

Exploring the Possibility of Using Microfinance Institutions for the
Promotion of Small and Medium-Sized Enterprises in Tajikistan

by

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To

My Parents, My Grandmother

and Saroj Kafle

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DECLARATION

I, hereby declare that this thesis titled, “Exploring the Possibility of Using Microfinance Institutions for the Promotion of Small and Medium-Sized Enterprises in Tajikistan” is my individual work with supervision of Professor TSUKADA Shunso. Therefore, I have acknowledged all the sources that I used by following appropriate referencing method.

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LIST OF ABBREVIATIONS

ABT	Association of Banks of Tajikistan
ADB	Asian Development Bank
AMFOT	Association of Microfinance Organizations of Tajikistan
AMFOK	Association of Microfinance Organizations of Kazakhstan
AMFIK	Association of Microfinance Institutions of Kyrgyz Republic
CBN	Central Bank of Nigeria
CIS	Commonwealth of Independent States
CFI	Cooperative Financial Institution
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
GBAO	Gorno-Badakhshan Autonomous Oblast
GDP	Gross Domestic Product
GNI	Gross National Income
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
HDI	Human Development Report
IBR	Islamic Bank of Reconstruction
IFC	International Finance Corporation
IMF	International Monetary Fund
MCC	Microcredit Companies
MCO	Microcredit Organization
MCF	Microcredit Fund
MDO	Micro Deposit Organization
MFO	Microfinance Organizations
MFA RT	Ministry of Foreign Affairs of the Republic of Tajikistan
MFI	Microfinance Institution
MF RT	Ministry of Finance of the Republic of Tajikistan
MEDT RT	Ministry of Economic Development and Trade of the Republic of Tajikistan

MOU	Memorandum of Understanding
NABWT	National Association of Business Women of Tajikistan
NASMB	National Association of Small and Medium-Sized Business of Tajikistan
NBT	National Bank of Tajikistan
NGO	Nongovernmental Organization
PPP	Purchasing Power Parity
RRS	Regions of Republic Subordination
SME	Small and Medium-Sized Enterprise
SPSS	Statistical Package for the Social Sciences
SHG	Self-Help Groups
TAJSTAT	Agency on Statistics under the President of Tajikistan
UNDP	United Nations Development Program
VAT	Value-added Tax

GLOSSARY

Microcredit	Under the Tajikistan legislation microcredit could be defined as credit provided to the borrower by a credit organizations (MFOs or banks) on the terms of interest and loan repayment for a specified period (Law “About Microfinance Organizations” from 16 April, 2012 № 816).
Microfinance Organizations (MFOs)	Microfinance Organizations (MDOs, MCOs, MCFs) are credit organizations involved in microfinance activities under the license of the NBT (Law “About MFOs” from 16 April, 2012 № 816).
Microcredit Deposit Organization (MDO)	Microcredit deposit organization is a legal entity which is established in order to attract deposits, savings and microcredits in the manner prescribed by Law “About MFOs” from 16 April, 2012 № 816.
Microcredit Organization (MCO)	Microcredit Organization is a legal entity which is established to provide

microcredit in the manner prescribed by the Law “About MFOs” from 16 April, 2012 № 816.

Microcredit Fund (MCF)

Microcredit Fund is a non-profit legal entity established in the manner prescribed by Law “About MFOs” from 16 April, 2012 № 816 with the goal to provide microcredits to borrowers.

ABSTRACT

Development of Small and Medium-sized Enterprises (SMEs) play a vital role in the economic development of the Republic of Tajikistan, and the SMEs segment is one of the most effective and integral form of business organization that would have significant impact on the economic development of Tajikistan. SME's can also contribute to the living standards of consumers through the provision of high quality products and services from local production (Madumarov, 2011). However, the SMEs sector of Tajikistan is still weak due to some constraints, thereby hindering development in Tajikistan. To ensure its growth it is necessary to create an institutional environment conducive to the development of the SMEs sector.

Microfinance is one of the most dynamic development sector within the financial sector of Tajikistan. The current situation of microfinance in Tajikistan is different from the period of its establishment. The real operations of microfinance in Tajikistan appear to have drifted from its original purpose of operation (i.e. helping poor to start business or overcome their problems) towards a quasi-commercial operation. Microfinance is now lending money not only to the poor people, but also to the commercial and industrial institutions, and SME's with stronger business orientation. Having seen the evolution of microfinance, it would be better to accept this emerging form of operation by endorsing and making it official, rather than requesting them to go back to the original form of

operation. Besides, this would also benefit the SMEs sector because of the better access that the SMEs would have for financing.

One of the solutions for the growth of SMEs could be the full utilization of the microfinance sector, which is capable of offering financial resources to SMEs, especially those engaged in production activities. In this regard, it is necessary to improve the mechanism of the microfinance institutions (MFIs) that are more tuned to the SMEs sector not only in the large cities but also in the rural areas and mountainous region.

This study therefore aims to find out possible ways SMEs could gain better access to microfinance sector.

Primary data and secondary data were employed to fulfill the research objectives. The primary data were acquired through a survey making use of questionnaires, interviews and the secondary data were acquired from Tajikistan. The collected data was evaluated using Excel and SPSS statistical tools to determine the detailed profile of SMEs in Tajikistan, the contribution of MFIs to the SMEs growth, the difficulties encountered by SMEs in accessing credit and the interest rate of credit exploitation by the SMEs. The result showed that microfinance has a positive effect on the growth of SMEs in Tajikistan in terms of access to finance. It was also found out that access to credit, which was one of the major challenges of the SMEs, could be reduced to a large extent through the operations and expanding of MFIs in Tajikistan. Furthermore, the findings also showed that if MFIs and other formal sectors will decrease interest rates, interim

period access to finance, bureaucracies and other issues, it would go a long way in increasing SMEs involvement in the microfinance sector. This research found that despite the difficulties regarding obtaining loan from MFIs by SMEs, they firmly want to continue their cooperation with MFOs because that is the only real way to get credit and with the most appropriate conditions.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

In the transition of the Republic of Tajikistan to the market economy and formation of market relations, development of entrepreneurship has had a positive impact on socio-economic growth of Tajikistan. But this effect will be noticeable only if Small and Medium-sized Enterprises (SMEs) in Tajikistan functions effectively.

Therefore, development of SME is an integral part of the market system that corresponds with objectives of economic reforms in Tajikistan. Furthermore, it helps to promote healthy competition in the economy and ensures high quality of life. The SME segment plays a crucial role in the economic development of Tajikistan as it is one of the most effective and integral forms of business organizations that have significant impact on the economic development of the country. Moreover, it has uplifted the living standards of consumers with high quality products and services from local production, and has contributed to the enhancement of quality of life in various economic aspects. Finally, the growing employment will also help in increasing tax payments, which contributes to the national budget (Madumarov, 2011).

The total number of SME is just over 3% (Tax Committee, 2013), of the total population. This is very small such that we can argue that there is a need to spend more efforts on increasing the numbers of SMEs. The Country should increase the number of entrepreneurs, including the number of SMEs in order to improve upon the living standard of population. This would go a long way to grow the Tajikistan economy. Under the current conditions, development of the national economy depends on the level and quality of private sectors. Therefore, it is necessary to take into account that the development of SME often affects decisions relating to the improvement of mechanisms of a free economy, financial reforms, banking and insurance organizations, simplify the tax system that may contribute to the support and development of SME in the country (Zikirov, 2012).

According to international experts such as Burkle (2010) and Pandya and Wilkinson (2011), SMEs in Tajikistan are currently facing many difficulties. The main obstacle experienced by SMEs is that it lacks resources both in logistics and in finance. Other internal factors that objectively restrict SMEs development in Tajikistan are as follows:

- Geographical location of Tajikistan. Tajikistan is a landlocked country lacking quality communications and transport infrastructures, making it difficult to access world trading and market centers;
- Power shortages or blackouts especially during winter and also lack gas and oil, which is a basic requirement;

- Unstable economy in Tajikistan that does not allow the Government to finance the SMEs' development programs adequately. Also, the Government is striving to enforce stringent tax system because 80% of state budget revenues come from tax;
- Insufficient market in the domestic level;
- Unfavorable credit conditions of banks with high interest rates and cumbersome bank processes and etc.

In view of the abovementioned factors that adversely affect SMEs development, it is necessary to uncover practicable solutions. One solution for growth of SMEs can be the microfinance sector, which is able to provide financial resources to SMEs and is very important in production activities. Therefore, it is necessary to improve the mechanism of the MFIs that contributes to the SMEs development, not only in the large cities but also in the rural areas and mountainous regions (Madumarov, 2011).

Microfinance is one of the most dynamic development sectors of the financial market in Tajikistan. And in Tajikistan, for the last 16 years, it has become an important element for the access of finance to the people who are in the need of financial support. It is an active and direct contributor to the country's development. It also contributes in economic sectors and the SMEs. At the moment, the microfinance sector is the bridge that can solve the problem of accessing finance for the different layers of population, where other financial

institutions cannot reach. The purpose of microfinance is to provide access to financial resources and modern financial services to individuals and business entities that are not able to use traditional banking services. It is well known that banks do not like to provide financial support through the provision of loans to beginners or new entrepreneurs and businessmen (Microfinance, 2012).

The current situation of microfinance in Tajikistan is different from the period of its establishment. The real operations of microfinance in Tajikistan appear to have drifted from the original purpose of its operation (i.e. helping poor to start business or overcome their problems) towards a quasi-commercial operation approach. Microfinance is now lending money not only to the poor people but also to the commercial and industrial institutions including SMEs sector, with stronger business orientation. Actually, the current operation of the micro finance has been polarized into two divisions:

- (i) For serving the traditional area of micro finance (the poor or the socially vulnerable segment;
- (ii) For serving small-scale business operations in urban areas.

While the former may deserve being assisted by aid agencies, the latter does not. The latter segment of the MFIs should be restructured to one with explicit objective of assisting the SMEs segment of the economy. If the business operations of the latter segment of the MFIs has been explicitly redefined and

refocused, it could potentially serve well for the SMEs¹. This research is intended to explore this possibility.

1.2. Research Questions

The main research question of this study is; how do SMEs get access to credit in Tajikistan and what is the role of microfinance in facilitating SMEs access to credit.

To answer the main research question, following sub-questions were developed:

- What is the present condition of SMEs and the microfinance sectors in Tajikistan?
- What are the current issues affecting the growth of SMEs in Tajikistan?
- What has the Association of Microfinance Organizations of Tajikistan (AMFOT) done to improve the situation of SMEs?
- What kinds of legislation have been passed regarding SMEs and microfinance in Tajikistan?

1.3. Research Objectives

The main objective of this research is to find out possible ways of how SMEs can access credit in Tajikistan and the role of microfinance in facilitating SMEs' access to credit.

¹ Data was received from conducted observation of MFIs in Tajikistan on February 2013 by author and developed with Supervisor TSUKADA Shunso

Research sub-objectives

- To determine possible ways that contributes to profitable growth and sustainable development of SMEs in Tajikistan.
- To analyze the current issues affecting the profitable growth of SMEs in Tajikistan
- To find out means and mechanisms that can promote SMEs to have better access to microfinance resources.
- To analysis the existing legislations on SMEs and microfinance as a basis of adopting appropriate legislation;

1.4. Significance of the Study

It is worth mentioning that many studies have been conducted on the relationship between microfinance and SME's development. It was observed from literature, that most of research works treated microfinance as a solution to poverty. And it is also important to notice that the impact of microfinance on SMEs development have not been deeply explored in the literature, especially in Tajikistan. Most researches in Tajikistan have observed microfinance development and SMEs development separately but none has explored the phenomena of promotion microfinance to SMEs development in Tajikistan.

Therefore this study attempts to fill in this gap by focusing MFIs activities and their contribution to the development of SME in Tajikistan. This

would be done by showing the possible ways of MFIs in Tajikistan can provide SME's access to financing.

1.5. Organization of the Study

The given research study is carefully organized into seven chapters.

Chapter One is the introduction which includes the background of the study, statement of the problem, research questions, research objectives and significance of the study.

Chapter Two of the study presents the literature review on concepts of microfinance and its impact on the SMEs growth.

Chapter three provides analysis on the situation of Tajikistan in terms of the economy, microfinance situation and SMEs in Tajikistan.

Chapter Four provides the methodology of the study. This chapter gives detail information on how the research will be conducted. This chapter include issues such as research strategy, research design, the study area, population and sampling techniques, data collection techniques, data analysis and limitation of the study.

Chapter Five is about the presentation of results out of the analysis of survey findings.

Chapter Six deals with the discussion of findings on analyzed data.

Chapter Seven provides the conclusion and policy recommendations of the results of study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical Perspective

This chapter focuses on some concepts of microfinance and its impact on SMEs growth. It includes the conceptual and theoretical framework of SMEs in Tajikistan and evaluations on why some enterprises face problems in accessing credits from MFIs. The chapter also includes the results of conducted studies on theoretical links between Microfinance and the SMEs development in Tajikistan and other countries of the world.

2.2. The Concept of Microfinance

Microfinance is not a new concept. The history of microfinance can be traced from the mid 1700s, when the theorist Lysander Spooner wrote on the benefits of small credit to entrepreneurs and farmers as a way of getting people out of poverty. The modern use of the concept “microfinance” has origin in the 1970s when organization, such as Grameen Bank of Bangladesh with the microfinance founder Mihammad Yunus were starting and shaping the modern industry of microfinancing (Brigit, 2006).

Currently microfinance can be defined “*as the delivery of credit, saving vehicles and other basic financial services in small quantities offered to poor, vulnerable people and the SMEs who might otherwise have no access to them or*

could borrow only on highly inauspicious terms (Todaro & Smith, 2011). Also, it could be defined “*as grants or a small-sized financial services and products such as microcredits, savings, micro-deposits, micro-leasing, micro-insurance, remittances and others, provided to people who are expanding farming or herding; who are establishing or operating SMEs where goods are produced, processed, overhauled or sold; who are working for salaries or fees; who are gaining income from renting out of movable and immovable properties; and to other individuals, groups and legal entities at the local levels of developing countries, both rural and urban areas*” (Robinson, 2001). These terms are mostly used in developing economies where SMEs do not have access to other sources of financial support (Robinson, 2001). In the developing countries MFIs specialized in rendering these services, in different ways and according to their own institutional rules (Todaro & Smith, 2011).

In addition to financial intermediation, many MFIs provide social intermediation services such as group establishment, development and improvement of self-confidence, and training members of such groups on financial and management literacy. Therefore, the meaning of microfinance often consists of both financial and social intermediation. We cannot say that microfinance is simply banking system; it is in fact a development tool (Ledgerwood, 1999).

2.3. Microfinance Products and Services for SMEs Development

Over a period of time, microfinance products and services have widened and improved their range from pure financial products, services credits and savings to non-financial innovations as well as health care services, telecommunications and others. Justification behind diversification of microfinance is a large target group which at the same time has higher demands such as complicated requirements of the SMEs who wants to start up or improve their business. A broad range of needs of prospective microfinance clients has aroused the establishment of many different kinds of products and services around many countries in the world (Noelle & Busse, 2008).

According to Bennet (1994) and Ledgerwood (1999) it is now obvious that the MFIs can provide an assortment of products and services to their clients who could be under or above the poverty line or who needs to have a start-up capital to start their small business. The most important services of the MFIs are financial, because they can provide it without material actives to their clients. It is very significant because most of these clients live in the remote rural areas with infrastructure and communications problems that make it difficult to access formal financial services; and the majority of clients are illiterate.

The MFIs are not operating like formal financial institutions because formal financial institutions do not often provide financial services to small enterprisers. This is because small enterprisers are not beneficial for investment. Usually such small enterprisers require a small amount of credits and formal

financial institution do not provide them these credits because of the difficulty of finding out information about such clients. For example, their destinations are often very far away and it takes too much time and efforts to visit them (farms, enterprises, etc.); or they may have problem with literacy. Furthermore, the cost of providing credit to these small enterprises could be very high which in turn could have effect on the interest rates charged and moreover, there is no tangible security for the loan. This issue was determined as high lending cost and was clarified through transaction cost² (Ledgerwood, 1999).

