



UNIVERSITY OF CENTRAL ASIA

GRADUATE SCHOOL OF DEVELOPMENT

Institute of Public Policy and Administration

Factors of Development and Obstacles to the Growth of Micro, Small and Medium-Sized Business in Gorno-Badakhshan Autonomous Oblast, Republic of Tajikistan

Olga Sayfulloeva

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OCCASIONAL PAPER #7, 2021

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Abstract: The Gorno-Badakhshan Autonomous Oblast (GBAO), located in the eastern part of Tajikistan, occupies 45% of the entire territory of the country but only 2.5% of its population. Only, 3% of GBAO's territory is suitable for living - mainly in the mountain river valleys. Agriculture is the mainstay of many GBAO districts with a significant part of the population engaged in livestock farming. This survey of 96 micro, small and medium businesses (MSME) conducted in 2019 focusses on this sector in three selected districts - Shugnan, Rushan and Darvaz, as well as in the city of Khorog. The survey also covers beekeeping, agricultural processing, trade, and tourism. This study presents the survey results and examines factors that promote growth and those that are barriers to MSME development in the region.

Suggested Citation: Sayfulloeva, Olga and Shoidarvozova, Marziya. "Factors of Development and Obstacles to the Growth of Micro, Small and Medium-Sized Business in Gorno-Badakhshan Autonomous Oblast, Republic of Tajikistan." University of Central Asia – Institute of Public Policy and Administration (IPPA) Occasional Paper №7, 2021, pp. 1-22.

Keywords: micro, small and medium business; social and economic development of business; survey; MSME; GBAO; Khorog; Shugnan district; Rushan district; Darvaz district.

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IPPA Occasional Paper Series Editor: Dr Bohdan Krawchenko.

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Abbreviations

CSG	Community savings group
GBAO	Gorno-Badakhshan Autonomous Oblast
BC	Big cattle
MSME	Micro, small and medium enterprises
SC	Small cattle
LLC	Limited liability company
UCA	University of Central Asia
KhoSU	Khorog State University
SPCE	School of Professional Continuous Education, University of Central Asia

Acknowledgements

The authors thank the Mountain Universities Partnership Programme (MUP) of the Aga Khan Foundation (Geneva, Switzerland), administered by the University of Central Asia, for supporting this research that was carried out within the framework of the MUP project “Building the research capacity of regional mountain universities through surveying the development of the micro, small and medium-sized enterprises (MSME) sector in Naryn oblast (Kyrgyz Republic) and Gorno-Badakhshan Autonomous Oblast (Republic of Tajikistan)”. The authors are grateful to the management and research group of Khorog State University for their assistance in conducting the survey. We also acknowledge Dr. Kanat Tilekeyev’s, Senior Fellow, Institute of Public Administration and Policy, University of Central Asia, assistance in designing the survey, and Zalina Enikeeva’s, Research Fellow, Institute of Public Administration and Policy, University of Central Asia, assistance in survey conduction.

1. Introduction

Gorno-Badakhshan Autonomous Oblast (GBAO) is an autonomous region since 2 January 1925. It is home to various culturally and linguistically distinctive Pamiri people. GBAO occupies 45% of the territory of the Republic of Tajikistan but only 2.5.% of the country’s total population since 93% of its territory is covered by mountains ranges.

The Pamir region has significant mineral. There are 12 deposits of 54 various ores of minerals that could be mined if there were appropriate investors and infrastructures. Of course, a major concern would be protection of fragile environments.

GBAO’s unique and stunning natural environment offers considerable potential for the development of tourism. Today, it attracts visitors from all over the world, most often hikers. Diversified livestock farming, as in Soviet times, remains the main economic base of GBAO. In the valleys with subtropical climates, vegetables and fruit are grown on the few flat areas, some of which are processed and exported to other regions of the country, as well as beyond. A constraint is that arable land constitutes only 12.3% of the region’s territory. The capital of GBAO, the city of Khorog, in the southwestern part of the oblast is an important regional trade, health, educational and transport centre. The Pamir Highway connects it to Dushanbe, the country’s capital and to the Kulma Pass on the Chinese border. The highway to the city of Osh in Kyrgyzstan that goes through the Murghab is open only during clement seasons and is closed in winter because of extreme weather conditions on this high- altitude plateau.

2. Review of the MSME sector in GBAO

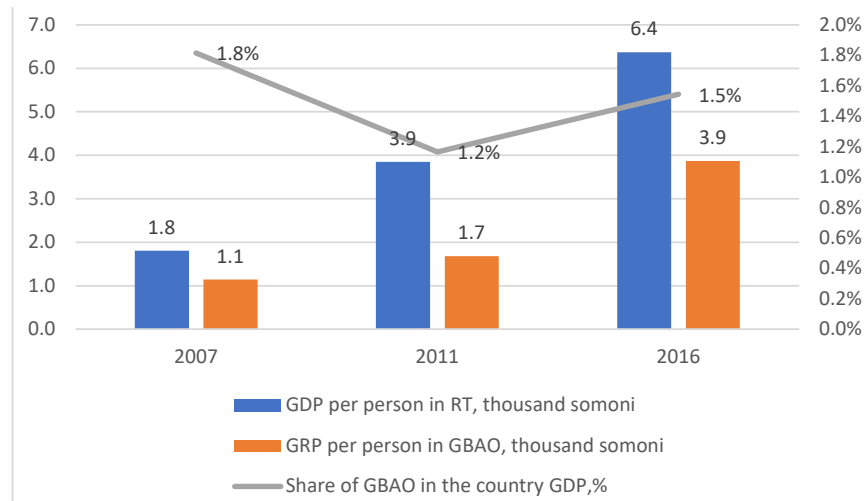
2.1. Role of MSMEs in rural areas of GBAO

GBAO consists of one city, seven districts and 43 rural jamoats (local government bodies) with a total population of 223,600 (2018), with 87% living in rural areas. The average population density in the region is 3.3 people per 1 km² of the territory.¹

¹ Statistical Yearbook of the Republic of Tajikistan “Population of the Republic of Tajikistan 2018”. - Dushanbe: ASRT, 2018. p. 9–10.

GABO is one of the poorest regions of Tajikistan and its economic growth is well below the national average. In terms of GDP per capita, in 2016 it was 48% lower than the national average. GBAO’s share of the country’s GDP declined from 1.8% in 2007 to 1.5% in 2016 (see Figure 1).

