aware of all associated risks and amount of patience and dedication they need in order to succeed. Gulbahar *eje*, an ethnic Uzbek working in retail in the bazaar in Uzgen said:

Young entrepreneurs should know what they are getting into. If you took a loan to open or expand their business, make sure to use the loan just for the business, not for other things. Be patient, consistent, and work hard.

Knowledge of judicial laws, tax laws, various government agencies' roles and responsibilities, and political and economic events are also important for entrepreneurs as they directly effect how they conduct their businesses. I have summarized the policy

recommendations for the Kyrgyz government and microfinance agencies in the next chapter. Another common concern among interviewees was NGO interest rates on loans. Although many microcredit agencies claim to have low interest rates, many entrepreneurs voiced their distress on the rates they had to pay. For example, some interest rates were as high as 30% per year. The formal banking system provides loans at even higher interest rates and requires rigorous screening process (National Bank of Kyrgyzstan, 2010), which makes microcredit agencies more popular and accessible.

Most clients' interest rates on their loans ranged between 18% and 24% per year. The FINCA International offers the lowest interest rate in the country of 18% per year. While loans offered by commercial banks that have microcredit branches (e.g. BTA Bank, KazKomertz Bank, etc.) are higher (up to 30% per year) than NGO rates. It seemed that entrepreneurs with smaller ventures such as teachers buying cows for milk or trading school supplies at the local bazaar were prone to take out loans from NGOs who offer lower interest rates but smaller-sized loans than commercial banks. On the other hand, entrepreneurs with medium-sized ventures such as the food processing and canning enterprise and brick-making factory take out loans from commercial banks which provide larger loan amounts at higher interest rates.

This section has discussed a case study about entrepreneurs in the south of Kyrgyzstan and their relationship with microfinance programs. The interview results showed that there are numerous challenges in opening and conducting business in Osh and Uzgen towns. Despite these roadblocks, entrepreneurs in the south have been successful in their fields where they made a difference in their own lives, their families,

and in the lives of their employees. Ten respondents that participated in this case study have my tremendous respect for what they have done for their communities, as they showed that one could achieve anything with hard work and determination. Many interviewees discussed how microcredit made positive differences not only in their businesses, but also in their lives. As Elmira *eje*, owner of a retail kiosk in the bazaar in Osh said:

It is nice to have a retail business because you can earn up to \$500 of profit per day. If you have children, you need to do something else besides work regular job. It is impossible to raise children only on salary. Being a Muslim and Kyrgyz poses additional challenges. As you know, we have many traditions such as funerals, weddings, family gatherings that require help from the relatives. If you depend on a monthly salary, you wouldn't have an opportunity to help your parents, siblings, and children. Now I can and I am proud to be able to. I feel empowered because I feel confident in myself and in what I can do with my life.

This quote incorporates many dimensions of the feelings of empowerment other respondents felt. Indeed, all interviewees expressed they were empowered from using microcredit because they felt they were no longer helpless. Financial resources in the form of microcredit provided social capital to entrepreneurs in the south of Kyrgyzstan. Many respondents voiced that having access to credit allowed them establish and expand their small and medium-sized enterprises, but also resulted in immeasurable benefits. Among these benefits were emotional connections and friendships formed from being in a group loan with other women; increase in one's confidence and self respect from the ability to change their lives for a better; attaining a goal and working hard to achieve it; making a difference in children's health and education; and many other benefits.

Case Study II: Pokrovka, Border Issues

As we crossed the Kazakh steppes on our way to Kyrgyzstan's Talas Province, where my grandparents have lived most of their lives in the small village of Jyide¹¹ and my aunt lives in a neighboring village of Pokrovka, I wondered if my research experience will be different here than it was in the south of the country. After all, I was much more comfortable talking to people in the north because I visited my grandparents every summer holiday and lived with them six months at a time before I started first grade. People in Talas, and especially in Manas District are extremely hardworking, where during spring, summer and fall people work from dawn to dusk on their fields growing crops for their families and for selling abroad. As a child who grew up close to her grandparents, I love this area and its people.