There are four services provided to MFOs clients that can be categorized into the following categories:

1. **Social intermediation** can be characterized as a process to assist vulnerable people to enter into entrepreneurial relationship. Subsidies should be eliminated but social intermediation may ask for a longer period than financial intermediation (Noelle & Busse, 2008; Ledgerwood, 1999; Ngehnevu & Nembo, 2010).
2. **Enterprise development services** in microfinance projects may consist of nonfinancial services (consulting on market access, trainings on business, marketing, technology, management, finance, etc) to the poor to develop and to assist them to grow their business. Moreover, it could or could not ask financial supports and this relies on the capability and enthusiasm of the clients to

² The transaction cost can be characterized as non-financial cost undergone in credit delivery by the borrower and creditor before, upon and after credit repayment (Bhatt & Tang, 1998).

pay for these services (Noelle & Busse, 2008; Ngehnevu & Nembo, 2010).

3. **Social services** except financial aspects of development services have other issues that are more significant to elevate the poor out of poverty. It focuses on betterment of conditions for small entrepreneurs which include education, health and trainings. Social services involve themselves in ongoing subsidies and are mostly rendered by donor, NGOs or government (Noelle & Busse, 2008).
4. **Financial intermediation** is an original type of products and services of microfinance. It is understood as providing financial services and products like credits, savings, loans, payment services, insurance etc. to the people (Noelle & Busse, 2008).

2.4. Organization of Microfinance Institutions

The nature of MFIs is to provide different kinds of financial services to vulnerable people and entities. Also, MFIs is quite different from traditional financial institutions (such banks) because it is smaller in size, limitation in their services and activities and mostly they provide microcredits with approved amount by Law or their Credit Policy (Haq, Skully&Pathan, 2010).

This section will briefly discuss different overall organization of the MFIs and how they have been adopted in different local contexts with various rearrangement and association.

2.4.1. Cooperative Financial Institution

Cooperative financial institutions (CFIs), although varies in most countries, are among the weakly understood organizations that include the existing institutional foundation for financial intermediation. The CFIs contain different member-owned financial intermediaries concerned to as credit unions, savings and credit cooperatives, and credit banks and other conditions that vary across areas of the world. The main aim of the CFIs is that they gather deposits and do business often exclusively with members (Callos & Fisher, 2006).

2.4.2. Credit Unions

Credit unions are an exclusive example of self-help financial institutions providing their members saving services and access to credits. They are initiated and controlled by their members, which can be a special group or organization (Lamberte, 1999). Credit unions trust on the orderly investment of deposits of their participants, which are kept in members' accounts. Deposits pools are fundamental financial resource for credit associations. The given means are sources for credits, which will be provided to the credit union participant, while members are able to income from appropriate interest on their deposits accounts (Adams, 1995; Magill, 1994).

2.4.3. Self-Help Groups (SHG)

Definition of a SHG is a small group of people from rural regions and urban slums. They come collectively with the purpose of resolving their socio-

economic issues such as education, health, family violence and harassments, increasing awareness, migration, livelihood portfolios, capacity buildings, cooperative bargaining power and others from the standard saving and having access to loan, that in turn will be directed to business generation with certain degree of self-sufficiency (Ledgerwood, 1999).

2.4.4. Village Banking

The term of village banks are represent organizations, which collect savings and provide credits at the village or township level. Comparing to the regional banks, village banks are not officially regulated and controlled by banking officials, but by the village banking institution (VBI). The major objective of village banks is to render small loans to entrepreneurs for their development. The village bank generally begins with a credit from the village banking institution to a group of about 15 to 30 peoples who are part of these organizations (Rogaly & Ben, 1997).

2.4.5. Nongovernmental Organizations (NGOs)

NGOs are the broadest extend among semiformal institutions providing small credits as a development tools. International donors and other technical assistance and social involvement often support NGOs. The NGOs that are involved in microfinance can be found in different types and it is difficult to classify them as there are many different forms that exists' (Rogaly & Ben, 1997).

The NGOs as well operate in the informal or semiformal sector relates on the types of business activities they implement and the country of their action. In some developing countries, the NGOs may operate as village banks; it consists to country legislation system, which depends on the institution they choose. But some countries do not allow the NGOs (example Tajikistan) to provide microfinance services since it is related to commercial activities of getting profits and contradicts with the basic principles of NGOs being non-commercial organizations (Noelle & Busse, 2008).

2.5. Types of Microlending Methodology

A specific microlending methodology is selected to approach the requirements of the target client group, situation in the local environment, and objectives of the program. As a result, there are no two wholly same that fits to microlending. All micro lending programs can be divided into two common types: individual lending and group lending programs (Brandt, Epifanova & Klepikova, 2012).

Individual lending

An individual lending model is the most universal and oldest microfinance model in the world. In the given model the loans are given to individual borrowers. Individual lending is a market-driven product. Individual lending has a lower operation charge to both the MFI and the borrower. The most important issue is that individual lending makes credit accessible to small

enterprises that have been in the past “unbanked” by estimating repayment capability using cash flow based examinations as the main way to find out creditworthiness (Champagne, Tjossem, Ohman, Pikhholz & Cracknell, 2007).

Group lending

Group lending commonly refers to an agreement by individuals without guarantee (collateral) who get together and organize groups to get loans from lenders. The special characteristic of the “classic” Grameen Bank model is that the loans are prepared individually to group members, but all in the group face aftermath if any member runs into grave payout issues (Armendariz & Morduch, 2010). Group organization is set up by members who know each other very well or have some social ties or relationship (Armendariz, 1999).

2.6. Definition of Small Medium-Sized Enterprises (SMEs)

The issue of understanding what a definition of a small or medium enterprise is a major concern in the literature. There are a number of definitions on small firm used in the literature. Others consist of small and medium (sized) enterprise (SME), microenterprise (ME), micro and small enterprise (MSE), and small-scale enterprise (SSE). There are no standard definitions of these terms. In fact, the typical definitions of these terms do not all apply to the same criteria (e.g., number of employees, total assets, or total annual sales) and also its definition is dissimilar in different countries according to employment, physical

size, capitalization, human capital, and levels of technology (Hallberg, 2000;Hillary, 2000).

Historically, in Britain during 1971, the Bolton Committee for the first time formulated economic definition of small firm and provided it with “economic” and “statistical” definitions (Bolton, 1971). Furthermore, definitions based on financial criteria perish from integral problems associated to inflation and currency translation (Burns, 2001).

In spite of this, the 1985 UK Companies Act which has particular less-stringent reporting requirements for small and medium-sized firms applies the following definitions which were presented in Table 2.1 (Burns, 2001).

Table 2.1

<i>Requirements for Small and Medium-Sized Firms under to UK Companies Act</i>		
Criterion	Small business	Medium business
Maximum annual turnover	£2.8 million	£11.2 million
Maximum annual balance sheet total	£1.4 million	£5.6 million
Maximum number of employees	50	250

Source: Paul Burns, 2001

Furthermore, in economics literature and in the economic practice SME definition by World Bank and European Commission in the world is used worldwide.

The World Bank Group approved the following definition based on number of employees, total assets and turnover:

- Microenterprise: Employs 10 or less, with total assets up to \$100,000, and total annual sales up to \$100,000;

- Small enterprise: Employs between 11 – 50 people, with , total assets up to \$3 million, and total sales up to \$3 million
- Medium enterprise: Employs 51 – 300 staff, total assets up to 15 million, and total sales up to 15 million (Blackman, 2006).

In the case of the European Commission that has invented the definition on ‘small and medium enterprise’ on 1 January 2005, European Commission adopted the new SME definition that introduces a main step towards refined business atmosphere for SMEs and goals and objectives at contributing entrepreneurship, investments and growth (see below Table 2.2) (Commission, 2005).

Table 2.2

The Main Factors Determining whether a Company is an SME

Category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: European Commission, 2014

It is clear from an assortment of explanations of the SMEs definition that there is not a general compromise over what represents an SME. Definitions diverge diagonally businesses and also across countries low on the SMEs. It is significant now to look at definitions of the SMEs given in the context of Tajikistan.

2.6.1. The Definition of SMEs from Tajikistan Perspective

According to Sangakov (2004), on the SMEs development in Tajikistan there are three main stages or phases in the establishment and development of the SMEs in Tajikistan.

The first phase (1987-1991) was the establishment of new kinds of enterprises in the form of cooperatives. The prevailing economic conditions during the period of Tajikistan's independence in the year 1991 were suitable for the growth of SMEs. It was then that SMEs gained a dominant position in the domestic market. The ability of SMEs to respond quickly to changes in the market enabled them to timely satisfy market demand despite shortages in material and financial resources (Sangakov, 2004).

In the second phase (1992-1996), due to the on-going process of Tajikistan's privatization the number of small and medium businesses increased, mostly in enterprises concerning trade, catering and social service (Sangakov, 2004). But in this stage the transition to a market economy, in Tajikistan, was postponement by civil war that occurred during 1992 till 1997. The complex effect of civil war and breakdown of Soviet distribution channels, lead the Tajik economy to collapse. In that period numerous constraints of political and economical instability in Tajikistan dispirit legal forms of entrepreneurial activity (Dana, 2009).

The third stage (1997 – present) is characterized by the shift of the SMEs to large scale industries of production. At this stage, in the development of the market economy, entrepreneurs structured a new approach for their business operation, that is, to consider the issues of efficient production and financial management, reduction of transaction costs, efficient use of resources, and coordination of partnerships or business relationships (Sangakov, 2004).

In 2002 Tajikistan first adopted the Law "On the State Protection and Support of Entrepreneurship in the RT", №46, which eventually was updated and the latest revision was made in 2011. This law provided a clear definition of entrepreneurship and its forms in particular SMEs.

According to the given Law the State recognizes and allows any type of entrepreneurship that provided in the existing laws of Tajikistan.

Entrepreneurial activity is divided into the following types:

1. Small enterprises;
2. Medium-sized enterprises;
3. Large enterprises (definitions are provided in Annexure I),
(Investment Committee, 2014).

2.7. The Role of Microfinance Institutions in the Growth and Development SMEs

The main objective of any organization is to make profit and to expand. A firm is an administrative organization with legal entity and framework, which will increase with the rise in human or material resources (Penrose, 1995). The firm size is the outcome of firm growth with its resources over a period of time and it should be acknowledged that a firms' growth is a process while firm size is a state (Penrose, 1995). Ghoshal, Halm and Moran, (2002) argues that with the help of supply of capital and labor, growth of a firm can be understood (Obli, 2011).

Services like enterprise development, business development or nonfinancial are the kinds of services provided by MFIs adopting integrated approach. The services provided by nonfinancial MFIs are; marketing and technological services, business training, production training and subsector analysis and interventions.(Ledgerwood, 1999).

Enterprise development services can be categorized in two types. The first type of enterprise division is engaged in providing training to sharpen the skills of people in a specific field. Further, it helps those who want to start up their own business. The second type is based on providing services to client through enterprise transformation program, which are involved with providing services to its clients through technical assistance, training and technological promotion. This helps existing SMEs to do better and sustain in the market. The enterprise

development services are not a requirement for getting financial services and they are not provided free of charge. These costs are borne and subsidized by the government or third party since it is impossible for MFIs to recover the full cost when providing the services. This kind of services play important role however the value and impact of this knowledge does not involve in any quantifiable products. There is very little or no significance at all between the enterprise that receive credit alone and those that receive both credit package and integrated enterprise development services. (Ledgerwood, 1999).

2.8. Challenges of Microfinance

According to Bateman (2011), who argues that in recent years, researchers as well as practitioners has increasingly become critical of the impact of microfinance on the livelihood, and particular in the business of small entrepreneurs. Based on this, he conducted a study about positive and negative impacts of microfinance in southeastern European countries such as Bosnia, Serbia, Macedonia and Croatia and also some countries of Latin America. There, he found positive impact of microfinance especially in Bosnia. However, he determined that the major negative issues with microfinance in some countries are not structural related but simply because microfinance was still in short supply.

Rahman (2007), in his paper on “*Practitioner’s view of the challenges facing NGO-based microfinance in Bangladesh*” indentified in his research number of problems and challenges in the microfinance sector that suggest microfinance in Bangladesh has yet to emerge as a solid financial discipline. He

analyzed about NGO MFIs because in Bangladesh they are the dominant agencies, which implemented microfinance activities. Some other problems related to NGO MFIs in Bangladesh that have negative impact in the livelihood of people who are clients of such NGO MFIs are: increasing numbers of non-poor people as MFIs clients; high interest rates; a lack of scientific basis for loan pricing; non-productive loan use; NGO MFIs not interested in giving long or medium term loans to clients; ignored client satisfaction; weak governance and management.

Matin, Sulaiman and Saleque (2007), argued on potential microfinance as a tool of poverty alleviation is both under imagined and over imagined. It is over imagine as a near panacea of poverty alleviation in its financial service characteristics. And it is under imagined and under harnessed in using its process characteristics as a lever to deliver a bolder attack of poverty. They also identified the process of providing microfinance to create other forms of capital: social, network and institutional. These given “process capitals” are generally under harnessed. They conducted their research on some cases from Bangladesh Rural Advancement Committee (BRAC) experiences on how such hidden forms of capital can be creatively used to deliver a bolder attack on the different dimensions of poverty and categories of poor. The current microfinance discourse with its exclusives focus on innovations in the financial space of microfinance not only fails to make better use of such process capital, but also under invests in its creation. The dominant microfinance discourse needs to accommodate the

imagination of a different world of microfinance that can and should be also bolder in its social promise of attacking poverty better and deeper.

In conclusion, some scholars argued that microfinance is not a panacea to solve all social issues related to poverty reduction. And concerning SMEs start up or development in some countries around the world even in the native country of microfinance – Bangladesh in present time is facing many raised challenges. But all this challenges could be solved and it would help to improve microfinance sector in future. The reason for choosing microfinance as development tool for SMEs growth in Tajikistan in this study is that, microfinance could be one way that might help SMEs to develop in Tajikistan. This is because microfinance in Tajikistan was established through poverty reduction program but very quickly shifted to commercialized and legalized as independent agencies that are not under NGOs or banks.

2.9. General Constraints to SMEs Development in Tajikistan

The SMEs sector takes great expectations and great constraints in the development of all of the transitional economies. Continued and healthy growth of this sector is obviously crucial, since it is difficult to visualize arising overall living standards and social peace without such development (McIntyre, 2001).

In the countries with transition economies and countries that are developing, the SMEs face a series of obstacles, which raise their operating costs and pressure their economic feasibility. They face higher costs. Moreover,

inadequate access to credit and other inputs have greater difficulties in penetrative export markets, access to new technology, weak legislations, high tax rates and harassment by criminal gangs (McIntyre, 2001).

Development of the SMEs is an integral part of the market system that corresponds with objectives of economic reforms in countries with transition economies including Tajikistan. Furthermore, it helps to manage a healthy competition in the economy to ensure a high quality of life (Madumarov, 2011).

In this part, we will find out barriers that put constraints to the SMEs development in Tajikistan, which was determined by international and local organizations, experts and consultants through their survey and research reports.

According to International Finance Corporation (IFC) Doing Business data, which was conducted in 2009, the business situation for the SMEs working at the larger end of the SMEs spectrum remains challenging. Data from the TAJSTAT determines very slow growth in their numbers, compared with high growth in the rest of the micro sector (individual entrepreneurs and dehkan farms) (IFC, 2009).

The main obstacles that were found during the conducted Survey by IFC are following:

- An inappropriate tax system and legislative regime which are not planned and implemented in a way to support on transformation

of entrepreneurship to legal entity status and its expansion (IFC, 2009);

- Situation with women entrepreneurs is that the women constitute 36% of individual entrepreneurs and run 16% of the SMEs and they are among the owners of just over half of these enterprises (IFC, 2009);
- Access to finance issues was not so clear and appropriate because comparatively few Tajik SMEs have a bank account or have borrowed loans from banks. Another issue is SMEs devastatingly impose unfavorable interest rates as a reason for not applying for financing. However, the most pressing issue for many was clearly access to finance (see Figure 2.1) (IFC, 2009);
- SMEs have lot of difficulties regarding corruption. For virtually all procedures, the SMEs reports are showing unofficial payments (corruption) less often than in 2005 or 2002. And, Tajikistan still has the highest corruption rate from government officials in the entire Eastern Europe and Central Asia region (IFC, 2009).