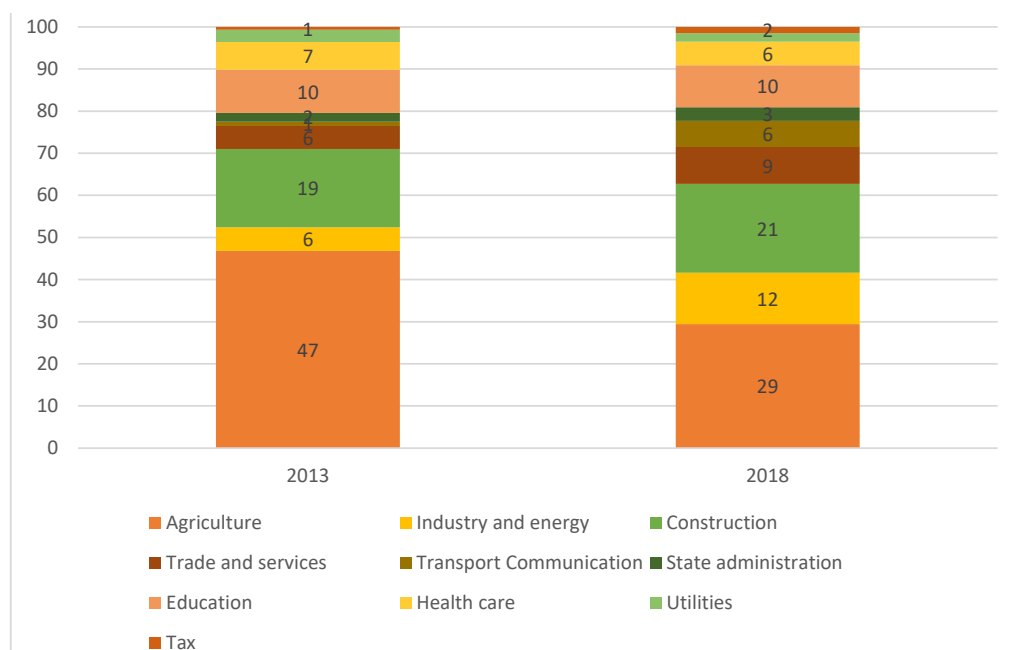
Figure 1. Share of GBAO in the country’s GDP and GDP per capita in 2007–2016 in % and thousand somoni per person.



Source: Statistics Agency under the President of the Republic of Tajikistan.

The structure of GBAO’s gross regional product (GRP) of GBAO has changed. Agriculture’s share declined from 47% in 2013 to 29% in 2018. Energy’s share of GRP has doubled, from 6% to 12%, and construction has grown to 21%. Overall, the non-agricultural economic sectors (energy, construction, trade, transport) account for 48% of GRP. The shares of education, health care, public administration, and utilities have remained practically unchanged.

Figure 2. Structure of the gross regional product by sectors in GBAO in 2013–2018, %



Source: Statistics Agency under the President of the Republic of Tajikistan.

The Gorno-Badakhshan Autonomous Oblast consists of seven districts and one city. Their varied climatic and geographic positions offer different economic opportunities. Briefly summarized:

The Darvaz district borders Afghanistan, across the Pyanj River. The district's climate is rather harsh - frosts and blizzards during in winter; in summer it is quite warm, and cotton, pomegranates, persimmons and figs are harvested. The Vanch district, located among the ranges of the western Pamirs, is a seismically unstable area. Residents of the district, despite the harsh climate, grow cotton and fruit trees, and tend to livestock in the valleys. Settlements of Roshtkala district are located along the Shahdara River. The local population is engaged in cattle farming, growing fruit trees and vegetables, and traditional crafts such as knitting clothes from sheep wool, etc. Ishkashim district, located in the southeastern part of GBAO in the upper riverhead of the Pyanj River at the entrance to the Wakhan Corridor, is an area distinguished by its historical monuments, including the ancient fortresses of Kahkaa and Yamchun that attract tourists. Wakhan is characterized by a rich world of fauna and birds: there are several species of wolves, argali, ibex, Bukhara ram (urial), snow leopard, bear, lynx, Indian goose, falcon and others. The Murghab district is the largest administrative and territorial unit not only of GBAO, but of the entire republic. The Kyrgyz are the majority of the population of this eastern territory that borders Kyrgyzstan, China and Afghanistan. It is difficult to access and is one of the most mountainous and harshest in Tajikistan, which is accounts for its sparse population. The district is rich in minerals such as table salt, limestone, granite, and coal, as well as anthracite, gold, silver, ruby and sapphire. The Shugnan district has a continental climate, and its population is largely engaged in agriculture. A wide variety of fruit and ornamental trees grow, for example, apple, pear, peach and mulberry, as well as legumes, potatoes and wheat. A significant part of the population is engaged in livestock farming. The Rushan district is known for its fruits and vegetables, potatoes, peppers, onions, eggplants, tomatoes, cucumbers, cabbage, and carrots. The city of Khorog is an important regional center of trade, transport and education; the Pamir Highway passes connects it with the cities of Dushanbe (Tajikistan) and Osh (Kyrgyzstan). A road to the Kulma Pass connects the city with China and is a major route for imports of goods from that country.

Figure 3. GBAO on the map of Tajikistan



Source: www.worldmap1.com

2.2. Legal framework for MSME in Tajikistan

According to the Law “On State Protection and Support of entrepreneurship”, business entities are individuals (citizens of the Republic of Tajikistan, foreign citizens and stateless persons) and legal entities (commercial organizations of residents and non-residents, branches and representative offices of foreign legal entities) that are engaged in entrepreneurship.² Business entities are divided into small, medium and large. However, individual entrepreneurs and legal entities carrying activities in the following spheres cannot be classified as small businesses:

- production of excisable goods
- supply of primary aluminum
- banking and insurance
- management of investment funds
- activity in the securities market.