When we crossed the border posts between Kazakhstan and Kyrgyzstan, the Kazakh patrol had much more vigorous check-ups than its Kyrgyz counterpart. They checked our bags for goods and produce, asked us redundant questions, flipped through our passport pages, and finally let us go. I wondered if they were so strict with us, regular travelers, how do they normally treat entrepreneurs who in order to sell their products in Bishkek need to cross the border or go around the mountains? (Research diary, September 2009)

Overview of Pokrovka and Talas

This turned out to be a valid question for this area. Many entrepreneurs expressed struggles of channeling their goods to the proper markets. The majority has to sell their products in Taraz, the largest town close by, located in Kazakhstan or sell it in the national capital, Bishkek. In order to do, they have to travel either through mountains through Suusamyr valley of Ala-Too mountain range, long and strenuous journey or travel through Kazakhstan. The second route is considered the easiest, but not without costs. The Kazakh border patrol enforces heavy taxes and fees on Kyrgyz goods, mostly agricultural products. Entrepreneurs not only have to pay for regulatory fees on the

¹¹ Jyide is a fruit tree that grows eatable white small fruits. It is said that my grandfather's great-great-grandfather has started a village under the Jyide tree many years ago. It is also said that in the time of famine this tree helped to feed to entire village.

Kyrgyz side, but also pay extra taxes to cross to Kazakhstan. Before diving into a detailed discussion of interview results and entrepreneurs' challenges, this segment will give a brief overview of Pokrovka and the Talas Province.

Pokrovka is a small village located in the Manas District of the Talas Province. Pokrovka is an administrative capital of the Manas District with a population of 7,400 people compared to populations of 32,900 and 219,800 in Manas District and Talas Provinces, respectively (National Statistical Committee, 2009). The Talas River flows through the center of the valley. Talas is one of the 7 provinces of Kyrgyzstan and is located in the northwest of the country, bordering Kazakhstan. It is cut off from the rest of Kyrgyzstan by the mountain ranges and the easiest way to get there is via Kazakhstan. The economy of the province is highly dependent on the capital, Bishkek, and nearing Taraz, a city in Kazakhstan. The province has many villages, where inhabitants make a living via subsistence farming. Pokrovka and the surrounding villages enjoy four-season climate, which makes it easy to grow all kinds of fruits and vegetables. The abundance of water from the Kirov's reservoir and local river Talas ensures surrounding villages with fresh drinking and irrigation water. The common agricultural crops are wheat, barley, potatoes, tomatoes, corn, bell peppers, onions, garlic, apples, melons, and cucumbers.

The Talas province is known as the Land of Manas, a legendary hero who has united fractured Kyrgyz tribes into one 1000 years ago. His story is told in the Manas epos trilogy that consists of three books: Manas, Semetei, and Seitek. The epos has been memorized and orally kept over the years before the Russian explorers finally recorded it in the late 18th century. School children are required to read all three books and memorize

chapters in their Kyrgyz literature classes. A few kilometers outside of the Talas city, Manas' *gumbez*¹² is located, which was built as part of the 1000 years celebration in 1995. The historical museum on the grounds recounts Manas' life who was born to a tribal leader, then grew to lead and defend his people. (Kyrgyz SSR Encyclopedia, 1983)

The Talas province is also best known for being a birthplace of the famous writer, Chingiz Aitmatov, whose novels and poems described everyday struggles of honest farmers during the World War II and after the war ended. His famous novels include *Jamilya*, *The Day Lasts More Than a Hundred Years*, *The First Teacher*, *The White Ship*, *Face to Face*, *the Scaffold*, and many others. Aitmatov's literary works have been translated to many languages and he is considered the national hero.

Interview Details

I interviewed 18 individuals (16 women and 2 men) who used microloans to start up or further develop their businesses during my stay in Pokrovka. The types of businesses ranged from small milk distributing kiosks to medium-sized agricultural enterprise that provided wheat and other products to local farmers. The age of the interviewees ranged from 40 to 54. The loan sizes ranged from \$350 to \$10,000 with a duration that ranged from 1 to 2 years. I have selected clients by the following criteria:

4. Adult women (and men) who are 25-55 year old and engaged in income generating activities and using microcredit loans.
5. Owning a small and medium-sized business that operates in the informal or formal economy.

¹² *Gumbez* means mausoleum in Kyrgyz. Many refer Manas mausoleum as *Manaz Gumbez*.

6. Having been in operation for at least 3 months with the loan.

The interview results showed that microfinance is indeed providing a sustainable path for economic development of entrepreneurs in the Talas Province of Kyrgyzstan. Again, sustainability in this context means economic viability and continuance of a business without further assistance of a microcredit. When asked how has microcredit changed their lives, the majority respondents answered that credit positively affected their lives. The positivity of the loans was due to different reasons. The following are examples of responses I received:

I am a single mother of 3 children. This year (2009) with recommendations of my friends I took out a loan from the FINCA International in order to buy a cow and several sheep. In a group of five women, I learned how to manage my finances, I am able to send my youngest daughter to a better school and help my old sickly mother. Before this, I was uncertain of my future because I had no means to support my family. Now I have my own household and feel confident in my future (Ilim Italiebva, 45 year old woman, school teacher, interview notes, Pokrovka, 2009).