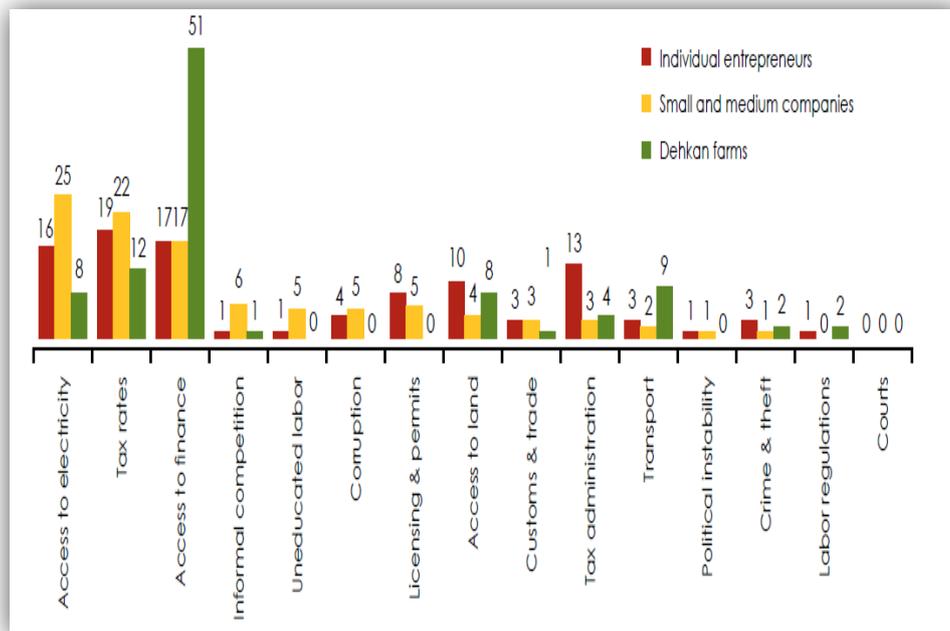


Figure 2.1 *Percent Rate of Survey Respondents Identifying Each of the Following as the Single Obstacle They Face*

Source: “Doing Business: Business Environment in Tajikistan as seen by Small and Medium Businesses”, IFC, 2014

International experts such as Burkle (2010) and Pandya and Wilkinson (2011) in their studies determined that currently, the SMEs in Tajikistan are facing many difficulties. The main difficulty experienced by the SMEs is that it is lacking resource, both in logistics and finance. According to those experts other internal factors that objectively restrict SMEs development in Tajikistan are following:

- **Geographical situation of country;** It is non-coastal, lacks quality communications and infrastructure making it difficult to access world trading and market centers;
- **Power shortages;** From 2007 Tajikistan has blackouts of electric power every winter season especially in the rural areas. The

given situation involves whole country including the SMEs to struggle for survival;

- **Unstable economic situation in Tajikistan;** These reasons do not allow Government to finance the SMEs' development programs sufficiently. Also the Government is striving to enforce stringent tax system because 80% of budget revenues come from tax;
- **An acute shortage of professional-entrepreneurs and lack of modern equipment** prohibits the SMEs in implementing their production process at a higher technological level and become competitive.

Local scientists and experts such as Sultanov, Nasirov and Asrorova (2011); Djumaeva (2013); Zikirov (2012); Komilov and Kamolov (2005); Qudratov and Kholikov (2008) on the basis of available statistical and analytical data identified many factors that adversely affect the SMEs development. Below are the selected major 5 problems³ that have negative impact to SMEs development in Tajikistan:

1. **Lack of effective financial and credit mechanisms and financial resources to ensure business development.** Currently in some rural regions the main problem that is holding back the development of entrepreneurship is the unavailability of credit and financial resources.

³ Here was presented that problems which were not mentioned by international experts with the aim to avoid overlapping.

2. **High interest rates on loans.** The annual interest rate is very high from 24 up to 42% and financial institutions and the MFOs provide mostly short-term loans (3-6 months), which is insufficient to meet commitments under long-term loans.

3. **Does not create sufficient conditions for attracting private domestic and foreign investment in entrepreneurship.** It is relevant with economic and politic situation of country.

4. **Insufficient development of insurance in the SMEs sector,** which leads to reduction in the reliability of economic relations, increasing the number of bankruptcies, which further leads in reduction in incentive to invest and innovation.

5. **Undeveloped system of information support entrepreneurship.** There is a problem, known as the information 'hunger' of enterprises. Information systems in the markets are a narrow range of information about who wants to buy their goods or services. There is lack of information on concessional lending, potential investors, new technologies and etc;

2.10. The Factors that Affect the SMEs Access to Credit

According to Lengerwood (1999, p.42) “*The MFIs defines the type of population to be serve and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the*

market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. The type of activities that the business”.

a) Start-up or existing SMEs

The MFIs during market segmentation think of whether they should focus on the already existing enterprises or on potential enterprises that are looking for finance to start up their business activities. Operational capital is the main barrier in the development of existing SMEs. SME's could solve such problem by borrowing mostly from informal financial institutions that have high interest rates. MFIs found that there is less risk when dealing with existing SMEs. Enterprises that receive finance by the MFIs from the onset think that they have an impact on society because they contribute to poverty reduction by increasing their income. But financial assistance alone would not help the start-up enterprises. They also need other services such as: trainings on management, capacity building, accounting and others that could help them utilize such loans (Ledgerwood, 1999).

b) Levels of SMEs development

MFIs have been offering its products and services based on the development of the enterprise. Based on the access to financial service, the SMEs can be grouped into the following three major levels of enterprise development:

- i) Unstable survivors; this groups are not sustainable and are not considered as creditable for financial services. These groups are believed to disappear in short time tenure. Even if MFIs provide them support with extra support it is often noticed that it is a waste of time and money;
- ii) Stable survivors; this group mainly consists of small enterprises providing basic needs and benefit in have access to the MFIs financial service from supplying their products. Because of their low profit margin, they rarely expand and they gradually grow down and become consumers in the long run;
- iii) Growth enterprises are SMEs with high perspective to grow. Main reason that MFIs target these types of enterprises is because they secure and create job. They also want to move entrepreneurs from informal sector to a formal sector. Since, investments in this kind of enterprise are secure and have less risk MFIs prefer to provide their products and service to this group (Ledgerwood, 1999).

2.11. Theoretical Links between Microfinance and SMEs Development

Ogunrinola and Alege (2008), on their paper on “*Microcredit and microenterprise development: An analysis of some rural based enterprises in Nigeria*” found the operation of UNDP- sponsored MFI had positive effect to micro businesses in the rural areas of Lagos State. They determined that 42 enterprises that received microcredit from MFIs reported that they achieved

business success because of the loan received. The given study showed that micro-entrepreneurs achieved a very high loan repayment rate of 96% and reduced rate of business failure and also decreased rural–urban migration.

Olajide (1980) in his works indentified two kinds of credit sources for entrepreneurs such as internal and external. He determined that in case when internal funds is raised from net flow of conducted entrepreneurship activities the external funds also increases from expanded loans by microfinance providers. Rural enterprises require capital that has microfinance sector, because financing of small enterprises is general not only in the rural area but also in urban areas. Also it is urgent as was mentioned by author that credit for SMEs plays an important role on its development especially on industrialization and refinement.

On access to finance issues Heidhues (1995) indentified in his article on “*Rural Finance Markets- An Important Tool to Fight Poverty*” that access to credit is involved with the aim to be an important factor of SMEs development and growth. Access to credit could increase income levels, raise employment and thus will support on poverty reduction. Also it could help vulnerable people and enterprises to get out from difficulties on liquidity constraints and help them undertake some investments that could support them to increase production (Heidhues, 1995).

Diagne and Zeller (2001) argued that if there is an inadequate access to credit to vulnerable people and enterprises that require it, this type of situation could have negative influence to those people and enterprises including SMEs.

Access to credit supports SMEs on risk management improves their productivity and allows utilization of smoothing overtime. Also they argued that the MFIs that are financially stable have positive impact on the vulnerable people and SMEs development because they could provide sustainable access to credit on permanent basis with high quality of services (Rhyme & Otero, 1992).

According to Bharti et al. (2006) who conducted a study on the “*Microfinance and sustainable micro entrepreneurship development*”, the given authors identified that microfinance has essential impact in development of microenterprises. It is because microenterprises needs not only access to credit but also requires other services for its development. For microenterprises development the access to credit is not enough but lack of access to credit could bring challenges for getting any non financial assistance in their activities. The role of microfinance services on providing services like savings, insurance and money transfer in development of microenterprises even entrepreneurship is very significant and requires to be explored and gave attention (Aftab & Naveed, 2013).

Suberu, Aremu and Popoola (2011), determined on their work that there is existing impact of microfinance institutions on the development of small scale enterprises in Nigeria. The study was conducted with using both primary and secondary data. Their results showed that positive and significant relationship exist between MFIs loans and small scale performance. Also there was positive contributions of MFIS loans on promoting small scale enterprises market share, production effectiveness and competitiveness.

Marcello and Daghish (2011) studied on “*Entrepreneurial Becoming: an Educational Pathway out of Poverty*”. In this paper they learned about the process of entrepreneurial becoming, access to finance and on how education on entrepreneurship has influences on microenterprises development. In this study a significant change in understanding how an enterprise requires implementing, in recognizing opportunities, thinking more innovatively, and constructing self-confidence.

Observation in Tajikistan

Several works on impact of microfinance to access finance and on SMEs development in Tajikistan have been done by several researches. This section is a review of some of these works.

Buerkle (2010) has successfully conducted several microfinance impact and capacity building assessments as well as studies of the microfinance sector in Central Asia and Africa especially in Tajikistan since 2006. Report on “*Access to Finance and the Impact of Microloans. Case Study of the Microfinance Sector in Tajikistan.*” in 2009 was done by the given researcher with the aim to summarize the outcomes of conducted survey on the access to finance among clients of the MFIs in Tajikistan and also non clients as control group.

Assessment determined the following main market trends for further development of the microfinance sector in Tajikistan:

1. Straightening of the MFIs because of restriction regarding currency risk;
2. Continually development the process of commercialization of large MFOs;
3. Improving the existing products of the MFOs and development of new products such as express and mobile loans, agro lending.

Also author developed several recommendations on access to finance by enterprises. Author recommended that given issues needed a thorough analysis with relevant State organizations, international and local financial organizations, NGOs and MFIs with the aim to establish National programs and projects with appropriate actions and mechanisms. And in such program promotion of microfinance services to enterprises could be one of the real solution on access to finance.

Pandya and Wilkinson (2011) developed report on conducted research on “*A Seat at the Table: the Role of Microfinance in Women's Economic Empowerment in Tajikistan*”. The objective of this study was to discuss the various barriers to women’s economic empowerment in Tajikistan and assess the role of the MFIs in meeting their needs. Women in Tajikistan are more vulnerable in their economic development and have many difficulties which negatively affect them. The main difficulties are; lack of economic empowerment and the capability to take part in decision-making with regard to household finance, access finance, and gain employment. Researchers found that MFIs could

contribute to solving these problems through their support in promoting women's economic empowerment and also providing access to finance.

Djuraev (2010) conducted research based on secondary data on *“Formation system of the State support for the SMEs (in a case of Tajikistan)”* with the aim of developing theoretical and methodological base on establishment of State mechanism on supporting the SMEs development in Tajikistan and developed recommendation for its implementation. Most of his recommendations related on improvement finance access of SMEs, modification of Tax system, development support to SMEs by Government and NGOs and others.

CHAPTER THREE

3. SITUATION IN TAJIKISTAN

3.1. General Description of the Republic of Tajikistan

Territory and population

The Republic of Tajikistan, former Soviet Republics is a mountainous landlocked country in Central Asia. The country has long borders and several neighboring countries. In the west, northwest and northeast of Tajikistan shares a 910 km border with Uzbekistan, a 630 km border with Kyrgyz Republic, a 430 km border to the east with the People's Republic of China and in the south -with Afghanistan 1,030 km respectively (see Figure 3.1). The area of Tajikistan is 142,600 km² and it has many mountains and plateaus, which occupy 93% of the total territory and 7% is intermountain valleys and foothill that have most economic importance (TAJSTAT, 2013).



Figure 3.1 Map of Republic of Tajikistan

Source: Maps of the World, 2014

Tajikistan has a population of 7,987,400 (2013 est.) and about two-third of the population in Tajikistan is living in rural areas. Tajikistan consists of 5 administrative divisions: Dushanbe city (capital); Regions of Republic Subordination (RRS); Sughd oblast; Khatlon oblast; Gorno-Badakhshan Autonomous Oblast (GBAO). The national currency is Somoni (TJS), introduced in October 2000 (TAJSTAT, 2013).

Economic specialization

Tajikistan is an agrarian country. An economic advantage of Tajikistan is related to the land areas that could be used for agriculture: there are major water resources, favorable climate conditions and large quantity of cheap labor. In agriculture production a plant growing is dominant. Cotton growing, viticulture and horticulture, and aromatic plants growing are the major branches and products (Vosaliev, 2011).

Tajikistan is rich in many deposits of natural resources: coal, hydropower potential, uranium, lead, zinc, gold, silver, precious stones, etc. On the whole, nearly 400 deposits of natural resources are explored, over 70 of which are being exploited now. Also there are commodities such as cotton, aluminum, fruit, vegetables, dry fruit and uranium, which has been contributing greatly to this steady improvement.

Current economic situation and main challenges

Tajikistan is a landlocked country with very low income in Central Asia. Tajikistan was poorest of all post-soviet union and after the collapse of Soviet Union in 1991. Five years of civil war (1992-1997) halted the success and economic prosperity.

All the aforementioned situations has negatively affected the country's economic condition at present time which remains with insolvency in implementation of structural reforms on eradication of corruption, strengthening of governance, development infrastructures on transportations and communications, decreasing external debt burden and etc (Buerkle & Hanh, 2012). Poverty issues is still the hot topic in Tajikistan even after the country has tried it best but still remains as poorest of all post -Soviet countries. In 2011, it ranked 127th out of 187 countries surveyed in the UNDP's Human Development Report, faring worse than all other former Soviet Union nations and falling below its 1990 HDI value (BTI, 2014).

Tajikistan macroeconomic issues

Despite of the negative impact of the global economic and financial crisis and other existing difficulties, Tajikistan could drive the gradual development of the national economy during 7 years period. Annual GDP growth was 8-10% before the impact of the global financial crisis but in the present time GDP grew by 9.3 billion somoni in 2006 up to 40.5 billion somoni (more than

US\$ 8.5 billion) in 2013 (see Table 3.1). Therefore, its annual real growth rate averaged to 7%, which indicates of the sustainable development of economy. At this stage, the GDP per capita increased from 1335 to 4580 somoni, or 3.4 times (MFA, 2013). In 2013 the locomotives of growth were trade with 19% y/y increase and construction - more than 17% y/y rise. The high figure for construction growth occurred from a low statistical base after almost 25% y/y drop a year earlier. Agriculture ended the year with strong 7.6% y/y increase. Both, crop farming and cattle breeding were running neck and neck with the same 7.6% y/y growth rate. Industry showed a modest 3.9% y/y increase and the growth was mainly due to extraction sector. The food sector grew by only 2.1% y/y, while textiles plunged by almost 10% y/y. Mediocre performance of real sector has led to decline of its share in GDP from 37.7% in 2012 to 34.1% in 2013. The main risk to Tajik economy in 2014 remains its large exposure to external factors: declining world prices for aluminum and cotton, uncertain growth rates in its main economic partners, such as Russia and Turkey, as well as dependence on imported fuel (Eromenko & Saidahmadzoda, 2014).