² The Law of the Republic of Tajikistan «On state protection and support of entrepreneurship». № 7, s.2, p. 404; The Law of the RT as of 18.03.2015, № 1194; Law of the Republic of Tajikistan «On Amendments to the Law of the Republic of Tajikistan» On State Protection and Support of Entrepreneurship « № 1436 as of May 30, 2017; http://www.adlia.tj/show_doc.fwx?rgn=129488

Table 1. Classification of business entities by turnover

	Gross income per year, somoni³
Small	Under 50,0000 (five hundred thousand)
Medium	From 50,0000 (five hundred thousand) somoni to 15,000,000 (fifteen million)
Large	Above 15,000,000 (fifteen million)

Source: Law of the Republic of Tajikistan “On state protection and support of entrepreneurship” as of 18.03.15, No 1194.

MSMEs benefited from the 2012 state programme to support entrepreneurship that offered some credit and financial support through government subsidies and soft loans aim at increasing domestic production and exports.⁴ Current MSME legislation, however, remains complex and not readily understood by entrepreneurs. In February 2018, amendments and additions were made to the tax and customs codes in Tajikistan to improve taxation. The changes and additions include 30 benefits and simplifications to improve the investment climate and entrepreneurship in the real sector of the economy and in the service sector. However, there is little information on how these measures were implemented.

3. MSME survey in GBAO

In May 2019 a survey of micro, small and medium-sized enterprises was conducted. Five sectors were selected for the study: beekeeping, tourism (hotels, restaurants, cafes), livestock farming, and agricultural products processing, and trade.

The city of Khorog, the administrative centre, and Darvaz, Rushan and Shugnan districts, the most economically active in GBAO, were selected for the survey. The sample for this research was selected based on preliminary information received from representatives of the jamoats (local administration) about the MSME sector in their district. Then, using the “snowball” method, each village was divided into three and four segments, and with the assistance of local leaders the first people were contacted for the survey. These respondents then identified other households that were engaged various types of business. The final sample had 100 people from three districts and the city of Khorog and various sectors (see Table 2).

³ During the period from 2001 to 2019, the exchange rate of the Tajik somoni to the US dollar fell from 2.20 somoni to 9.43, more than four times. Source: <https://nbt.tj/ru>

⁴ State program for supporting entrepreneurship for 2012–2020 №. 201 as of April 30, 2012.

Table 2. Survey geography and sample size

Districts and the city	Agricultural products	Beekeeping	Livestock farming	Tourism	Trade	GBAO
Darvaz district	7	6		7	5	25
Rushan district	8			7	5	20
Khorog	4	2		14	12	32
Shugnan district	6	2	10		5	23
Total	25	10	10	28	27	100

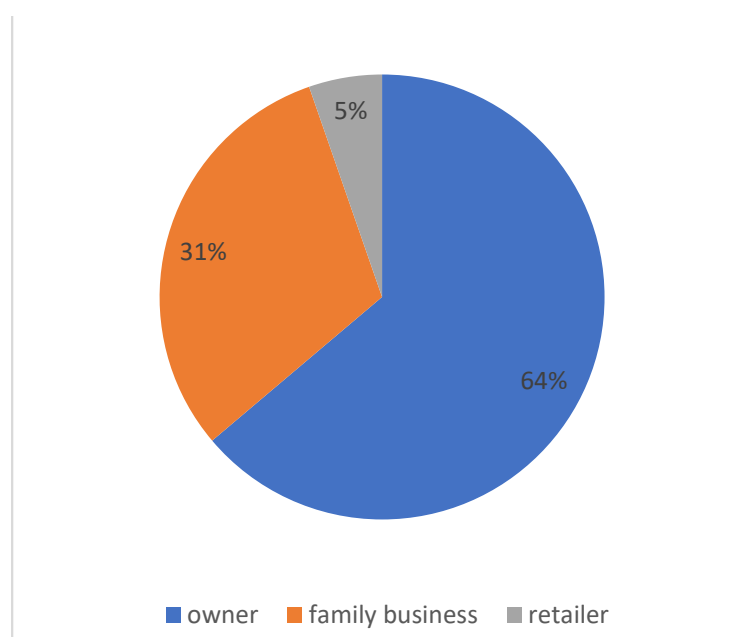
Source: Survey data

4. Main survey results

4.1. MSME profile in GBAO

Out of 100 respondents interviewed, 96 entrepreneurs provided full information. Of this total, two thirds were either the sole or co-owners of the business, 31% of respondents worked in a business owned by the family and 5% were employees (see Figure 4).

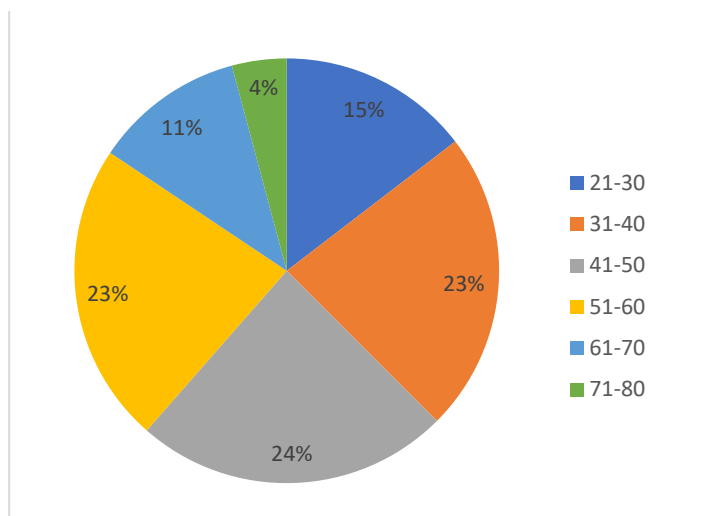
Figure 4. Business Ownership Status, % n=96



Source: Survey data

Relatively few young people are entrepreneurs – 15% of respondents were between the ages of 21-30. The largest age groups range from 31 to 60, with those over 60 accounting for 15% of the total (see Figure 5). In terms of gender, only 25% of entrepreneurs were female.