As I became part of all women's microcredit group two years ago, I noticed changes in my habits. For example, I became more frugal and disciplined with my finances because I did not want to disappoint women in my credit group. I feel proud of myself to be able to better my life and the lives of my children (Jamal Joorobekova, 48 year old woman, high school guidance councilor, interview notes, Pokrovka, 2009).

However, two entrepreneurs expressed how microcredit negatively affected their lives due to different reasons:

In 2002, when my husband asked me to take out several loans so we could plant beans and earn extra money, I hesitantly agreed because both of us did not know much about agriculture. But he (her husband) insisted it would help us financially. At the beginning things were going OK. We managed to yield good amount of crop. However, the profit was taken away by my husband and given to his children from his first family. Even though I was stuck paying off the installments for the next 5 years, I did not enjoy any profit. I ended up being worse off than

before I got the loans (Katerina Korotkina, 53 year old woman, teacher of Russian language and literature, interview notes, Pokrovka, 2009).

When I joined a microcredit group to apply for a loan to buy fertilizers for my small farming efforts, I expected to work hard to save my crop from cold and pests, but I was not prepared to deal with bureaucracy. What I learned after hard months of working on my land was that there was no market for our agricultural goods. To sell my crops I had to either go to Bishkek or go across the border to Taraz. Crossing through the border posed additional challenges I was charged additional taxes and fees on my goods and it was impossible for me to earn any profit. I ended up being worse off after taking out the loan (Meerim Mamytova, 47 year old woman, teacher, interview notes, Pokrovka, 2009).

Pokrovka's proximity to the border of Kazakhstan and its relative isolation from the other parts of Kyrgyzstan, makes this research area unique in many ways. Since many people live in rural and semi-rural areas like Pokrovka, this case study results can be applied to many other places in the country and can provide a valuable tool for policy makers and microcredit practitioners. People's struggles are profound in this region. Scarcity of jobs, constant political and economic instability of the country create an unclear future. As many respondents voiced their concerns about the political and economic future of Kyrgyzstan they have also expressed their hopes that the Kyrgyz government will take a better care of their people and protect their interests. I have incorporated many suggestions from the interviewees and presented them as policy recommendations in the next chapter.

In addition to entrepreneurs' opinion on the effects of microfinance programs on their lives, I was interested in exploring whether they have experienced any difficulties in securing the loans. I was interested if there were any structural changes they thought should be adopted by the NGOs to effectively provide loans to entrepreneurs in their area. And what procedures were excessive and not necessary? The majority of

respondents answered that it took them somewhere between one week to a month to receive the loan. None have complained that their gender or ethnicity played any role how quickly they received loans or treated by the microfinance programs workers.

However, many women entrepreneurs expressed how their experiences as woman entrepreneurs are different than men's. All women respondents were interviewed at their work place during a lunch break or recess because after their work they had additional obligations at home such as preparing meals for their families and often parents-in-law, milking cows, cleaning and gardening. On the contrary, both male respondents were interviewed in their homes, where their wives prepared the meal and cleaned after we ate. My observations state that women have additional workload from having a business than men, but are glad to have the opportunity to engage themselves outside of their household.

Some common challenges entrepreneurs in Pokrovka and surrounding areas face were complexity living near the border area, where they have to pay additional fees and taxes to take their goods across the border; difficulties of repaying loans on time because of the high interest rates, which sometimes come up to 30% per year; a presence of red tape, where bureaucratic procedures, regulations, excessive check-ups, irregular taxation seriously hinder business operations; and political and economic instability that threatens the very existence of their livelihood. The majority of respondents had a positive feedback about procedures and effectiveness of microfinance agencies, some however, wanted to see changes in the future on how NGOs administer loans. For example one respondent said:

The organization should seriously consider revising its rules and regulations, especially their penalties. A few months ago, my youngest daughter became very sick. I had to take her to a hospital in Talas (an hour away town). Obviously with all the worrying I forgot to pay my installment on time. I was late by 2 days. The NGO did not want to listen to my problems. I had to pay a penalty fee. I really think they (NGOs) should take into considerations reasons why people are late on their payments (Narinsa Narymbekova, 35 year woman, old kindergarten teacher, mother of three, interview notes, Pokrovka, 2009).

Another person complained about microfinance programs' procedures that are unnecessary. She said:

For the most part, I am satisfied with the term of the loans I have taken out. They made a great difference in my live. I sent both of my youngest children to good schools; I can afford taking them to the hospital when they are sick; and I am no longer afraid for their future. However, some microfinance agencies are too strict with us. When applying for a loan, one has to bring documents with information of their salary, family status, and formal document pictures. When one receives the loan, they also have to provide the agency with a copy of their passport pages, which already contains the same information on family status, work place and the picture. I wonder if they can just cut one of the steps out? It seems redundant to me (Okulai Orozbekova, 41 year old woman, high school mathematics teacher, interview notes, Pokrovka, 2009).