Table 3.1

Tajikistan Macroeconomic and External Economic Data (2007-2013)

Indicators	2007	2008	2009	2010	2011	2012	2013
GNI per capita, PPP, USD	1,630	1,780	1,820	1,920	2,060	2,220	--
Nominal GDP, somoni m	23449.4	25,301.9	26,288.7	27,997.5	30,071.1	36,161.1	40,524.5
Nominal GDP, USD m	3,719	5,162.4	4,982.7	5,640.3	6,523.6	7,592.6	8,506.0
GDP per capita, USD	523.6	697	662	741	836	951	1,026
Real GDP growth, % y/y	7.9	7.9	3.9	6.5	7.4	7.5	7.4
Industrial production real growth, %y/y	--	-3.5	-6.5	9.2	5.7	10.4	3.9
Agricultural production real growth, % y/y	--	6.1	10.5	6.8	7.9	10.4	7.6
Construction real growth, % y/y	--	21.2	-15.5	-8.0	5.5	-24.4	17.2
Trade real growth, % y/y	--	12.4	12.5	7.5	9.1	16.9	19.3
Exports of goods, USD m	1,468.1	1,408.7	1,010.3	1,194.7	1,257.3	1,359.7	1,163.3
Imports of goods, USD m	2,547.2	3,272.6	2,569.6	2,656.9	3,206.0	3,778.4	4,121.3
Remittances to Tajikistan, USD m	--	2,498.3	1,861.8	2,420.7	3,171.4	3,715.2	4,200.0
Exchange rate, USD, av.	3.4	3.4	4.1	4.4	4.6	4.8	4.8
Consumer Price Index, av., % y/y	--	20.4	6.4	6.5	12.5	5.8	3.4
Inflation, %	21.5	20.4	6.4	6.5	12.5	5.8	3.7
Poverty level, %		50.0	46.7	45.0	41.0	38.2	35.6
Population, m	7.1	7.2	7.4	7.6	7.8	8.0	8.0
Population growth, % y/y	2.22	2.28	2.33	2.38	2.42	2.45	2.4
Life expectancy at birth, total (years)	66.3	66.6	66.9	67.2	67.5	--	--
External debt, USD	1,119.9	1,371.4	1,691.3	1,942.8	2,124.3	2,169.4	2,248

Note: y/y- year over year change; av.- average; p.p. -percentage point

Sources: TajStat, 2013; NBT, 2013; MF, 2013; MEDT, 2013; FFPSD/GTZ, 2013; World Bank, 2013

Inflation

Tajikistan also spends more efforts to decrease inflation rate from 20% - 6% annually, which would support to ensure the stability of the currency. Inflation decelerated in 2013: Consumer Price Index capped the year showing 3.7% y/y growth, down from 5.8% y/y in 2012 and 12.5% y/y a year earlier. Such slowdown in inflation resulted from good crop yields and modest rise in food products prices (3.2% y/y), as well as close to zero change in services prices (0.8% y/y) (Eromenko & Saidahmadzoda, 2014).

Remittance

Concerning remittances to Tajikistan amounted to around \$4,200 million in 2014. Traditionally large sums of remittances, despite the increased consumption of imported goods, lead to leveling off negative impact of trade gap on Current Account and Balance of Payments sheets of the NBT (TAJSTAT, 2013).

3.2. Establishment and Development of Microfinance Sector in Tajikistan

Microcredit programs started in Tajikistan in 1998-2000 through International organizations like Care International, Mercy Corps, ACTED, Aga Khan Foundation, German Agro Action, Counterpart Consortium, UNDP and local NGOs like National Association of Business Women of Tajikistan (NABWT), JS "Sitorai Najot", NGO "Mekhrangez", NGO "Oila" and others. The main results of the projects implemented by these organizations were to expand

the access to financial resources of people with low-income for conducting micro-business, participation in trade, industrial activity and also for providing small-scale services (AMFOT, 2014).

Original objective of starting of the legislative and regulatory basis for the MFIs activities and development microfinance sector in Tajikistan was a MOU between NBT and USAID (developed by the IFC), and the Law of Tajikistan “On Microfinance Organizations” passed in 2004. The given legislative basis permitted including microfinance operations and transferring microfinance sector in Tajikistan within of legislation and organizational structure into an important part of financial system of country. And this Law was improved and adopted in new edition in 16 April, 2012 № 816. The result of such activities by public initiatives shows the importance to organize the organization for supporting and development MFIs in Tajikistan. In 2004 Association of Microfinance Organizations of Tajikistan (AMFOT) was organized in Tajikistan (AMFOT, 2014).

Role of AMFOT in development and strengthening microfinance sector in Tajikistan

AMFOT was officially registered in January 2004 and is a noncommercial organization and offer different kinds of services to its member MFIs. These services are provided on voluntary basis that includes training, lobbying and dissemination of information with the aim to uplift the economy with the development of microfinance sector in Tajikistan. The coalition of the

MFOs in Tajikistan consisted of both local organizations such as OS “Sitorayi Najot”, NGO “Mehrangez”, NABWT as well as international organizations Care International, Mercy Corps, ACTED, the Aga Khan Foundation, German Agro Action, Counterpart Consortium, GIZ, Dutch Agency for Development (ICCO) and others. With continuous support from the aforementioned organization, AMFOT has established itself as an important resource center for microfinance in Tajikistan. Moreover, it has become a nationwide forum for interrelation of microfinance organizations with the Government of Tajikistan, the NBT, other regulatory bodies, civil society, international donors and investors.

Within its mission AMFOT also assists in the formation of a favorable legal environment, provides professional services for training and consultations for microfinance organizations and assists in the introduction of national standards of microfinance activity. Furthermore, Islamic Banking, Mobile Banking, Micro-leasing and Micro-insurance were also developed and introduced by AMFOT. The Association’s activity is based on principles of fairness, transparency and high quality of provided services (AMFOT, 2014)

To review AMFOT activities and situation on microfinance in Tajikistan in 2013 will be used an unique and very well organized AMFOT’s statistical data of its members related to their portfolio by regions and gender, and financial data once a year that includes balance sheet and income statement. Present analysis compares summarized data of AMFOT members from different regions of

Tajikistan. AMFOT development such analysis from 2006 year every quarter and make available in AMFOT website: <http://www.amfot.tj/services/analysis/>.

In the end of 2013 membership of AMFOT consists of 71 out of 125 MFIs, 5 out of 17 commercial banks, a leasing company, a wholesale credit company and two international organizations.

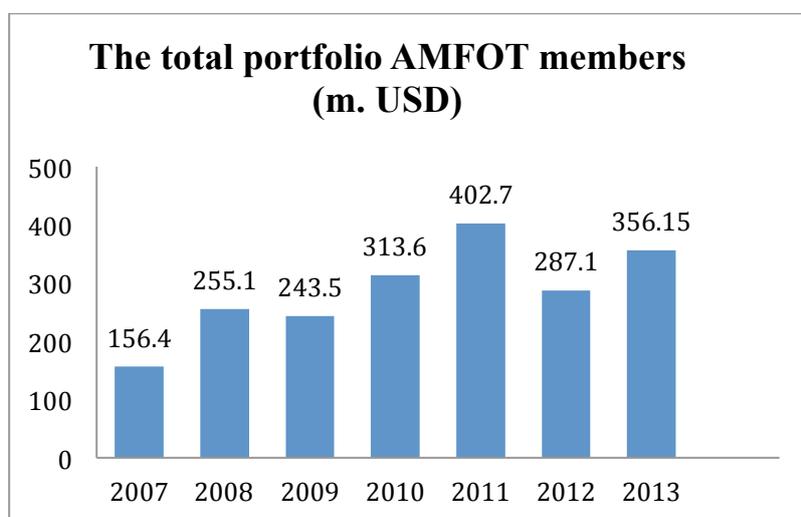


Figure 3.2 *The Total Portfolio of AMFOT's Members*
Source: AMFOT, 2014

Coverage level of AMFOT members' portfolio is 95% and remaining 5% belongs to small and medium MFIs, non AMFOT members. According to the available data as for December 31, 2013, overall portfolio of the MFIs – AMFOT members came to 1700 280 564 somoni that in comparison with previous quarter increased for 8.6% (see Figure 3.2).

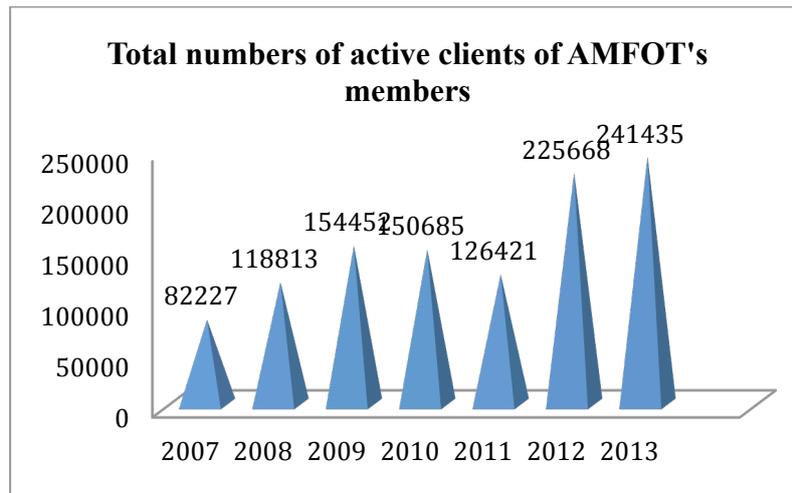


Figure 3.3 *Total Numbers of Active Clients of AMFOT's Members*
 Source: AMFOT, 2014

By the end of December 2013, number of active clients of the MFIs AMFOT members in Tajikistan were 241 435 clients. Share of commercial banks were 25 490 clients and share of MFIs - 215 945 clients (see Figure 3.3). One important point that an average ratio of loans number, issued to women, to total the MFIs issued loans was 36.17% which is a very good indicator of MFIs' social orientation. 26.68% of their portfolio was concentrated on women support (AMFOT, 2014).

The significant steps in development of financial and entrepreneurship sector were a MOU was signed between three Tajik business associations AMFOT, the Association of Banks of Tajikistan (ABT) and the National Association of Small and Medium Enterprises (NAMSB) in January 24, 2013. The associations decided to develop a closer partnership in order to support the economic development of Tajikistan through strengthening the SMEs and the financial sector of the country (AMFOT, 2014).

3.2.1. Reviewing the Current Situation of Microfinance Sector in Tajikistan

According to NBT, there were 137 credit institutions, including 16 banks, 1 non-bank credit organization, 39 MDOs, 42 MCOs and 39 MCFs function in Tajikistan as of December 31, 2013 (see Figure 3.4 and Figure 3.5). Total assets of banking system have made 12653.3 million somoni (2650.4 million USD). Total balance of credit portfolio (net) of banking system for this period has made 6898.3 million somoni (1444.94 million USD) in December 31, 2013 (NBT, 2013).

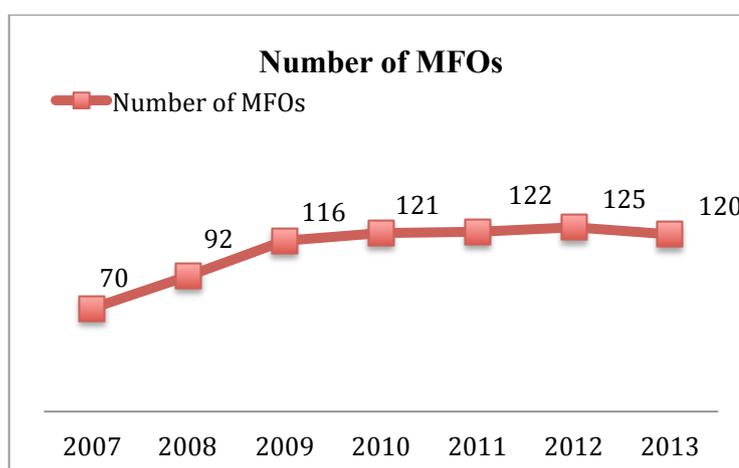


Figure 3.4 *Number of MFOs in Tajikistan on 31.12.13.*
Source: Banking Statistics Bulletin, 2013

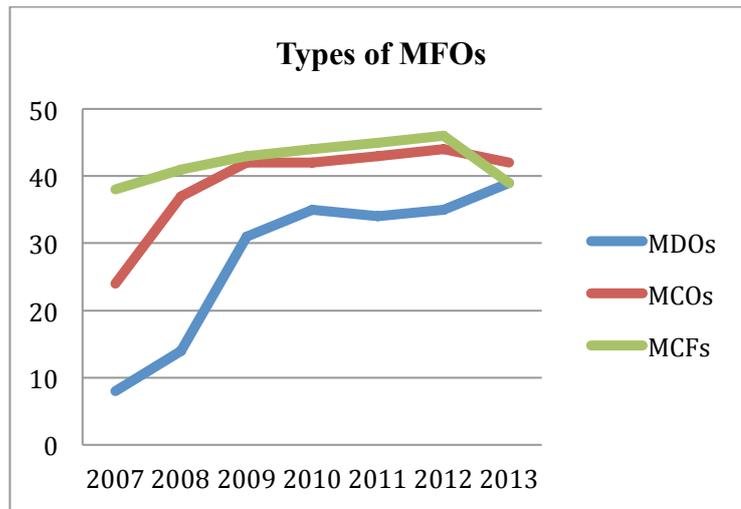


Figure 3.5 *Types of MFOs in Tajikistan on 31.12.13.*
 Source: Banking Statistics Bulletin, 2013

Today microfinance is one of the dynamic development sectors of the financial market of Tajikistan. Its credit portfolio and assets growth is on the rise every year. From 2007 till 2013 growth has raised up to 14.8% and also the credit portfolio growth has helped in the increase of microcredit's extension up to 14.3% (see Figure 3.6, Figure 3.7 and Figure 3.8). This shows the interests of people on microcredits.

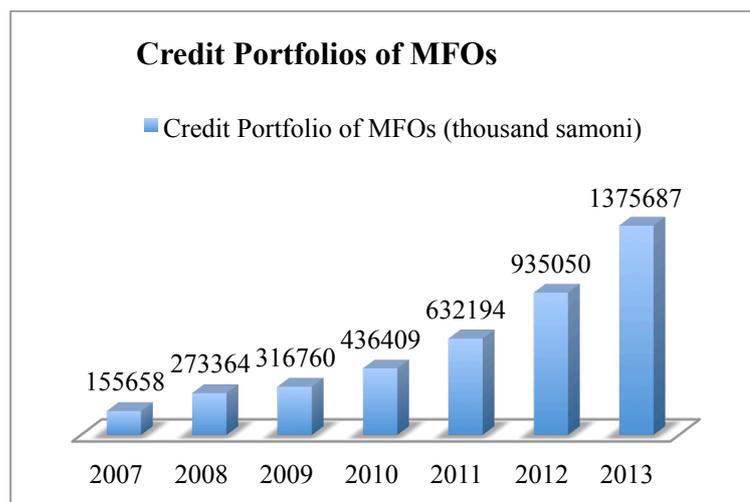


Figure 3.6 *Credit portfolios of MFOs in Tajikistan on 31.12.13.*
 Source: Banking Statistics Bulletin, 2013

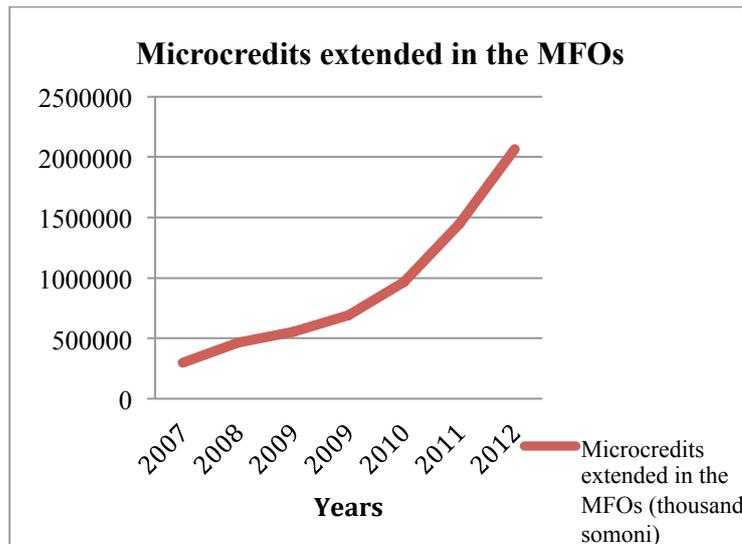


Figure 3.7 *Microcredits extended in the MFOs on 31.12.13.*
 Source: Banking Statistics Bulletin, 2013

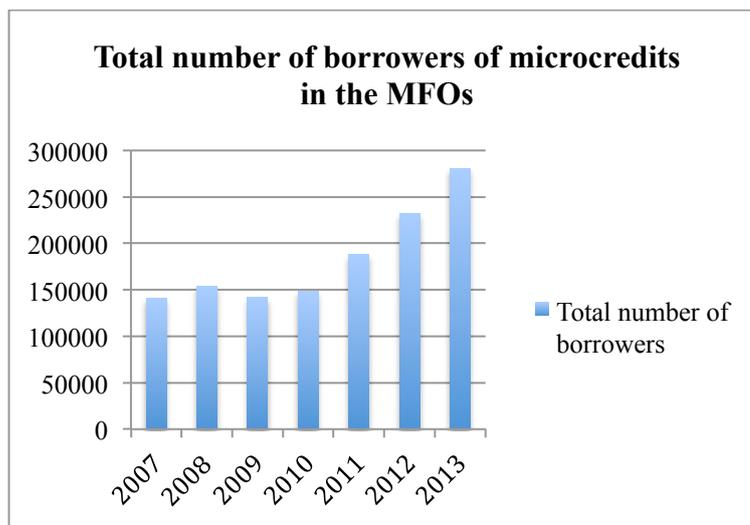


Figure 3.8 *Total numbers of borrowers of microcredits in the MFOs on 31.12.13.*
 Source: Banking Statistics Bulletin, 2013

Microcredit distribution in the region also increased but GBAO has lead in a huge gap on access to finance among regions. One of the reasons is lack of appropriate transportation system especially in winter (see Figure 3.9).