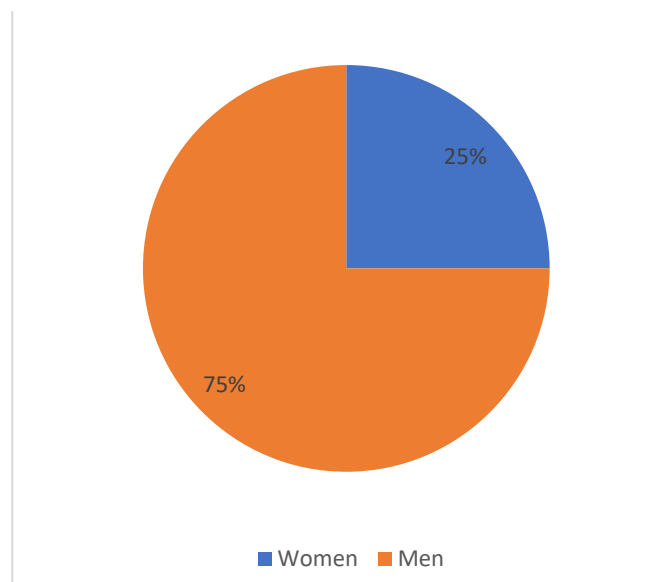
Figure 5. Age of entrepreneurs, % n=96



Source: Survey data

Entrepreneurs who had over 11 years of experience in operating their current business were 39% of the sample, and those with six to ten years of experience represented 26% of the total. Over a third were relative newcomers one to five years of involvement in their business.

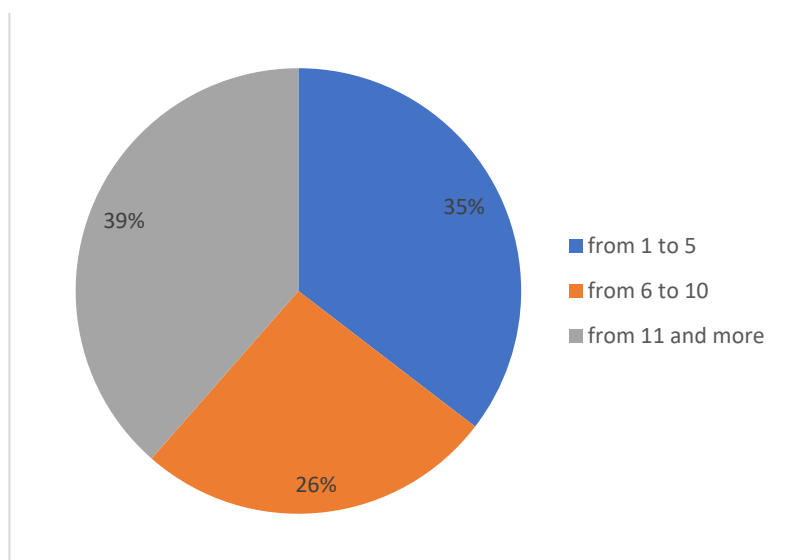
Figure 6. Experience in the existing business, in years, n=96



Source: Survey data.

The entrepreneurs are well educated group with almost 60% of respondents having completed higher education in fields such as technical sciences, pedagogy, law, and economics and business. Only two per cent had incomplete secondary education levels (see Figure 7).

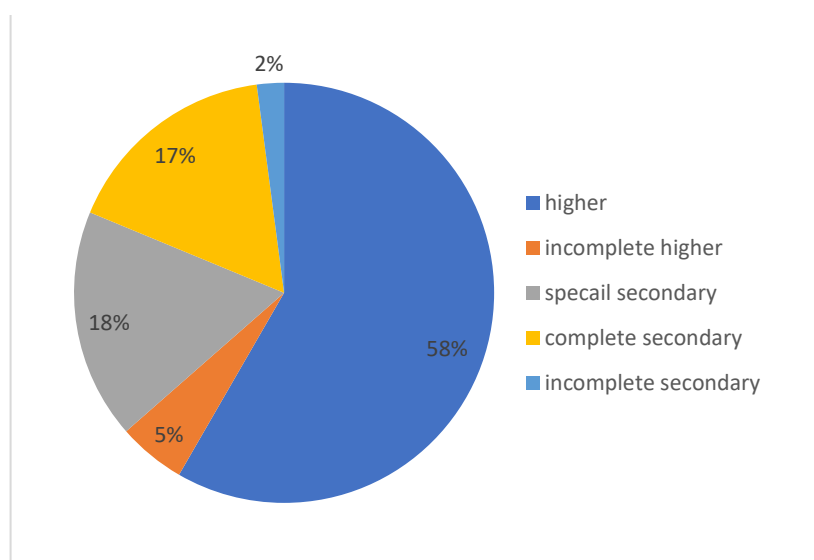
Figure 7. Education of entrepreneurs, % n=96



Source: Survey data.

In general, the dominant profile of entrepreneurs is a male, 30-60 years of age with higher education and more than six years of experience in their current business. Their main purpose of doing business is to generate a profit (57%) or because they have no other source of income (see Figure 8).

Figure 8. Main purpose of doing business, % n=96

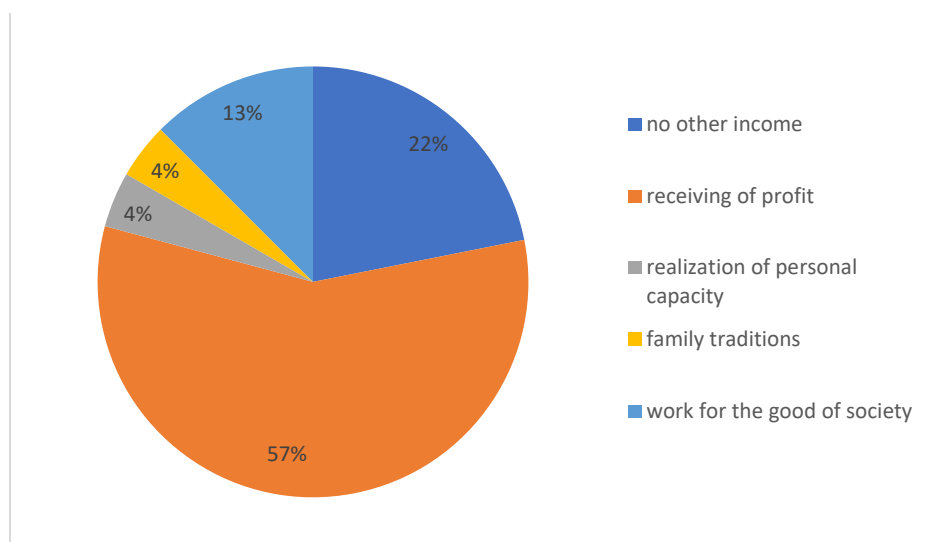


Source: Survey data

A substantial proportion of business (41%) are not registered and 27% hold a patent. Those holding a patent (lump sum tax) do not have to form a legal entity or keep financial records. Their income cannot exceed 100,000 somoni and they are not allowed to hire staff or engage in export activities. Thus, being unregistered and operating under a patent limits the growth of businesses. At the same time, 21% of respondents hold a 'certificate' that does not require forming a legal

entity. However, certificate holders pay a fixed tax regardless of the income receive and accounting is mandatory. While their income cannot exceed one million somoni,⁵ they can hire workers and engage in foreign economic activity. Eleven percent of entrepreneurs have a limited liability company (see Figure 9).