Among the structural and procedural complaints, respondents have also voiced their concerns about the physical locations of the microfinance agencies. The majority of respondents complained that many microfinance agencies are located either in big cities such as Bishkek, Talas, Osh, and Naryn, while places like Pokrovka are left out. They hoped that the organizations will open branches in every district center to ensure their availability to all. One respondent recounted her experience with the local NGO that is located in a bigger village 45 minutes away:

For two years now, our women's group has taken out loans from Bai Tushum organization, which is located in Kirovka. When we had our installment payments due every month, we would gather our money from each group member, hire a taxi to take it to Kirovka. Once paid, we would take another taxi to come back. Since most of us had our regular teachings jobs, we could not afford spending all

day waiting for the bus, so taking taxi was our only option. It would nice if Bai Tuhum and other similar organizations open their branches closer to us (Jamal Joorobekova, 48 year old woman, high school guidance councilor, interview notes, Pokrovka, 2009).

Despite serious challenges entrepreneurs in Pokrovka face in opening and expanding their small businesses, their struggles have not been in vain. Along with many failures, they enjoyed many triumphs from having access to credit. In addition to financial profits many entrepreneurs received immeasurable benefits from their experiences. Even people with sour recounts of their business ventures have said:

Being in a group of women from diverse backgrounds and all going through the same situation has been rewarding. I learned a lot from them. It was nice being in a supportive group and feel solidarity among each member (Katerina Korotkina, 53 year old female, teacher of Russian language and literature, interview notes, Pokrovka, 2009).

Others have added that they felt empowered and increased their confidence in themselves and their abilities to make a difference in their lives and in the lives of their children.

When I asked women to describe what empowerment meant to them, I received many varied answers. Most common notions of empowerment were feeling of pride in one's own ability to change situation, attaining a goal to work harder, getting emotional and personal connections with other participants, and making a difference in their household and in their communities.

Many women entrepreneurs in Pokrovka despite facing social, economic and political challenges, take risks to open or expand small and medium-sized businesses because it is their only option for a better life. Although most of the respondents have regular jobs as teachers, kindergarten instructors, animal husbandry specialists, and

nurses, they chose to use microcredit to open small ventures despite added work. Most of them have succeeded in making a positive difference in their lives.

CHAPTER V

INTERPRETATIONS AND CONCLUSION

Many studies have been conducted on the effects of microfinance on the lives of women all over the world. The results show that access to credit significantly improves women's social and financial status in their households and in the communities (Jaquette and Summerfield, 2006). In Central Asia, where microfinance takes a different form than in places like Bangladesh, India, Africa, and Latin America, microfinance institutions provide loans to entrepreneurs to promote sustainable economic development in the area. In Kyrgyzstan particularly, microfinance agencies provide loans to entrepreneurs who are usually well educated, have technical training, and can provide some kind of collateral for their loans. The reasons such persons with good education and presumably high social status seek out such loans are that there are not other means to secure short-term loans for business ventures. The formal banking sector is unstable because of constant political and economic instability in the area since the early 1990s which has made it difficult for many entrepreneurs seeking business opportunities.

Despite these roadblocks, microfinance agencies have flourished in the area. For more than a decade, they have been providing their services to entrepreneurs seeking new channels for development in the fast changing economy. My research project examines

two regions in Kyrgyzstan where entrepreneurs have used loans to develop or expand various business ventures. To a large extent in these communities, microfinance was able to assist women in important ways in which they were asking for assistance. I saw situations where participating in microfinance created very empowering situations in helping these women to achieve sustainable economic development. I also saw situations where it did not live up to the promises it implied. What became clear from this project is that scholars and development practitioners must be in solidarity with those who are caught in the middle of the changing and inequitable world and ensure that we assist people in the ways they need and want. Development tools are most successful in a localized context where their success is evaluated by the most affected. As a graduate student in international studies and public administration I learned first hand that development is not an easy process.

The case studies in Osh, Uzgen and Pokrovka have shown that microfinance is indeed providing a sustainable path to development for entrepreneurs, especially women, in Kyrgyzstan. Sustainability in this context means economic continuance of one's business without further need of a loan. When I asked interviewees why they were able to successfully run their businesses, many have answered economic sustainability of their entrepreneurships depended mostly on them. The success, they said, was largely due to the personal characteristics of business owners, their skill and dedication to work hard. Although many external factors (such as political instability, economic and investment environment, etc.) influence business' economic sustainability, entrepreneurs' own attitude played even more crucial role in one's accomplishments. As one entrepreneur

said: “ My success lies in my own hands. When I receive a loan, I do not squander it on unnecessary things. I am strict with my family and myself. I take a loan for the business and I use it for the business.”