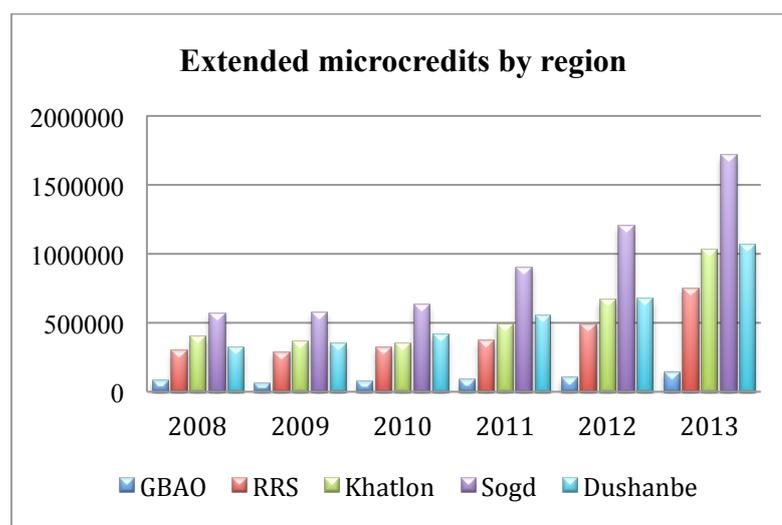


Figure 3.9 *Extended microcredits by region on 31.12.13.*
 Source: Banking Statistics Bulletin, 2013

It is important to make note that current situation of microfinance in Tajikistan is different from the period of its establishment. The real operations of MFIs in Tajikistan have been drifted from the original intention (i.e. helping the poor, both urban and rural, and/or socially vulnerable segment of the society) with increased shift toward the wealthier segment of the society including the SMEs operations in urban areas. Actually, the current operation of the microfinance has been polarized into two divisions;

- i) For serving the traditional area of microfinance (the poor or the socially vulnerable segment);
- ii) For serving SMEs operations in urban areas.

While the former may deserve being assisted by aid agencies, but the latter does not. The latter segment of the MFIs should be restructured to the one with an explicit objective of assisting the SMEs segment of the economy. If the

business operations of the latter segment of the MFIs has been explicitly redefined and refocused, it could potentially serve well to the SMEs⁴.

3.3. Overview of SMEs Condition and its Contribution in Tajikistan's Economy

Development of SMEs plays an important role in the economic development of Tajikistan; the SMEs segment is one of the most effective forms of business organization that has a significant impact on the economic development of the country. Moreover, it has been providing the consumer with high quality products and services of local production. Therefore, it has contributed in the enhancement of quality of living standard. On the other hand the growing employment will help in increasing tax payments, which contributes to the national budget (Madumarov, 2011).

According to TAJSTAT (2005-2011), there was growth entrepreneurship in the country about 12.58% (see Table 3.4). The number of businesses from 2005 to 2009 steadily increased every year. However, in 2010 there was a decline comparing with 2009. But a rise was seen again from 2011. It was primarily due to the impact of the global financial crisis, rising prices of petroleum products, which in turn had a negative impact on the socio-economic situation in the country and gave rise to other negative factors. But in 2011 there was a positive shift because of government's reform in the economy.

⁴ Data was received from conducted observation of MFIs in Tajikistan on February 2013 by author and developed with Supervisor TSUKADA Shunso

Table 3.2

Indicators of Enterprises Growth in Tajikistan for the Period 2005-2011

Type	2005	2006	2007	2008	2009	2010	2011	Annual percentage growth rate (2011-2005)
Amount (am)	am							
Certificate	34074	37270	40475	44944	50340	52670	28130	-2.9%
Patent	54485	64592	74201	77590	87383	55913	75342	+6.33%
Entities	10885	11050	11362	12390	11488	12107	18617	+11.83%
Farms	23101	24901	26518	30842	37966	51372	92989	+50.42%
TOTAL	122545	137813	152556	166766	187177	172062	215078	12.58%

Source: Investment Committee, 2014

Situation on the SMEs in 2013 also shows some growth. According to the Tax Committee, reported that in the 1 January, 2013, the number of registered and functioning SMEs were about 236,441 (see Table 3.3). During 2012 there were registered 21363 business entities that increased the total number of the SMEs, on 9.9% from 2011.

Table 3.3

Specific Gravity of SMEs in Tajikistan by types and regions on 01.01. 2013

SMEs indicators	Total number of SMEs	Per cent rate (%)
<i>SMEs by type of activity</i>		
Patent	78339	33.1
Certificate	35610	15.1
Legal entity	25728	10.9
Farmer type	96764	40.9
Total	236441	100
<i>SMEs by region</i>		
GBAO	12934	5.5
Khatlon	77948	33.0
Sugd	67742	28.6
RRS	43799	18.5
Dushanbe	34018	14.4
Total	236441	100

Source: Tax Committee, 2013

All this statistical information gives us the real statement that SMEs has growth rate and development in Tajikistan. But considering this issues and the

fact that in the total number of the SMEs is just over 3% (Tax Committee, 2013), of the total population that is very small rate we can argue that there is a need to spend more efforts on increasing numbers of the SMEs. If country could promote and increase the number of entrepreneurs including SMEs it would be able to increase revenues of Budget more than it is now (see Table 3.4).

Table 3.4
Contribution of SMEs to State Budget

Indicators	2011	2012	2013
State Budget (billion somoni)	8.47	9.59	12.1
Contribution of SMEs to Budget (million somoni)	0.16	0.18	0.15
Contribution of SMEs to Budget (%)	1.9%	1.9%	1.3%

Source: Ministry of Finance of RT, 2014

It should be noted that it was very difficult to conduct the analysis of entrepreneurs (including SMEs) conditions in the economy of Tajikistan properly even if it is conducted properly on regular basis. The reason behind this is that it is still not able to establish good network system with ministries and government agencies to transfer and access information. Lack of information access makes many misunderstanding and differences of data, which could provide mistakes on analysis regarding entrepreneur's development.

Doing Business Indicators in Tajikistan

This section will observe the situation of business situation of Tajikistan in accordance of World Bank's Doing Business indicators (DBIs). Tajikistan continues to rank low on most of the World Bank's DBIs. In the 2014 survey, it ranked 143st out of 185 economies surveyed (see Table 3.5) (BTI, 2014).

Table 3.5
Progress in Doing Business Indicators in Tajikistan (2007 -2014)

Topic	2007	2008	2009	2010	2011	2012	2013	2014	Changes in rang 2013-2014
Doing Business rank	133	153	159	152	152	147	141	143	
Starting a business	166	161	168	143	137	70	77	87	
Dealing with Construction Permits	--	--	178	177	178	177	184	184	No change
Registering Property	40	43	46	78	88	90	78	78	No change
Getting Credit	143	135	172	167	170	177	182	159	
Protecting Investors	172	176	150	73	60	65	21	22	
Paying Taxes	154	155	159	162	168	168	179	178	
Trading Across Borders	163	176	177	179	177	177	188	188	
Enforcing Contracts	39	23	23	39	42	42	39	39	No changes
Resolving Insolvency	50	99	97	100	68	68	78	81	
Getting Electricity	--	--	--	--	181	178	186	186	No changes

Source: The World Bank Group and IFC, 2013

The survey ranked Tajikistan relatively high in areas of business regulation, such as protecting investors, enforcing contracts, starting a business, and resolving insolvency. The ranking on protecting of foreign investors in 2014

was significantly improved from 172 to 22 due to the wide modernization of the legal framework in this area. Tajikistan's ranking in terms of business registration also has slightly improved considerably to conducted reforms on introduction of the "single window" system for registration of legal entities from 166 to 87.

Tajikistan still remains poor in the rankings of areas like cross-border trading, getting electricity for an enterprise, dealing with construction permits, getting credit and paying taxes. Especially on the current monetary system for supporting the SMEs in Tajikistan is not yet fully formed and do not meet international standards. In particular, it is when banks and other financial institution providing loans to the SMEs with high interest rates and with relatively short period of time. Therefore, the SMEs have limited access to finance and it is facing difficulties for their development (CIS, 2013).

3.4. Government, International Organizations and NGOs Participation in the SMEs Development in Tajikistan

3.4.1. Government Contribution in the SMEs Development

Since independence, Tajikistan is conducting an active policy on providing economic growth. One of its reforms is promotion and regulation of entrepreneurship as one of the main socio-economic conditions for its development. Development of private sector and attracting investment is a national long-term development priority in accordance with the National Development Strategy of the RT until 2015.

The legislative framework

In Tajikistan for entrepreneurship development was adopted a number of regulations, author reviewed nine⁵ of the given legislations and hereafter would be discussed the most significant low and normative documents.

In 2001, the State Agency of the Antimonopoly Policy and Support of Entrepreneurship was created under the Government of Tajikistan. During its activity the agency developed a draft of the *Law "On the State Protection and Support of Entrepreneurship in the RT"* using the successful experience of other countries. The given Law entered into force on 10 May 2002, №46, which eventually was updated and the latest revision was made in 2011. It defines the general provisions of government security, assistance and free development of entrepreneurship in the country; establishment of the forms and methods of government incentive and regulation of entrepreneurs entities. It should be noted that the given Law needs some revision because several Laws and normative acts which is imbedded to this Law was changed.

The most important issues that create lot of difficulties to entrepreneurship development in Tajikistan are related to *Law of Tajikistan "On State Registration of Legal Entities and Individual Entrepreneurs"* adopted on 19 May 2009, № 508. After conducted survey by IFC on Doing Business data in

⁵ All laws and normative documents on SMEs for reviewing was taken from official website of National Centre of Legislation under the President of RT, <http://mmk.tj/ru/legislation/legislation-base/>

2009, recommendation on the given Law which was adopted in new additions from 29 December, 2010, №669. Despite of conducted modification of the given Law it needs more efforts from Government and related agencies to implement its objectives in proper way with the aim to decrease misunderstandings of registration process among of entrepreneurships and unnecessary bureaucracy that would help to increase number of enterprises.

State Programs⁶

To promote administrative and regulatory reforms regarded to promoting entrepreneurship development and to achieve the objectives of Strategy on poverty reduction strategy for the period 2007-2009 was adopted Program on "Improving the Business Environment - 200 days of reforms", 2 July 2009; № 386 was adopted by Government of Tajikistan. One of the key objectives of this program was to simplify administrative procedures in several areas: business registration, licensing, permitting, foreign trade operations on the principle of "Single Window". The main activities of this Program are formation of a new permitting system, decreasing unnecessary Laws and normative acts and introduction of effective legislation in the area of business regulation.

The major Government Program that would create favorable conditions for business development was designed and adopted "Program on State Support

⁶ All Programs and related documents have been taken from the official websites of State Committee on Investment and State Property Management of RT, <http://www.gki.tj/en/business/reforms/> and Ministry of Finance of RT, <http://www.minfin.tj> in 2014

of Entrepreneurship for the period 2012-2020” from 30 April, 2012, №201. The aims of the Program is to continue implementation progressive, comprehensive reforms of the legislation of Tajikistan; modernization of production and technological processes; attraction of foreign and domestic funds; strengthen public-private partnerships; improving financial and credit system for supporting SMEs; promotion of government grants and concessional loans to the SMEs; improvement in quality and increase in production of domestic production and increase its exports.

3.4.2. International Organizations Involvement in SMEs Development

In the present time, there are lot of International Organizations in Tajikistan such as IFC, UNDP, GIZ, The Aga Khan Development Network (AKDN), Open Society Institute Assistance Foundation Tajikistan and others who are putting efforts on strengthening growth and development of the SMEs in the country.

IFC is one of the active international organizations that are providing huge contribution in the SMEs development in Tajikistan. IFC is focus on private sector development plays an important role in supporting inclusive growth and job creation in Tajikistan. IFC works with private sector clients, government, and civil society to bring global expertise to Tajikistan through its advisory services and investment projects. Historically, Tajikistan became a member of IFC in 1994. Since 1997, IFC has invested \$86.9 million to support private sector projects in the financial sector, hydro power, retail, tourism and manufacturing

sectors. As of December 31, 2013, IFC's committed portfolio stood at \$28.7 million, which includes investments in financial markets and agribusiness sector (IFC, 2014).

Also IFC is striving hard to strengthen the investment environment by supporting reforms and is also trying hard to increase the flow of direct financing of Tajikistan's private sector companies (IFC, 2014).

3.4.3. National Association of Small and Medium Business of Tajikistan

National Association of Small and Medium Business of Tajikistan (NASMB) is a nongovernmental, nonprofit membership organization, which unites more than 100 SMEs as well as business support organizations and other business related organizations, promotes their interests and protects their rights via provision of different valuable services. NASMB was established in 1993 and conducted activities at the national level. NASMB guided by the principles of freedom, fairness and responsibility to develop and conducting its activities on protection the rights of entrepreneurs, lobbying their interests, assisting in professional development, dissemination of information necessary for the development of enterprises, providing consultations, as well as reducing administrative barriers for improving business environment (Code N3)⁷.

NASMB involves itself active in public life, through membership in the Public Council under the Presidency of RT, and an active partner in implementing

⁷ Interview with Matluba ULJABAEVA, (22th September, 2013) Chairman of NAMSB RT

the General Agreement between the Government of Tajikistan, the Federation of Independent Professional Unions and employers (from 1995), member of the Advisory Council on Customs regulation. To improve and develop business climate and international rating of Tajikistan, associations actively participate in different governmental programs (Code N3).

NASMB is also actively involved improving investment in Tajikistan and initiated new streamlined process of business registration through “one-stop-shop” principle was introduced from July 1, 2009 in Tajikistan. NASMB provides for its members and non-members a list of consulting, coaching, educational and informational services based on their needs. Through their official website NASMB regularly provides basic current news of the world economy, changes in the legislation of Tajikistan, information about exhibitions, business forums, seminars, etc (Code N3).

CHAPTER FOUR

4. METHODOLOGY

4.1. Research Strategy

The purpose of this research is find out possibilities of how SMEs can access credit in Tajikistan and the role of microfinance in facilitating SMEs' access to credit The following methodology was utilized to achieve this purpose. The methodology is divided into six sections: 1) Research strategy 2) Research design; 3) The study area; 4) Population and Sampling techniques; 5) Data collection techniques; 6) Data analysis.