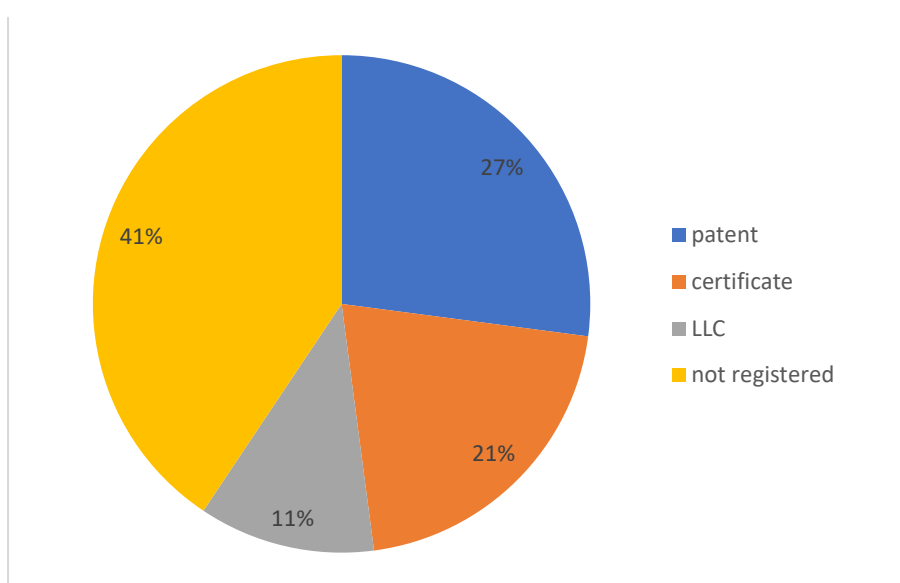
Figure 9. Form of doing business, % n=96



Source: Survey data

Of those interviewed, 64% run their business using their own capital, while 22% of respondents took loans from commercial banks and 10% from microcredit organizations. This points to significant problems of the ability of MSME's ability to secure capital at affordable interest rates for their operation and growth (see Figure 10).

Figure 10. Sources of capital for operating a business, % n=96



Source: Survey data

⁵ \$106,000 at the rate of \$1=9.43 somoni.

4.2. Review of agricultural activity

The limited availability of land constrains agricultural activity in GBAO. Only 4% of the territory or 17,107 hectares is comprised of arable (irrigated) land. Other lands for agricultural activity include: 8,127 hectares for hayfields, 4,519 – household plots, 1,078 – orchards, 1,452-perennial trees, 473,224 – pastures, and 20,219 hectares of forests. Nonetheless, agriculture still accounts for the largest share of GBAO's gross regional product although its role is decreasing. This study focusses on livestock farming the processing of agricultural products.

4.3. Livestock farming

Raising cattle is one of GBAO's main agricultural activities. It is particularly significant in the Shugnan district which was the focus for the survey that was carried out in four villages and involved 10 respondents (see Table 3).

Table 3. Sample of respondent farmers by villages in Shugnan district

District	Jamoat	Village	Sample of livestock farmers
Shugnan district	Vankala	Mienshar	4
		Imom	3
	Ver	Shitam	3
Total			10

Source: Survey data.

The respondents had 1,010 heads of big and small livestock (see Table 4). Almost 80% of stock are sheep and goats. Their total revenue for 2018 was 244,012 somoni, or \$25,900.⁶ The annual offspring amounted to 133 heads, of which 42 were big and 91 were small cattle. The farmers indicated that many of them use both small and big cattle for their own consumption, to pay for the education of their children and other needs. Moreover, farmers lose 7% of their livestock due to theft, disease, harsh climate or attacks by wolves. Many farmers noted that they lost cattle because of lack of sheds to keep them during winter months.

Table 4. Composition of cattle

	Number
Cows over two years old	50
Bred heifers, young herds	19
Bulls and oxen	116
Calves	30
Sheep	307
Ewes	182
Lambs	177
Goats	129

Source: Survey data.

⁶ The official dollar exchange rate in Tajikistan as of 09/01/2018 was 9.4213.

Half of the respondents inherited their farms and the others entered livestock farming using their own resources. All indicated they use their own savings to develop their business. Moreover, seven out of ten respondents stated that they were engaging in cattle farming is to make a profit, while the rest cited family traditions or the absence of other opportunities for earning an income as the reason why they were in this sector. Out of ten respondents, seven did not register their business, two work under a certificate and one holds a patent.

Livestock farmers produce meat and milk, and wool that is used in making folk craft products. In 2018, 117 kg. of wool was produced that sold at \$7 per kilogramme. This wool is used by local women to produce hand-made tradition products such as shawls, scarves, slippers, socks (djurab) which, are mainly bought by foreign guests and tourists. Wool has a larger market and is also sold in Dushanbe and Osh (Kyrgyzstan). Meat and milk are sold locally.

Livestock farmers identified some barriers to doing business. These include:

- the low purchasing power of the population
- attacks by wolves
- lack of sheds for cattle
- high transport costs
- lack of refrigeration facilities for farmers and wholesalers
- high loan rates.

4.4. Agricultural products processing

The study focused on districts where mulberries, apricots, apples, walnuts, sea buckthorn and pomegranates were produced and processed. It was carried out in three districts as well the city of Khorog where 25 respondents were identified with 23 providing complete answers.