Since I was unable to interview individuals who have defaulted on their loans, I was unable to include their perspectives in this analysis. However, I attempted to understand why some entrepreneurs were successful in maintaining their businesses, while others have failed. Entrepreneurs face many challenges and pressures. There are institutional, cultural, social, political, and economic obstacles that impede entrepreneurial and economic development. Although it is impossible to eliminate all external risks, business owners can limit risks associated with their business practices. First, they should discipline themselves to use loan money solely for developing and expanding their entrepreneurships. Secondly, they should form types of businesses that they have skills to operate either through formal education (e.g. entrepreneurs who have a degree in certain fields; have technical skills and formal training; or have historically occupied certain jobs that they are naturally good at).

The second research question examined whether the historical occupational division among various ethnic groups and cultures dictate the nature of their entrepreneurships in Kyrgyzstan. The research findings have shown that many people who are Kyrgyz took out loans primarily to conduct business in farming or animal husbandry. When asked why they have done so, many replied that they were good at farming or taking care of cattle because their families have been doing this for generations so naturally they were experienced. However, there were a few exceptions

where entrepreneurs, instead of engaging in ventures that were directly linked to their historical occupations, used the loans for next types of businesses for which they trained in schools and universities. For example, both entrepreneurs who received food processing and canning degrees from a Soviet institution still use their degrees in their businesses. One woman has never left her field of occupation after the break up of the Soviet Union, extending her experience in food processing and canning field to 26 years.

The two Uzbek entrepreneurs who I interview used microloans for retail ventures in the local bazaars. Uzbeks, who are historically known for being good hagglers, seem to use loans to engage in businesses that relate to trade. Since it is hard to generalize after interviewing only two representatives of Uzbek ethnic group, I attempted to fill out the picture by asking Uzbek respondents to share their experiences with microcredit agencies and what kinds of entrepreneurships others in their ethnic group tend to operate. The answers were identical. Many Uzbeks do indeed prefer to use microloans for businesses that relate to trade directly or indirectly. I also asked respondents of other ethnicities to share their insights into businesses practices of other ethnic people, including of Uzbeks. The answers have confirmed my results.

The Russian teacher I interviewed had a negative experience with microloans. Although she used the loans not for an administrative type of business but rather for a farming effort, she said the negativity of her experience was not due to her performance in farming. Her experience was dampened because her husband used the profits for his first family instead of repaying the loans.

The interview results have also shown that female entrepreneurs do not

experience different treatment than their male counterparts in accessing loans. However, women entrepreneurs have different experiences than male entrepreneurs conducting business. Since Kyrgyzstan is a predominantly a Muslim country with patriarchal traditions, many women face challenges and have obligations to their families. Women are expected to take care of children, clean, cook three meals a day, take care of the animals, and take care of the parents-in-law. These additional duties limit women's abilities to dedicate more time for expansion and innovation of their entrepreneurship. However, many women entrepreneurs are still ready to take on the added workload and argue that they indeed feel empowered.

The third research question also examined women's own visions of their development, both financial as well as personal. Microfinance provides financial capital for entrepreneurial progress, which in turns results in the empowerment of local business owners. While there are many problems inherent in linking microfinance and women's empowerment, including the resultant increased workload for women participants and its difficulty in administering to individual needs, my research findings show that women—despite the additional responsibilities—welcome microloans due to their financial and social benefits.

When I asked interviewees to describe their lives before and after they had access to credit, many voiced how positively their lives changed. Besides financial profits, many received immeasurable benefits such as emotional support of being in a group of women who are undergoing the same experiences as they are. They also cited an increase in confidence and pride in being able build and sustain a business, their ability to send their

children to better schools and provide them with good health care, and their attainment of a goal and a sense of direction in their lives.

Microfinance is creating empowering situations in Kyrgyzstan where women are gaining access to credit. They have learned to balance the additional workload in their own resilient forms of struggle and resistance. The women with whom I worked last summer shared with me many stories about the relationship between their participation in microfinance and their everyday struggles. They also talked about helping their families economically, about seeing improvement in their children's lives, about their plans to improve their homes, and hopes to expand their businesses. They also talked about feeling more confident in themselves and their communities, about participating in decision-making in their homes by contributing financial resources, and how an additional income has helped them manage uncertainty and risk. The women described the many new skills they acquired. Many women talked of discovering their human potential, their potential as women and entrepreneurs.