4.2. Research Design

This research design is developed on the base of quantitative and qualitative methods.

Quantitative method

A quantitative method based on survey research design is adopted to develop and find out possible ways of how SMEs can access credit in Tajikistan. This will help to understand the role of microfinance in facilitating SMEs' access to credit.

Qualitative method

In this research, the qualitative method was used through interviews to understand expert opinion on how SMEs can access credit in Tajikistan and ways that microfinance could facilitate the SMEs' access to credit that would increase their profitability and sustainable development in Tajikistan.

Interviews were conducted using open ended questions. Also, investigation of relevant information was conducted from documents, books, journal articles and other data.

Therefore this research was based on principles of qualitative and quantities method.

4.3. The Study Area

The study area selected for the research work was Republic of Tajikistan. With the aim to achieve the highest geographical coverage, the target areas of survey research included regions from all 4 administrative entities of the country:

- Khujand city in the Sogd region in the north;
- Kulyab and Kurgan-Tyube cities in the Khatlon region in the south;
- Khorog city in the GBAO in the south-east;

- Khisor and Shahrinav region in the RRS includes Dushanbe – capital city of country (see Figure 4.1 and Table 4.1).

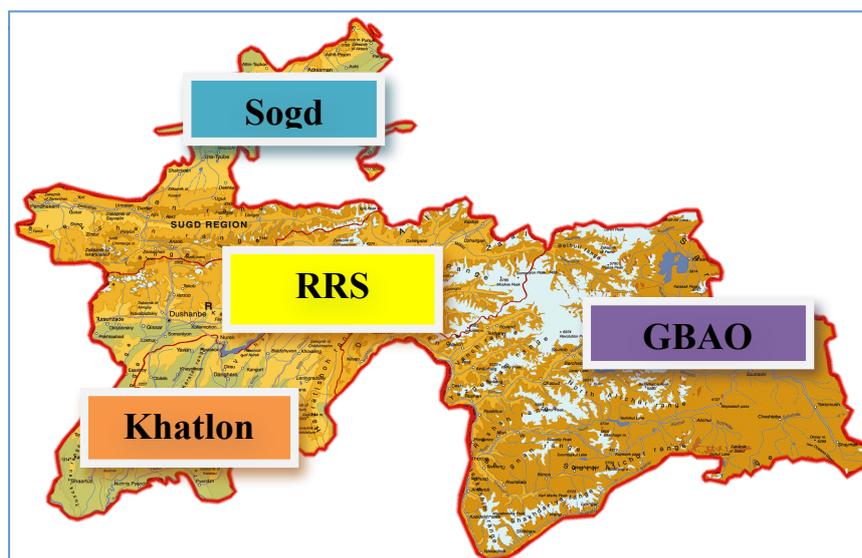


Figure 4.1 Map of Tajikistan with the researched areas
Source: Maps of World 2014.

Table 4.1
Population Distribution of Republic of Tajikistan

Divisions	Capital	Area (km²) (2010)	Population in thousand person (2012)
Tajikistan in total	Dushanbe	143,010	7987.4
GBAO	Khorog	64,200	210.2
Khatlon	Qurghonteppa	24,800	2831.7
Sogd	Khujand	25,400	2349
Region of Republican Subordination	Dushanbe	28,600	1832.2
Dushanbe	Dushanbe	10,0	764.3

Source: TAJSTAT, 2013

For the survey in the given regions, representatives of the SMEs as client of the MFOs and non-client as a control group were selected as populations for the research.

Tajikistan has statistical data on how many SMEs are in the country and data on extending microcredits by region (see Figure 4.2) but does not have statistical data on total amount of the SMEs who are receiving microfinance services by regions in country scale. Therefore, the research was conducted among the SMEs who are clients of the MFOs membership of AMFOT because it has such information on it (see Figure 4.3).

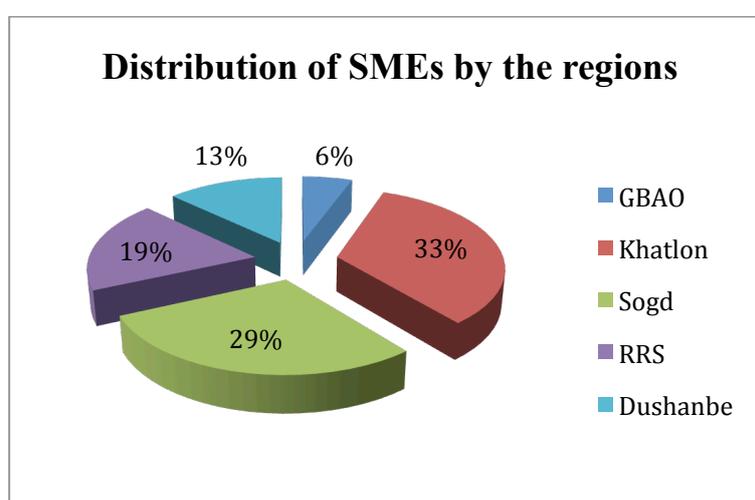


Figure 4.2 Distributions of the SMEs on 2013 by Regions of Tajikistan
Source: Tax Committee, 2013

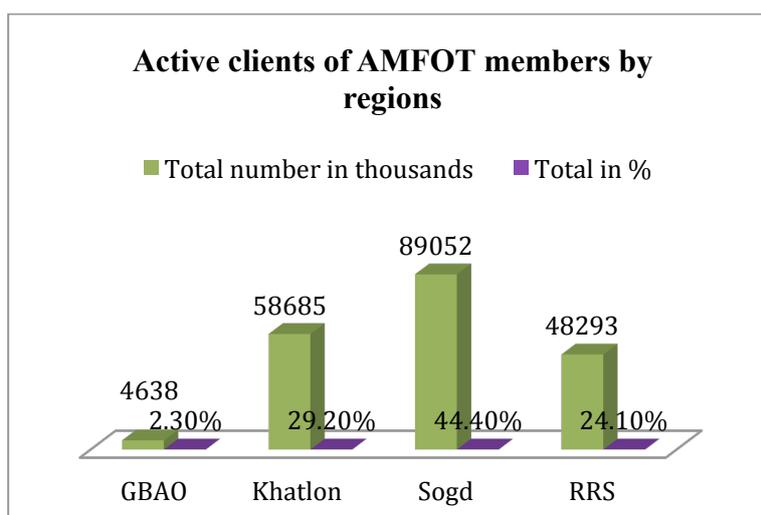


Figure 4.3 Active Clients of AMFOT's Members by Regions of Tajikistan by the end of 2012
Source: AMFOT, 2013

4.4. Population and Sampling Techniques

The target population for the study was divided into 2 groups:

First group of population was representatives of the SMEs who are client (200 people) of the MFOs and non-clients (120 people) as a control group. This group was surveyed through questionnaire.

Second group of people were selected for conducting qualitative research through interviewing which were as follows:

1. Representatives (10 persons) from 6 MFOs were individually interviewed.
2. Representatives from Government agencies - 10 respectively were interviewed.
3. Representatives from NGOs who are implementing projects on SMEs development – 6 people were interviewed.

Simple random sampling- when every SME who is a client of the MFOs and non-clients of the MFOs are given an equal chance of being included in the sample.

A simple random sampling technique was used to select 200 respondents among the SMEs representatives who were clients from the MFOs and also 120 non-clients of the MFOs; constitutes as our sample size. A request was made to AMFOT to provide the list of registered SME clients and from this list; every

tenth name was randomly selected. From the list, 200 random clients were selected as samples and will be used for the research.

Non-clients from the SMEs were selected with the assistance from Labor agencies and Labor Unions. The non-clients helped in the research for finding out the gaps of microfinance in the SMEs growth (see Table 4.2).

The respondents have been chosen in accordance to the following guideline adopted by expert Buerkle (2010), of the GTZ project:

- The SMEs clients should have at least two loans from the MFOs;
- The clients should be interviewed at their homes or work spaces in order to avoid interviewing them at the MFOs office, where they would have felt pressured to give positive feedbacks;
- The non-clients should not have received any loans from the MFOs;
- The 50:50 gender distributions among clients as well as non-clients had to be adhered to;
- For both, clients as well as non-clients it was important to have as even a distribution in terms of economic sectors as possible (Buerkle, 2010).

Table 4.2
Target Sample Structure

Sample groups	Sogd	Khatlon	GBAO	RRS	Total
SMEs clients	50	50	50	50	200
Male	25	25	25	25	100
Female	25	25	25	25	100
Non-clients (SMEs)	30	30	30	30	120
Male	15	15	15	15	60
Female	15	15	15	15	60

Source: Table developed by researcher, 2013

4.5. Data Collection Techniques

The content research took place from August to September of 2013.

Data collection techniques in this research included primary data - questionnaire survey of the MFOs clients (SMEs) and non-clients, interview with the MFOs representatives and government and non-government representatives to accomplish the purpose of the research.

4.5.1. Questionnaire Survey Collection

The researcher developed the questionnaires (attached in Annex II) based on previous studies in the similar area of research.

The structure of the survey questionnaire:

As the survey aims to offer information on the benefit of the SMEs clients on current MFOs lending practices, questionnaires that covered the following topics was developed:

- General information of survey participants (client and non clients);
- Purpose usage of microcredit;
- Quality of the provided services by the MFOs;
- Economic effect of microcredits: job formation, increase income in family, increase in employees' salary;
- Social impact of microcredits: living standards of the recipient;
- Collaboration with MFOs.

The second part of the questionnaire focused on questions aimed at non-clients of the SMEs as a control group to find out the reasons of non-cooperation.

Furthermore, these questions were discussed with the supervisor of this research, consultant and representatives of the AMFOT and NASMBT, then tested, adjusted and translated into Tajik language for the better understanding of the samples (study groups). Then the researcher, with assistance from AMFOT created work group from the MFOs experts from target regions—Gulos RAHMATSHOEV MCO “Madina and partners” (GBAO); Khudoidot AZIZOV MCO “Behnamo” (Dushanbe); Sobir RAKHIMOV MCO “Mehnatobod” (Khatlon); Shahnoz IKROMI MDO “Arvand” (Sogd) who conducted questionnaire survey among representatives of the SMEs who were clients (200 people) of the MFOs and non-clients constituting 120 people as a control group.

4.5.2. Qualitative Interview Collection

The interview was developed through using open-ended questions (attached in Annex III) for which answers will not be limited to one response.

The interview was conducted using in-depth interview techniques among the following target groups:

1. **Government Group:** Ministry of Finance RT, Ministry of Labor and Social Security of RT, Tax Committee, Investment Committee, NBT, etc.
2. **NGOs Group:** AMFOT, NASMB, Open Society Institution, PIU Microfinance, etc.
3. **MFOs Group:** MCO Madina (GBAO), MCO Rushdi Pomir (GBAO), MDO “Arvand” (Sogd), MCO Behnamo (Dushanbe), MFO Armon(Dushanbe), MCO “Mehnatobod” (Khatlon).

4.5.3. Secondary Data Collection

This study also collected secondary data from representatives of MFIs in Tajikistan to have information and recommendations on the SMEs and on microfinance issues.

The following secondary data was reviewed with the aim to discover works on microfinance and the SMEs and also to prepare policy recommendation on it:

- Laws and regulations on SMEs and microfinance;
- National program on SMEs and microfinance support;
- Statistical data and reports;
- Journal articles, books;
- Received data from participation in VII National Microfinance Conference “Access to Finance: The Role of Investments and Innovations”, Dushanbe, Tajikistan, 26 September 2013 conducted by AMFOT.

4.6. Data Analysis

Quantitative as well as qualitative methods were adopted for the analysis of the primary data collected.

Quantitative data analysis

Data collected from the quantitative survey questionnaire were analyzed, summarized, and interpreted accordingly, with support of descriptive statistical techniques such as total score and simple percentage. The quantitative data analyzed used Microsoft Excel and SPSS program. The findings were presented in the form of tables, charts and figures.

Qualitative data analysis

Qualitative method was used in the analysis of primary and secondary data collected. Analysis of data collected from interviews was done following the steps below:

- Data reduction. The given action started from choosing and focusing data from recorded interview to written-up field data and transcription.
- Data display. This process was done to organize the data that will be used in developing conclusions and recommendations. The data was categorized into the main and insignificant topics for analyzing.
- Conclusion. It is the final stage in the data analysis. The researcher established the data and findings and developed conclusion and policy recommendations.

4.7. Limitation of the Study

Access to finance has a broad meaning and covers different aspects. The given research would have advantage from its detailed explanation on facilitating access to finance through microfinance and its impact on SMEs' economically and socially. Because of the limitation on time and means, this research is unable to cover the whole regions of Tajikistan. Also it was impossible to conduct deep

and theoretical analysis of SMEs impact on Tajikistan economy due to lack of statistical data.

CHAPTER FIVE

5. ANALYSIS OF FIELD SURVEY FINDINGS AND PRESENTATION OF RESULTS

5.1. Introduction

This chapter aims to analyze findings of the research study as well as the findings of the questionnaire survey. The findings of the research study would be analyzed through the use of tables, figures and charts. This part further aims to summarize discussions on the SMEs profiles and recipients of the MFOs products and services (and the non clients of the MFOs), in Tajikistan.

5.2. Data Presentation and Analysis of Questionnaire Survey

The questionnaires distributed in two target groups. First group were the SMEs clients of the MFOs and second group were the SMEs non-clients of the MFOs (see Table 5.1).

Table 5.1
Responses of Conducted Questionnaire Survey

Category	Questionnaires sent	Received responses	Rate of responses (in %)
SMEs clients of MFOs	200	200	100%
SMEs non clients of MFOs	120	120	100%
Total	320	320	100%

Source: Primary data from field survey, August-September 2013

In total, 320 questionnaires were distributed for the researches propose and a response rate of 100% was achieved.

5.2.1. Background of Selected SMEs for Questionnaire Survey

The background of the SMEs respondents was required to assist in the sampling process, and to know if they fit in the category of the correct SMEs respondents. The given analysis was divided into two groups – one for the SMEs clients of the MFOs and the other for the SMEs non-clients of the MFOs.

5.3. Analysis of SMEs Clients of MFOs

5.3.1. Profile Observation of SMEs Clients of MFOs

From the Table 5.2 below, main characteristics of the SMEs clients of the MFOs were determined.

Table 5.2
Main Characteristics of the SMEs Clients of the MFOs

Category	Amount	In percentages (%)
<i>Age distribution</i>		
Under 25 year	26	13.0%
25-40 years	95	47.50%
Above 40 years	79	39.50%
Total	200	100%
Gender		
Male	100	50%
Female	100	50%
Total	200	100%
Types of SMEs non clients		
Agriculture	22	11.0%
Animal husbandry	1	0.50%
Commerce/Trade	96	48.0%
Manufacture production	32	16.0%

Services	48	24.0%
Other	1	0.50%
Total	200	100%

Source: Primary data from field survey, August-September 2013

According to the given data we can observe that age which prevailed in age distribution of the SMEs is age 25-40 years with the highest percentage of 47.5%. It shows that young generations are actively involved in the SMEs sector. This was followed by the age above 40 years, recording 39.5%. Furthermore, 13.0% was recorded for the ages under 25. This is a normal phenomenon because according to the law of Tajikistan, after receiving majority status (16 years), anyone is obliged to get involved into the entrepreneurship activities.

The same numbers of male and female sample were used (100+100) with the aim to get clear and correct information for research issues.

The types of SMEs respondents, as shown, 48.0% are involved in Commerce/Trade, which prevailed more than any other forms. The respondents involved in the Commerce/Trade group were selling goods from neighboring countries (China, Kyrgyzstan etc.) in the local markets; 24.0% engaged in services (construction, tailoring, etc); 16.0% engaged in manufacturing (bread, pies, cakes production); 11.0% engaged in agriculture especially vegetables and fruit for further selling in local markets; 0.50% engaged in animal husbandry mostly for their own need. Some of the product is used for selling; 0.50% engaged in other types of the SMEs like workmanship.