Table 5. Final sample of the agricultural processing sector

District	Jamoat	Village	Sample by districts
Shugnan district	Suchon	Bogev	1
	Vankala	Pathur / Miyosharv	1/1
	Porshnev	Middenshore / Pashore	1/1
	Sh. Mirzochonov	Sokhcharv	1
Rushan district	Rushan	Derzud / Derushan / Barushan	2/3/3
Darvaz district	Kalaikhumb	Kalayhumb / Shirg	2/1
	Nulvand	Yeged / Khostav	2/2
Khorog	Sh. Shotemur Avenue		4
Total			25

Source: Survey data.

Of the 23 respondents, 68% were males, most of whom were 51-60 years of age. The majority (80%) were engaged in the cultivation and processing of vegetables and fruits, in particular, the production of apple juice, various types of jams, dried fruits, the production of an environmentally friendly mulberry bar (tut), as well as the conservation of tomatoes and cucumbers. A smaller group (20%) produced sea buckthorn oil. Most respondents hired workers on a seasonal basis.

Most respondents (59%) did not formalize their business; 22% held a patent; 5%, a certificate, and 14% a limited liability company. Only one of the 22 respondents had a loan from a commercial bank, and the rest used their own resources to grow their businesses.

The majority of respondents (80%) that grow vegetables and fruits do only basic processing. Only 20% have fruit processing lines for washing and cleaning fruits, drying, packing and packaging fruits, as well as choppers and juicers. Sea buckthorn oil entrepreneurs mainly use only household tools and ordinary glass jars as packaging materials.

As for the distribution channels, 72% of respondents sell their products in their own, 20% through intermediaries and only 8% sell both themselves and through intermediaries. Sales points are either in the respondents' village or the local bazaar. Only 5% of respondents exported their products to other regions of Tajikistan and 1% to other countries (see Table 6). Exporting GBAO products to foreign countries is unlikely to develop because of transportation costs, various certification and legal requirements, and the lack volume to justify such an undertaking. For example, only a quarter of respondents had quality certificates. However, half of the respondents are actively pursuing markets beyond their immediate localities and 20% found new sales channels. Five respondents secured contracts to sell their products at large food stores in Dushanbe.

Table 6. Marketing channels, n=23

Marketing channels		Sale of goods	
Themselves	72%	In their village	44%
Through intermediaries	20%	Local bazaar	50%
Themselves and through intermediaries	8%	Other regions	5%
		Outside the country	1%

Source: Survey data.

This agricultural sector faces numerous problems exemplified by the fact that 80% of respondents have no equipment of any kind. This limits production that is already constrained by the shortage of land. Other factors limiting growth are remoteness from markets, underdeveloped infrastructure for storage and transport, the low purchasing power of the local population, and the high cost of credit that makes purchasing equipment an expensive proposition.

4.4.1. Review of retail trade

Districts where trade is a significant activity measured by the number of entrepreneurs in this sector were selected for this study. These districts also have the densest populations. Thus, the survey was carried in the city of Khorog, Darvaz, Rushan and Shugnan districts. The selection of respondents was based on information from tax authorities, reports of the regional administration, as well as the chairmen of jamoats and community leaders (see Table 7).

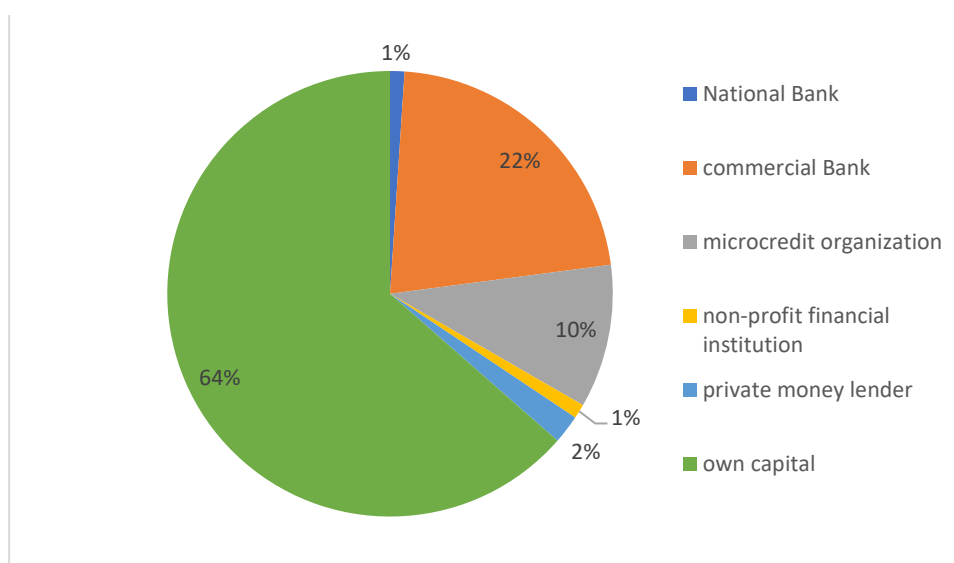
Table 7. Final sample of trade entrepreneurs

District	Jamoat	Villages	Target sample
Shugnan district	Suchon	Dashtak / Bogevo	1/1
	Navobod	Debasta / Mun	2/1
Khorog	Sh. Shotemur Avenue		8
	I. Somoni Avenue		4
Rushan	Ruchon	Vamar / Derzud	3/2
Darvaz	Kalaikhumb Kalaikhumb	Kalaikhumb / Dashtak	3/2
Total			27

Source: Survey data

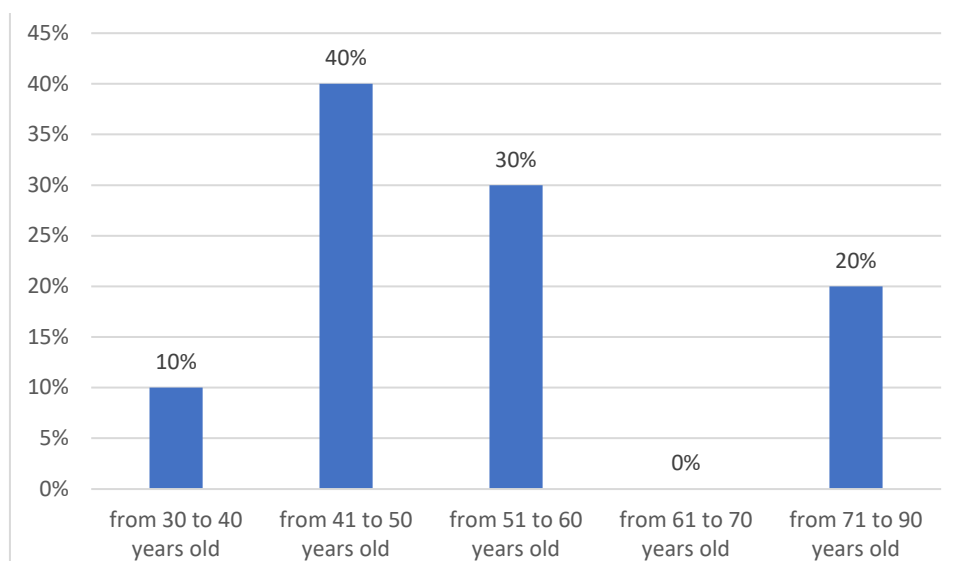
Seventy per cent of respondents are males and have substantial experience in their business with half have been engaged in their business for more than 10 years and over a quarter, more than five years (see Figure 11). This is an educated group with 63% having completed higher and 22% secondary specialized education.