Despite many laws and regulations on microfinance institutions, Kyrgyzstan's entrepreneurs face challenges in developing and maintaining their businesses. Microfinance services do not trickle down to the poorest of the poor in Kyrgyzstan, but rather they target the middle class of entrepreneurs who are well educated and have skills to maintain their businesses.

The following recommendations are collective suggestions I received from microfinance recipients on improving the current environment for microfinance institutions in the country. The first set of recommendations are specifically for the

Government of Kyrgyzstan to create a more hospitable environment for entrepreneurs and microfinance industry overall:

1. The Government of the Kyrgyz Republic should increase its support of microfinance industry and entrepreneurs in the country. For example, as the 2002 law “On Microfinance Organizations” establishes a number of restrictions on the further development of MFIs, the government should revise this law to encourage more microfinance agencies to embark on projects in Kyrgyzstan. Furthermore, the government should adopt laws and regulations that protect entrepreneurs against risks that arise due to political instability such as the Tulip Revolution of 2005 and the April 7, 2010 looting of businesses.
2. The current Tax Code contains a number of inconsistent requirements resulting in higher loan costs. The Kyrgyz Government in conjunction with the National Bank of Kyrgyzstan should reform the Tax Code laws to make them consistent and avoid excessive taxation of entrepreneurs and microfinance agencies. This in turn will lower loan costs and subsequently all loan interest rates.
3. As the microfinance industry continues to grow, the National Bank’s supervisory department will find it difficult to keep up with registering, issuing certificates, and regulating MFIs. The Kyrgyz Government and the National Bank need to expand their supervisory department to secure an efficient and effective checks and balances system of MFIs.

4. The Kyrgyz Government and the Ministry of Education need to revise the national school curriculums to include entrepreneurship lessons in educating youth in the country.
5. The Government and MFI initiatives should be implemented where entrepreneurs are educated on their rights, taxes, and judicial laws to protect them from excessive taxation and constant check-ups from government agencies. For example, organizing annual national workshops for entrepreneurial educational trainings and development in various regions of Kyrgyzstan can not only help entrepreneurs receive needed knowledge, but also provide networking opportunities.
6. The Kyrgyz Government should collaborate with the governments of Kazakhstan, Uzbekistan, Tajikistan, and China to implement more favorable border crossing terms and regulations to allow entrepreneurs to channel their goods not only within their own country, but also internationally.

The following recommendations are proposed to the microfinance agencies in the Kyrgyz Republic:

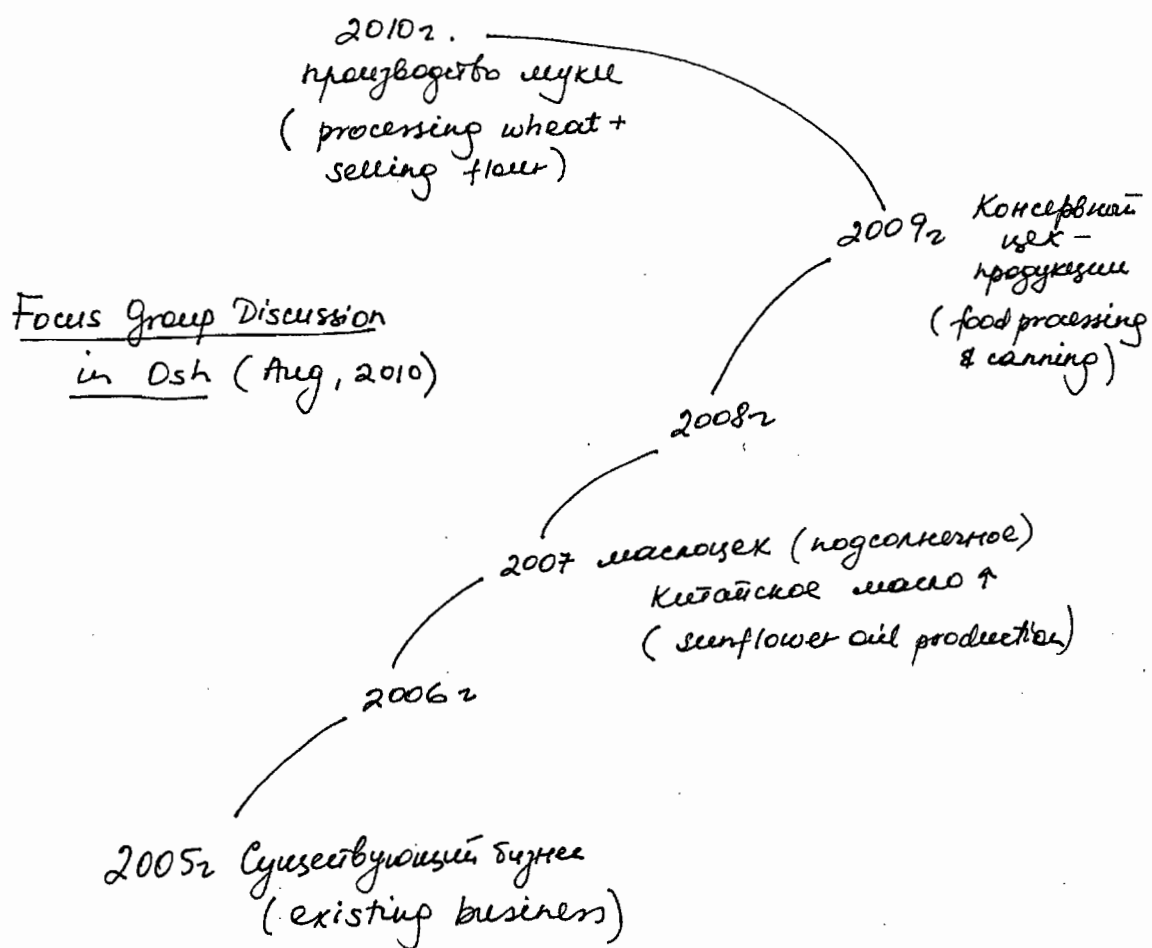
1. MFIs should strategically place their offices and sub-offices in places where their services are available to a majority of the poor population. The locations of the agencies should not be limited to larger towns and villages, but instead should also be accessible to those from smaller villages and who have limited access to public transportation.