Credit History

“How long have you been using loans to fund your business?” was asked to the target group to find out their involvement with the SMEs as clients of the MFOs. The result shows that 56.0% of the SMEs have 1-4 years experiences with credits; 28.50% of the SMEs have 1-12 months experiences; 13.50% of the SMEs have 5-10 years experiences and 2.0% have 11 and more years’ experiences to obtain credits (see Figure 5.1). This means that the research was conducted with the correct group. And also the given SMEs have very long term experiences on credit management.

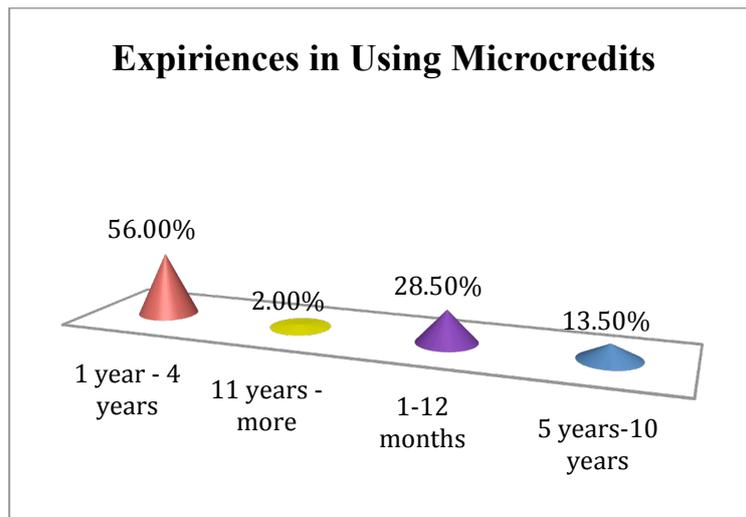


Figure 5.1 *Experiences of the SMEs in Using Microcredits*
Source: Primary data from field survey, August-September 2013

Source of Capital

Source of capital is the most important thing in any SMEs. Source of initial capital is shown in Figure 5.2; it reveals that to initiate the SMEs activity, a personal saving of about 47.50% played a key role in setting up a business. SMEs

are often scared to initiate their business with loan because they are not very sure that it would survive and grow due to the fact that there are lots of different internal and external problems. But their loan comprised of 29.50% and contribution from friends and relatives comprised of 23.0% when starting the SMEs.

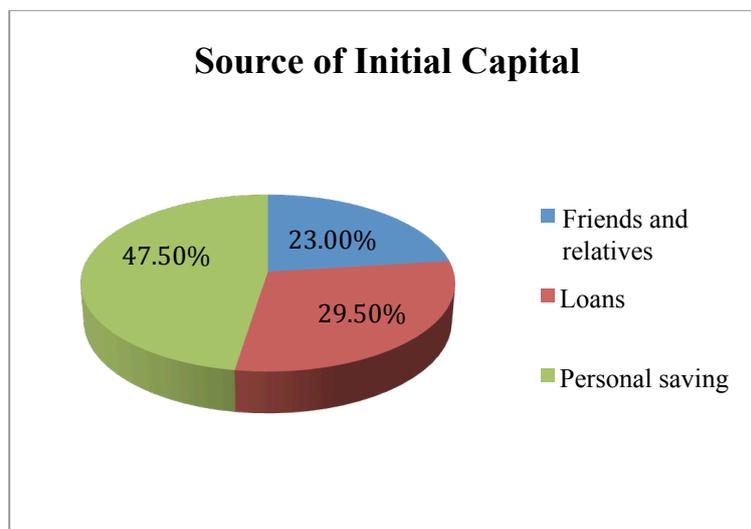


Figure 5.2 *Source of Initial Capital of the SMEs*
Source: Primary data from field survey, August-September 2013

Employment by the SMEs

Amount of people who were employed in SMEs are presented in Figure 5.3. The data revealed that 75.5 % of the SMEs have less than 6 staffs because most of the responded were engaged in trade. The graph also showed that 12.0% of the SMEs have 6-9 people employed and 11.50% of the SMEs have 10-29 people employed in service related forms. Agriculture forms of the SMEs comprise 1% and employed about 30-99 people and 1% of manufacturing production forms of the SMEs had employees above 100 people.

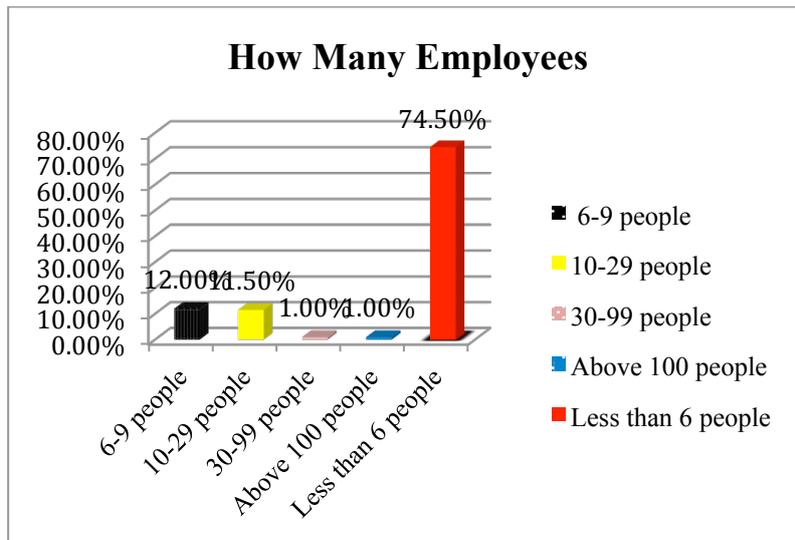


Figure 5.3 Amounts of Employees Involved in the SMEs
 Source: Primary data from field survey, August-September 2013

Additional funding for the SMEs

200 SMEs responded that they needed additional funding, meaning that 100% of the SMEs needed additional funding. Figure 5.4 shows the purpose of additional fund of the candidates.

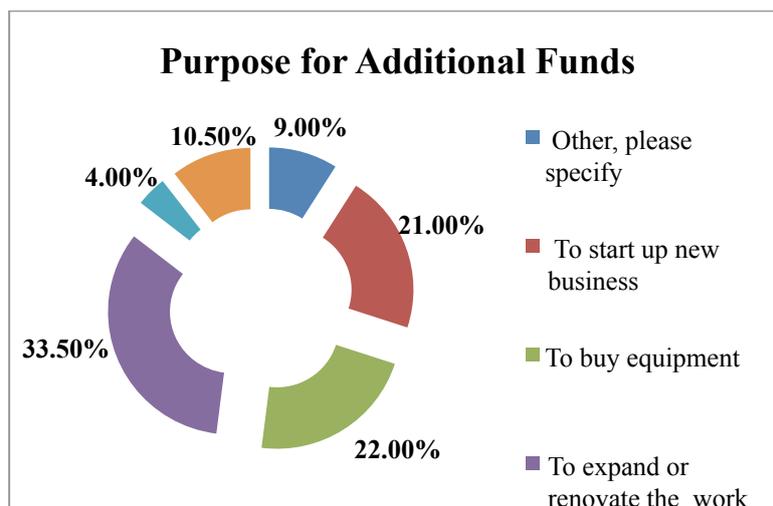


Figure 5.4 SMEs Purpose for Additional Funds
 Source: Primary data from field survey, August-September 2013

33.5% of SMEs wanted the fund to expand the workplace; 22.0% needed to buy new equipment and technologies; 21.0% wanted to start up new business, that means to transform to another kind of business; 10.50% wanted to increase capital through capital or goods turnover with aim to get more profit; 9.0% of respondents answered “other” – Within this group, some provided reason such as wanting to increase salary while others refused to reveal. Finally, 4.0% wanted to hire additional workers with the desire to increase productivity.

5.3.2. Analysis of the Contribution of MFOs in the Operations of SMEs

All the recipient of questionnaires had some level of knowledge about the operations of the MFOs. This provides evidence that the respondents sampled for research have knowledge on the operations of the MFOs in Tajikistan. The Figure 5.5 below shows how these SMEs got to know about the operations of the MFO’s.

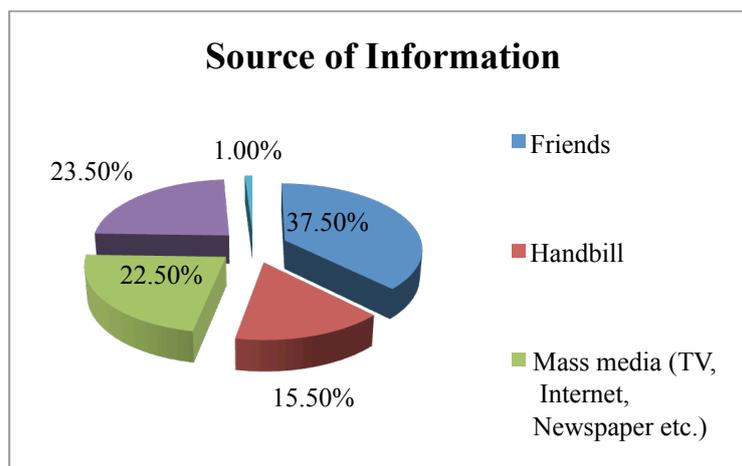


Figure 5.5 *Source of Information*

Source: Primary data from field survey, August-September 2013

The figure above shows that out of 100%, 37.50% knew about the MFOs through friends; 23.50% through the MFOs staff, 22.50% through the mass media (TV, newspaper, internet, etc.); 15.50% through handbill and 1% through other (campaign).

Formal and Informal Sectors

“When you need money where do you prefer to obtain loans from?” the response was divided into two sections (formal sector and informal sector) and candidates were asked about their understanding on how SMEs solve the financial problem when it arises.

The Figure 5.6 shows information about the SMEs who obtain the loans from formal sectors.

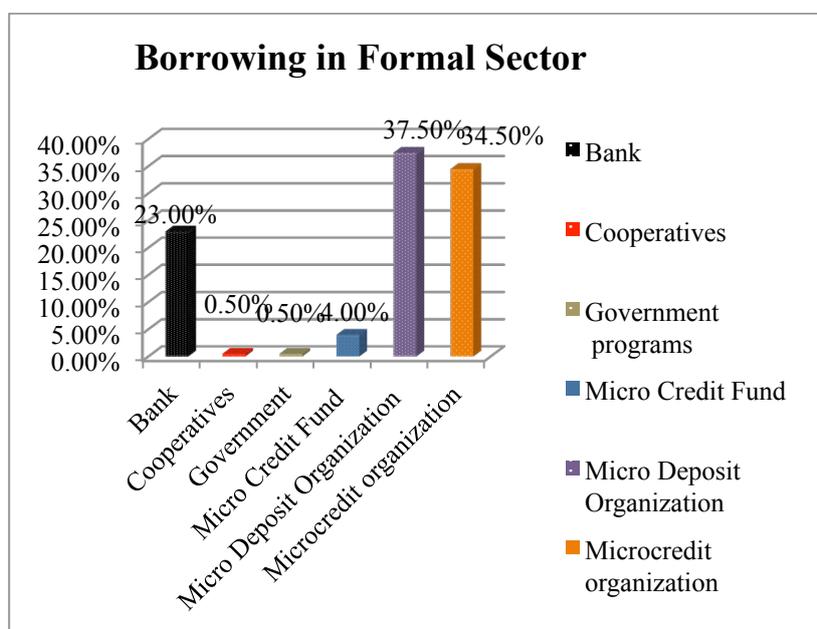


Figure 5.6 *SMEs Borrowing in Formal Sector*

Source: Primary data from field survey, August-September 2013

In formal sector, the SMEs preferred to obtain loan from the MFOs (MCF, MDO and MCO)⁸ sectors, which in total comprise of 76%; the SMEs borrowing loan from banks was 23%; cooperatives and government program each represents here 0.50% each.

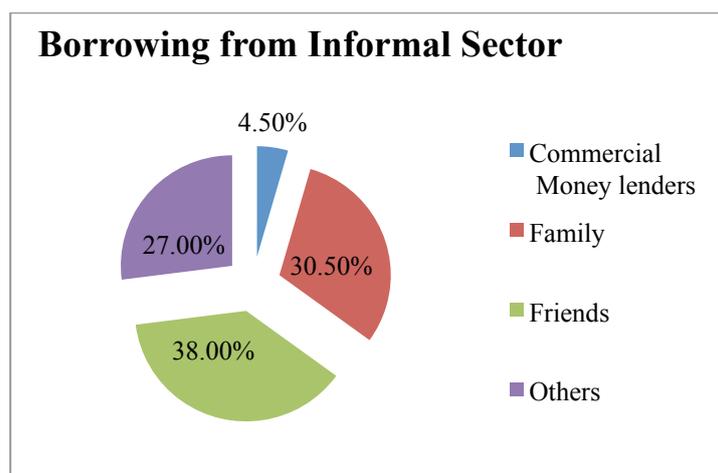


Figure 5.7 SMEs Borrowing from Informal Sector
 Source: Primary data from field survey, August-September 2013

Figure 5.7 shows that in informal sectors, the SMEs borrowing loan from friends is 38.0%; Family and relatives 30.50%. Respondents had more confidence on relatives and friends when solving their financial issues. 27.0% of the SMEs borrowed from other such as co-workers, neighbors etc; and 4.50% borrowed from commercial moneylenders.

Types of Credit

The Figure 5.8 presents data on types of credit that the SMEs prefer to get from the MFOs.

⁸ The definitions provided in the Glossary

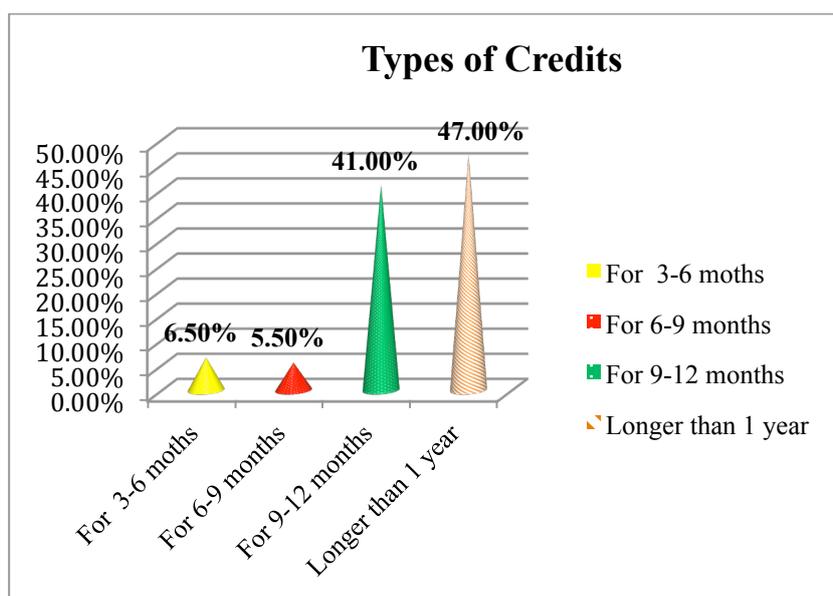


Figure 5.8 *Types of Credits*

Source: Primary data from field survey, August-September 2013

About 47.00% of the SMEs prefer longer than 1 year time period and soft loans; 41.0% prefers 9-12 months. These kinds of the SMEs are the representatives from service, production, agriculture and these types of the SMEs who need more time to generate income on their activities. But most of formal sectors like banks do not want to lend them funds as they want faster turnover; 6.50% prefer 6-9 months and 6.50% of the SMEs prefer loan from 3-6 months' time period.

5.3.3. Key Findings of Analysis

Access to Credit

The waiting period required to access credit is shown in Figure 5.9. Majority of the beneficiaries take less than a week to access loans from the MFOs – 68.0%. This issue related to the SMEs who are living in cities and near to the

place where the MFOs are located has no problem with transportation. While others, 19.0% takes 1-2 weeks, 11.50% takes more than 4 weeks to reach the nearest MFOs. This is because they live in rural and mountain areas and have less access to infrastructures and resources. Further, 1.50% takes 2-3 weeks to access credit facility from the MFOs.