Figure 11. Duration of doing business, n=27



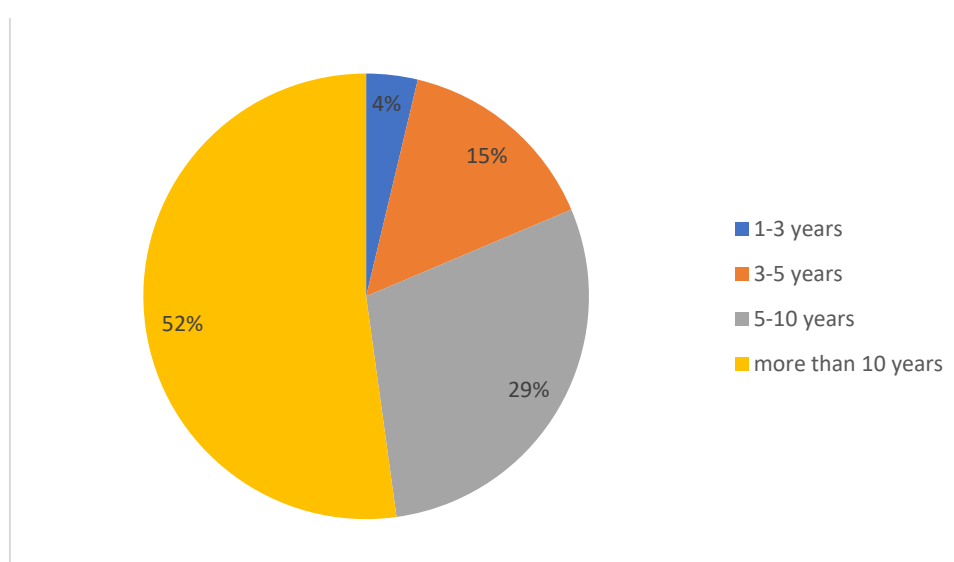
Source: Survey data

Unlike the sectors examined above, in the case of trade, only two of the 27 operate an unregistered business. Two-thirds have a patent and a quarter a certificate (see Figure 12).

Figure 12. Business legal status, n=27

Source: Survey data

Most retail traders (67%) take loans from banks or microfinance organizations to finance their businesses, and 22% use their own resources. Two respondents turned to private lenders and one community-based savings groups whose Tajik acronym is GACHA. GACHA were established with the support of the Aga Khan Foundation as a non-commercial alternative to loans. However, these groups of self-selected individuals who save together and make small loans do not generate sufficient funds to be able to spur business development (see Figure 13).

Figure 13. Sources of capital, n=27

Source: Survey data

Two thirds of respondents invest in their business to increase turnover or purchase new equipment. The rest do not invest because they feel they are unlikely to recoup the outlay. In terms of the assortment of goods, respondents think they are satisfactory to satisfy the needs of the GBAO

market. Respondents source their goods primarily from GBAO’s wholesale markets and local suppliers. Only five respondents obtained their goods from Dushanbe, and one from the Kyrgyz cities of Osh and Bishkek.

Respondents note that the number of entrepreneurs engaged in trade has increased in the last two years creating a highly competitive market. Two-thirds feel that because of this there are fewer opportunities to occupy a more profitable market niche. In terms of barriers to doing business, GBAO’s geographical location is seen as the most important factor by 12 of the 27 respondents, ten mentioned inspections by government agencies, and five – poor infrastructure.

4.4.2. Beekeeping

The beekeeping sector was examined by interviewing ten entrepreneurs in Darvaz, Shugnan districts and the city of Khorog. All operated without registration and had been in the business for over fifteen years. Except for those engaged in the breeding of bees, all are engaged in the production of honey, propolis, wax and royal jelly. Output varies significantly – one produces 200kg of honey per season and another, 3000kg. Consequently, revenues range from \$1,000 to \$13,000 per year. Climatic conditions and bee diseases impact revenues. Six out of ten respondents indicated they lose up to five colonies per year. Five also produce propolis, two – beeswax, and two, small quantities of royal jelly.

Table 8. Final sample of beekeeping enterprises

District	Jamoat	Village	Target sampling of a rural household
Darvaz district	Kalaikhumb	Kalaikhumb	2
	Sagridasht	Sagridasht Sagir	2 2
Shugnan district	Porshnev	Middensharve	2
City of Khorog	Microdistrict Sharifstroy		1
			1
Total			10

Source: Survey data.

Honey is sold to customers for personal consumption and to individuals for further sale. In addition to the local population, honey consumers include entrepreneurs from Afghanistan, China and Japan who often purchase these products from their business acquaintances in Khorog and Dushanbe. However, none of the respondents made any effort to expand their business or increase the volume of production or attract new buyers. Producers aim to sell their produce in local retail and wholesale markets. Most do not even think about exporting their products.

Most of the respondents move their hives to more open places where an abundance of nectar-bearing plants prevail, and only two leave their hives in the mountains or in orchards and vegetable gardens. Small mobile apiaries held by 12-25 families are located throughout GBAO. The Darvaz district is a leader in the development of beekeeping and honey production, where beekeepers consist of up to 100 families. Despite the general high level of demand for these products, beekeeping in GBAO remains at an artisanal level. None of the respondents received specialized training in this field.