2. MFIs should provide training to loan recipients. These trainings can range from individual instructions to large group workshops on such issues as savings, marketing, risk assessment, and budgeting.

We have seen how important microfinance has been in enabling entrepreneurship in Kyrgyzstan. I hope that these suggestions will serve as a stepping-stone to greater inclusion of the poor in Kyrgyzstan.

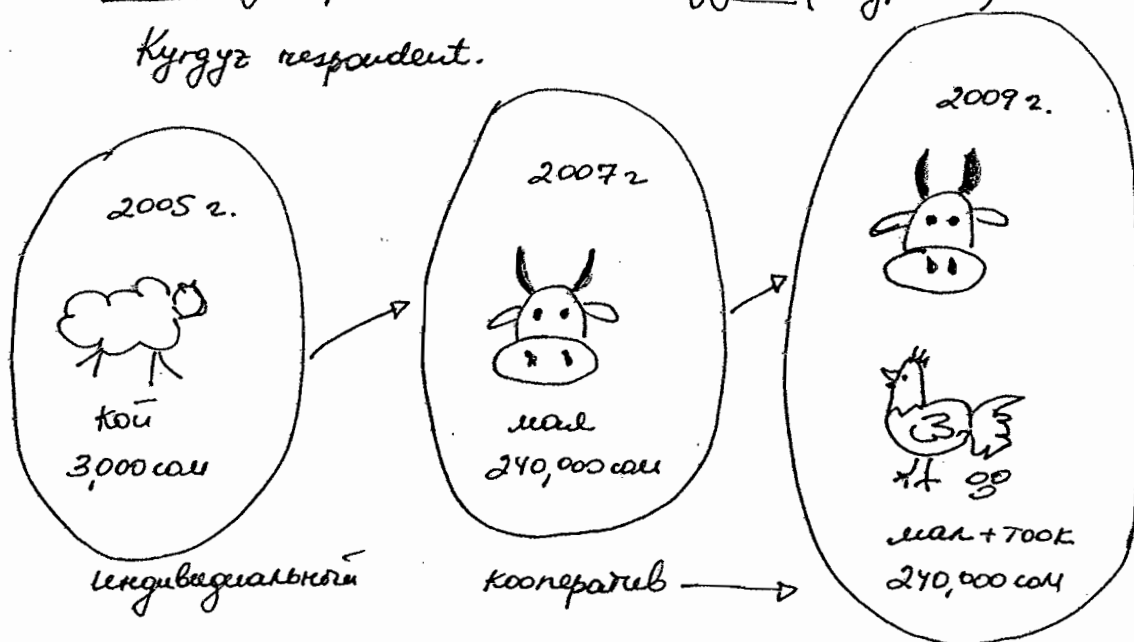
APPENDIX A

FOCUS GROUP ACTIVITY RESULTS



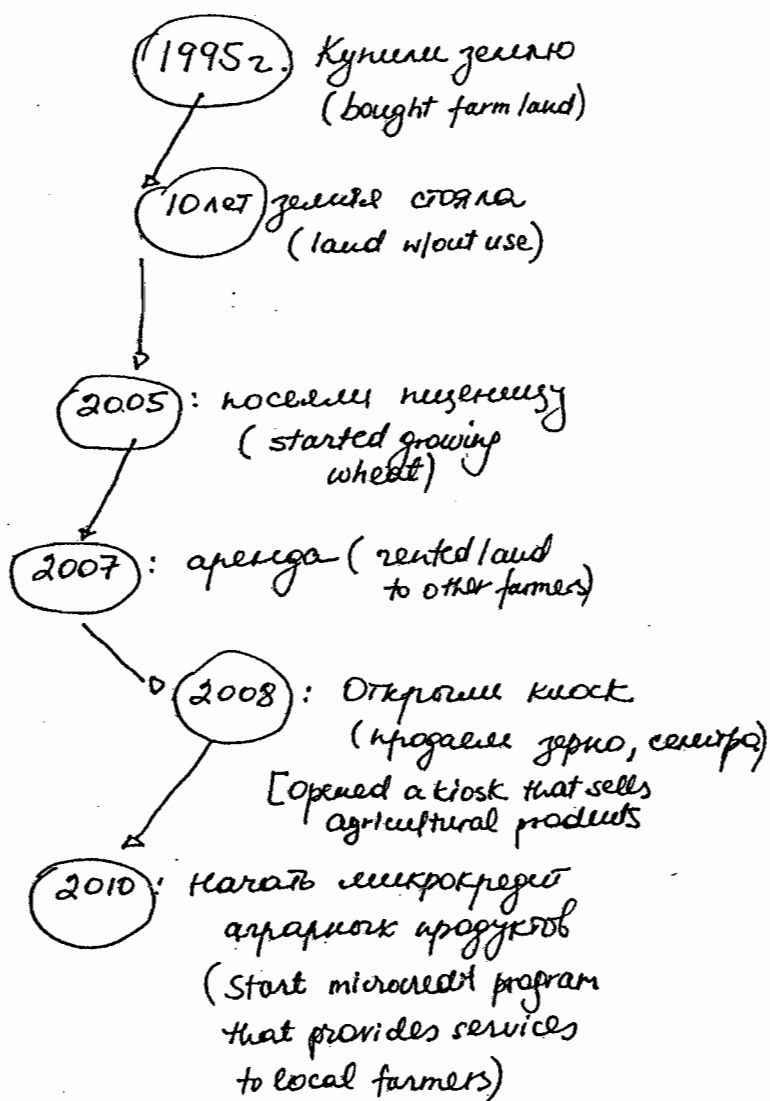
Focus Group Discussion in Uzgen (Aug, 2009)

Kyrgyz respondent.



This entrepreneur lives in the village of Kyzyl-Too, near Uzgen. He is a school teacher who works full-time, but after work he manages his small business where he tends to animals & sells them for meat in the local bazaar. He started his entrepreneurship in 2005 with a loan of 3,000 soms. He bought sheep, but eventually switched to cows & later added chickens. In the future he wants to invest in machinery (combiners, tractors, milking equipment).

Focus Group Discussion in Pokrovka
September, 2009



APPENDIX B

SEMI-STRUCTURED INTERVIEW QUESTIONS

1. Why did you decide to take out a loan?
2. Did you use your loan to start a new business, to fund existing business or to buy and sell merchant goods? Why did you choose this type of business?
3. How has credit changed your life? Positively? Negatively? Explain.
4. Which microcredit agency did you use to take out a loan? Why did you use this particular one?
5. In your opinion did your gender and/or ethnic and cultural background influenced your ability to receive the loan? Why? How?
6. What is the duration of your loan? How long have you been using microcredit?
7. How long did it take for you to receive the loan (bureaucratic procedures)? Did you experience any difficulties in receiving the loan? If yes, what kind? (e.g. governmental, nonprofit or businesses procedures).
8. What do you like and dislike about credit program you use?
9. In your opinion, are there any structural changes should be adopted by NGOs to administer loans? What procedures were excessive and not necessary? How can the process become more efficient?
10. In your opinion, what skills in addition to microcredit do people in Kyrgyzstan need to achieve success in starting or funding their businesses? (e.g. technical knowledge of machinery, accounting, marketing and other skills?)
11. What is your occupation/profession?

12. What is the structure of your family? Who is the primary bread winner in your family? How many people depend on your income?
13. How would you describe your ethnic background?
14. Are there any other benefits, besides financing your business, you gain from receiving credit? What does empowerment mean to you? In your case, how do you measure it?
15. Do you see any differences between women's and men's experiences in conducting business in your area?

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