Entrepreneurs in this sector have little information about markets. They use traditional methods

to check the quality of their output. This sector is underdeveloped. It has few qualified specialists and uses virtually no contemporary equipment. There is little state support for its growth. The geography offers insufficient territory for bees to forage. Nonetheless, with some specialized training, the existing endowments can be used more productively.

4.4.3. Tourism

GBAO's spectacular nature attracts a good number of travelers from Europe, Asia, USA, and CIS countries. The Pamir Mountains were listed in 2019 as one of the best tourist regions in the world.⁷ The government's announcement of the Year of Tourism and Folk Crafts Development in 2018 gave impetus to the development of this sector. As a result, the number of travel companies in the region increased from six to 24. There was a marked increase in the number of new hotels and local residents outfitted their houses for homestays. Today the number of small hotels in the region has reached 150 with hundreds of families receiving additional sources of income and jobs⁸.

This survey examined tourism in two districts of GBAO and the city of Khorog and involved 28 entrepreneurs, of whom 11 were engaged in the restaurant business and 17 operated hotels. The selection of respondents was made based on data obtained from representatives of districts and jamoats.

Table 9. Final sample of tourism entrepreneurs

Districts and the city	Jamoat	Village	Target sample of tourism entrepreneurs
Darvaz district	Kalaikhumb	Kalaikhumb	5
		Dashtak	1
		Durobak	1
Rushan district	Vamar	Vamar	3
		Derzud	1
		Barushan	1
		Derushan	1
		Kalot	1
Khorog	Sh. Shotemur Avenue		7
	I. Somoni Avenue		7
Total			28

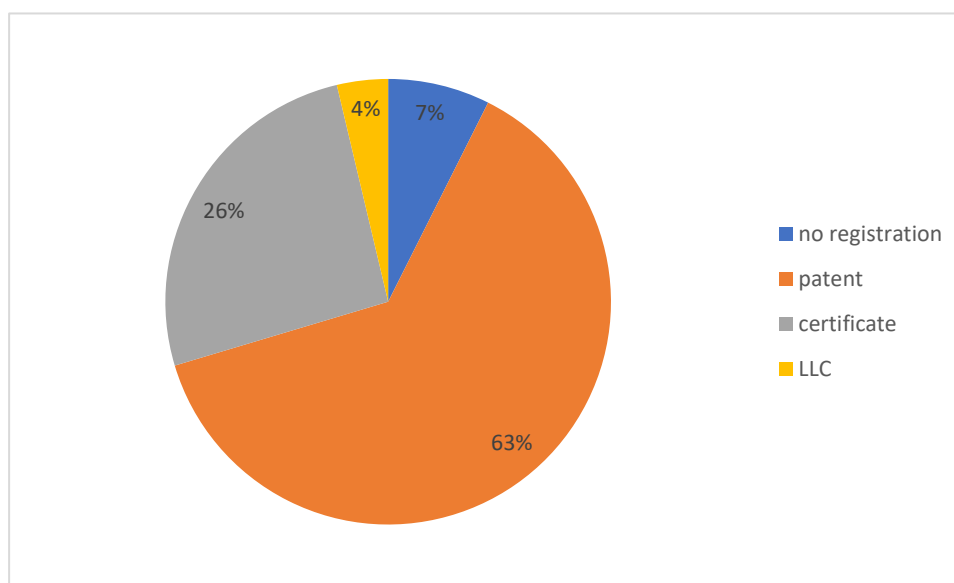
Source: Survey data.

In terms of registration, limited liability companies are the largest group, followed by businesses that operate on a patent or certificate. A quarter have no legal registration (see Figure 14). Almost three-quarters of entrepreneurs are males who also involve other family members in their business. Most of the unregistered entities are homestays. There are 152 homestays in the Pamir region linked to the Pamir Environmental Cultural Tourism Association (PECTA), of which, 19 are in the city of Khorog where six hostels also located.

⁷ "Active development of the tourism sector is observed in GBAO". <https://www.dialog.tj/news/v-gbao-otmechaetsya-aktivnoe-razvitiye-sfery-turizma>.

⁸ Ibid.

Figure 14. Business registration form in the tourist sector, n=28



Source: Survey data

Overall, most respondents have higher education although none was in the tourism field. In the restaurant sector however, more than half of respondents had educational qualifications directly related to their business. Out of 28 respondents, 12 had participated in some specialized training courses in tourism. In terms of the workforce in the tourism sector their training is through mentorship by the owners.

Indicative of the recent development of this sector is that 10 of 28 respondents have been in business from one to three years. In terms of employment, 19 respondents indicated they hire additional personnel who are most often relatives. Tourism is highly seasonal with hotel and homestay occupancy peaking in the summer. The restaurant business that has a local clientele operates at some 50% capacity during other seasons.

Most of hotel employees speak Russian and English that helps serving foreign clients. However, few hotels advertise on sites such as [booking.com](https://www.booking.com), Facebook or Instagram. The high cost of high-speed internet in GBAO is a limiting factor. Respondents identify the lack of financing and relevant skills as important barriers to the growth of the hotel sector.

5. Conclusion

The small and medium-sized business sector provides employment to many people in GBAO, creating a significant share of the region's gross regional product. MSME face significant difficulties. The main factors limiting entrepreneurship include, firstly, the remoteness from the capital, the country's transport hub, making the supply of goods and raw materials more costly, and secondly, the small size of GBAO's market.

Some GBAO businesspeople urge the development of business associations and cooperatives that by pooling resources could make the MSME sector more productive and provide better access to

various markets. Access to loans at reasonable interest rates is major issue. Community savings groups are unable to meet the financing needs of MSME. Assistance in the form of soft loans for MSME development could accelerate the economic development in the region.

Lack of relevant skills and know-how is another factor constraining MSME growth. Except for the restaurant business, very few entrepreneurs have an educational background that relates to their business. Short courses on relevant topics, including legal literacy could fill this gap. Such courses would have to be appropriately marketed since this study found that many entrepreneurs do not think they do not need training.

Efforts by local residents to improve MSME performance are insufficient to address the problems of this sector. A government special programme for MSME development in GBAO is required. It could support the establishment of business incubators offering information and consultations on technologies, financing and legal issues, as well as support the development of business associations and cooperatives, and public-private partnerships. Finally, the MSME sector, critical for job creation and economic growth, needs more research and innovative solutions that could offer new approaches to its development.