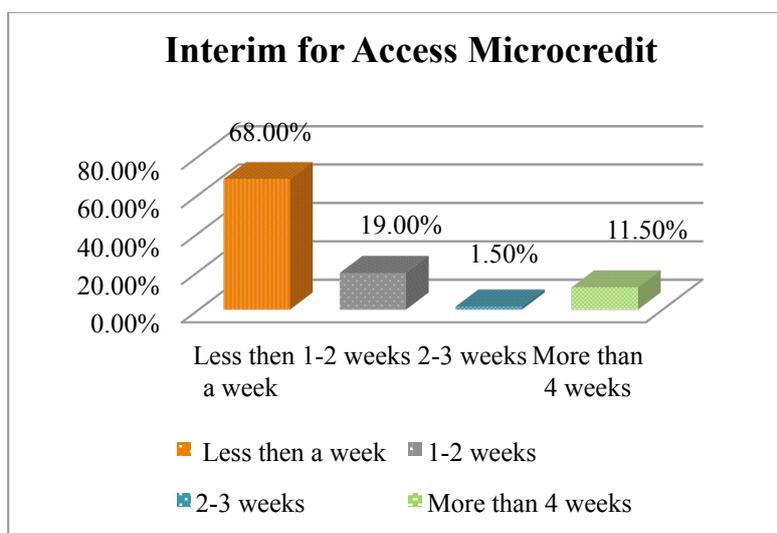


Figure 5.9 *Interim for Access to Credit by the SMEs*
 Source: Primary data from field survey, August-September 2013

The survey found that 42.0% of the SMEs respondents can manage to get loan from the MFOs. 35.0% of the SMEs can easy get loans and the given SMEs respondents presents people who are living in cities and regions and most of them argues that they have no problem with transportation, less bureaucracy and appropriate loans conditions to get credit. 21.50% of the SMEs argues that it is difficult but still could be manage and 1.50% of the SMEs said it is very difficult to get loans. The given respondents represents people who are living in the mountain and remote regions where access to credit is very difficult because

of undeveloped infrastructure and road are blocked during winter seasons (see Figure 5.10).

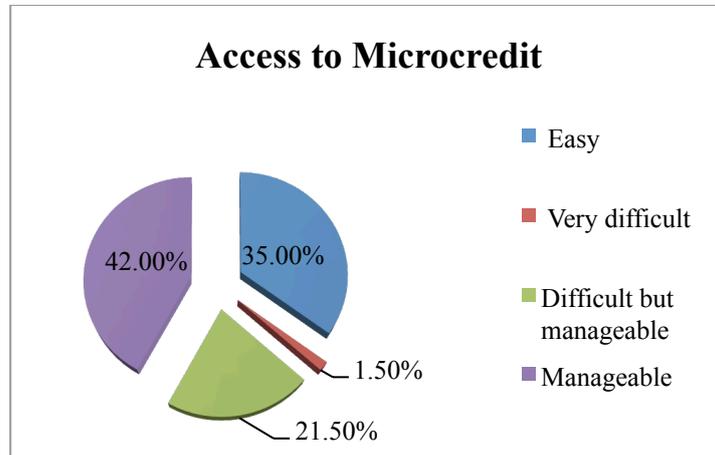


Figure 5.10 *Accesses to Microcredit by the SMEs*
 Source: Primary data from field survey, August-September 2013

It is important to know what kinds of difficulties are faced by the SMEs when receiving microcredits from the MFOs. Figure 5.11 presents such data.

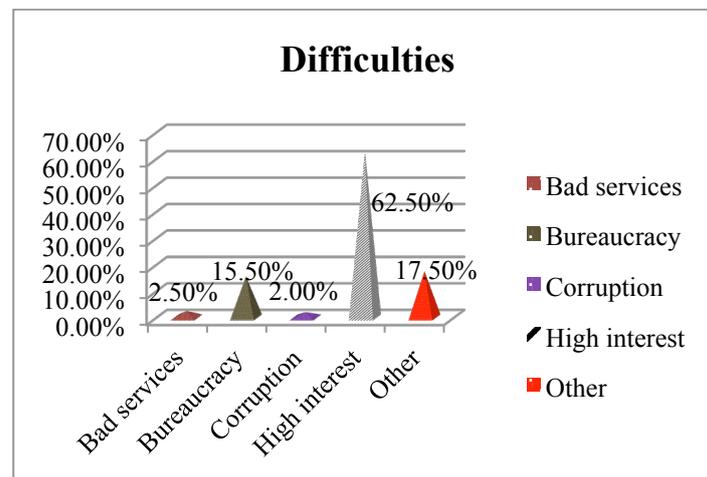


Figure 5.11 *Difficulties of the SMEs during Access Credit from MFOs*
 Source: Primary data from field survey, August-September 2013

About 62.50% of the SMEs faced difficulties to obtain loan from the MFOs because of high interest rates. 17.50% of the SMEs faced other issues such as misunderstanding contracts terms; 15.50% of the SMEs had to face bureaucracy; 2.50% of the SMEs had to go through bad services and 2.0% of the SMEs faced corruption. A typical example would be the MFOs staffs lending loans only after receiving bribe or in local terms “giving money for tea”.

The most significant issue was related to the question about the SMEs continuation of cooperation with microfinance agencies. 86.0% of the SMEs would like to continue collaboration with the MFOs. Because they argue that with MFOs is real way to get access to finance and solve their problem. And 14.0% of the SMEs do not want to continue collaboration with the MFOs. Reason was that they were not satisfied with services that MFOs in some or the other sense.

Interest Rates Issues

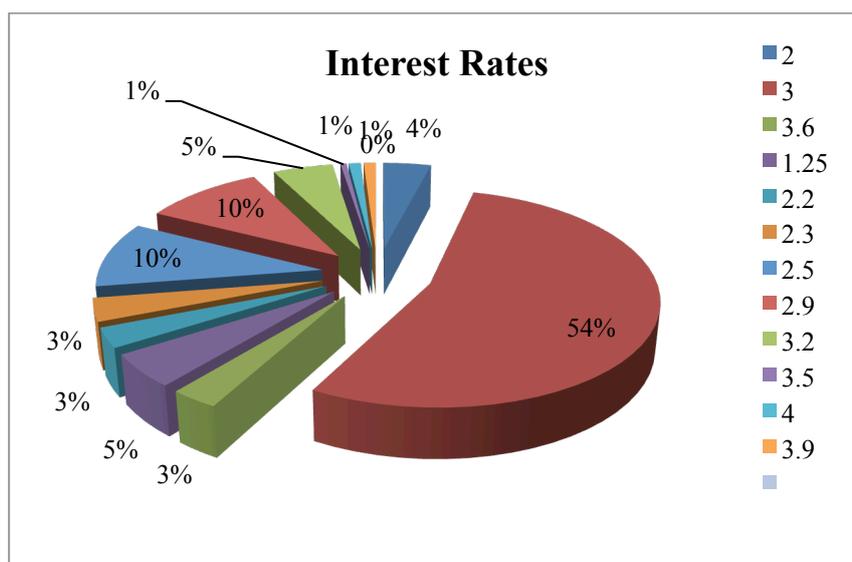


Figure 5.12 *Interest Rates on Credits Borrowed by the SMEs*
 Source: Primary data from field survey, August-September 2013

Interest rates issues presented in Figure 5.12, shows that the 54% of the SMEs are borrowing credit with the average annual interest rate 36% (3% every months) which is very high compared to other Central Asia countries (see Table 5.3); 10% of the SMEs borrow credit on 34.8% annual rate and other 10% of the SMEs borrow credit on 30.0% annual interest rates. But research revealed that some of the SMEs have access to credit with higher interest rate than official average of 3%. Some of the SMEs borrow credit on 43.2% annual interest rates; 1% the SMEs borrow on 46.8% and other 1% of the SMEs borrow on 48% annual interest rates, which is very high compared to above mentioned rates. Only few of the SMEs have access to low interest rate of 5% of the SMEs have access to 15% interest rate annually.

Table 5.3
Percent Rates on Interests of MFOs from Central Asia

Country	Percent rate on interests	Period
Kazakhstan	30%-36%	Annual
Kyrgyzstan	30.46%	Annual
Tajikistan	30.52%-42%	Annual
Turkmenistan	-	-
Uzbekistan	24%-30%	Annual

Source: AMFOK, 2014; AMFIK, 2014; NBT, 2014; AMFOT, 2014; Bank of Uzbekistan, 2014
Table developed by the researcher

And question concerning on a fair rate of interest, majority of the SMEs respondent (74.50%) said that it is normal and appropriate rate for them. They argued that most of the MFOs provide similar interest rates and there is no option to choose. 25.50% of the SMEs said that it not a fair rate because it implies high interest rates but they are compelled to borrow as they have no other option

Challenges of using microcredits

Figure 5.13 show that 75.50% of the SMEs have no difficulties in repaying microcredits. These respondents also mentioned that they have experience and knowledge how to use microcredits for benefits. But 24.50% of the SMEs said that for them it is very difficult to repay microcredits because of the high interest rate and their business functioning.

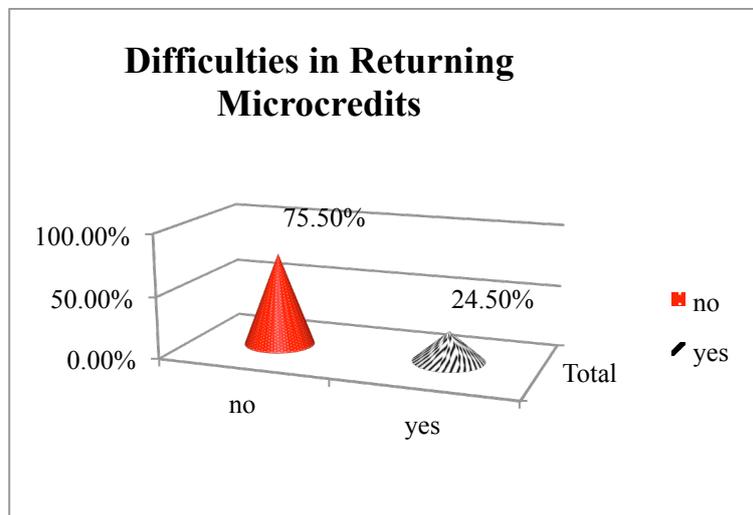


Figure 5.13 *Challenges in Returning Microcredits by the SMEs*
Source: Primary data from field survey, August-September 2013

Advantages of using microcredits

The Figure 5.14 shows the kind of benefits of using microcredits by the SMEs. 40.50% of the SMEs respondents improved their business through the MFOs microcredits; 40.0% of the SMEs increased their incomes; 14.50% of the SMEs increased their labor in workplace; 4.50% of the SMEs increased salary and 0.50% of the SMEs have other benefits such as new equipment, technology etc.

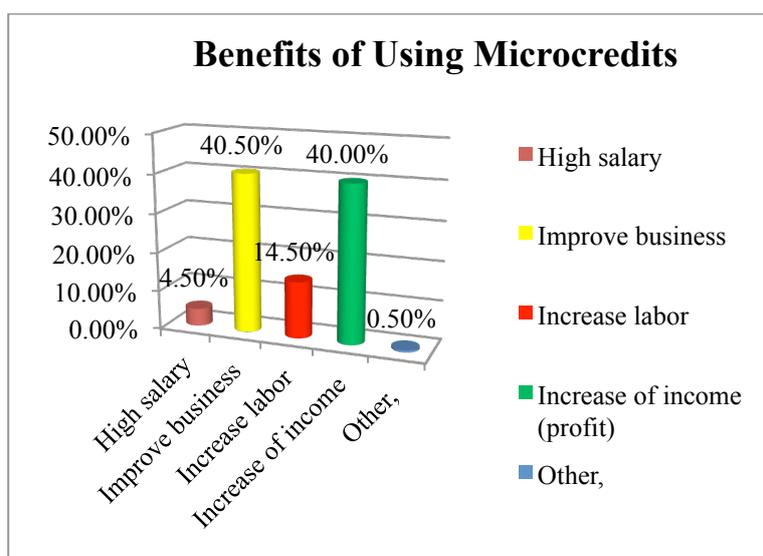


Figure 5.14 *Benefits of Using Microcredits by the SMEs*
 Source: Primary data from field survey, August-September 2013

And respondents also give information on their average monthly income from the SMEs activity. 94.78% of the SMEs respondents answered that their average monthly income from the SMEs activity, after receiving loans was increased up to 50%. Only 5.22% of the SMEs said they income did not increase even after utilizing microcredits. And they argued that it was because of rising value of US dollar rates, rising goods costs and etc. So, all of these issues could provide support on confirmation that MFIs could have positive benefits for the promotion of SMEs in Tajikistan.

Contribution to the SMEs

The Figure 5.15 determined the issues concerning kind of support needed for the smooth growth/functioning of the SMEs. It was found that 34.50% of the SMEs needed government support through organizing program on the SMEs development; 28.50% of the SMEs needed tax preferences and decrease in

tax rates; 25.50% of the SMEs required concessional microcredits; 10.50% of the SMEs decrease in bureaucracy as minimum when receiving loans and 1.0% of the SMEs who responded others implied the following issues:

- Necessary to delay market isolation and corruption;
- It is necessary to establish business insurance;
- To increase government program for women who are engaged in the SMEs;

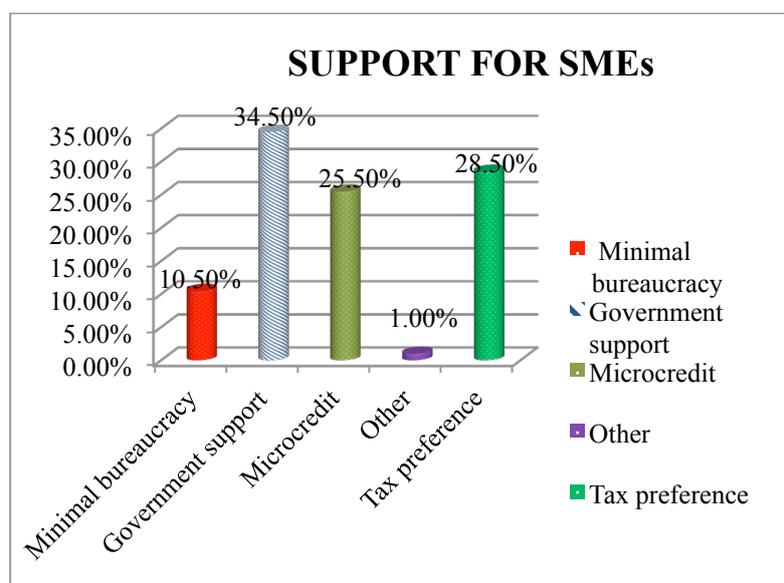


Figure 5.15 Supports to the SMEs

Source: Primary data from field survey, August-September 2013

5.3.4. Spearman's Rank Correlation Coefficient Analysis

The Spearman's rank correlation coefficient was used to evaluate the degree to which cases on SMEs access to finance from MFOs with high rankings on one variable were observed to have similar rankings on another variable. The variables were selected through the questionnaire survey answers related to the

SMEs access to finance from the MFOs. Through using SPSS was developed the statistical inference Table 5.4 presents variables such as age, interest rates, difficulties to get the loan, fair interest rates, difficulties with paying loan, are related to each other or not.

Table 5.4
Spearman's Correlations

			Age of SMEs	What interest rate do you pay on your loans?	How difficult is to get a loan?	How many people are employed in your SMEs?	In your opinion is this a fair rate?	Do you have difficulties in repaying loans?
Spearman's rho	Age of respondents	Correlation Coefficient	1.000	.001	-.019	.113	.051	.025
		Sig. (2-tailed)	.	.983	.792	.111	.474	.727
		N	200	200	200	200	200	200
	What interest rate do you pay on your loans?	Correlation Coefficient	.001	1.000	.166*	.015	.147*	-.134
		Sig. (2-tailed)	.983	.	.019	.835	.038	.058
		N	200	200	200	200	200	200
	How difficult is to get a loan?	Correlation Coefficient	-.019	.166*	1.000	.138	-.122	.130
		Sig. (2-tailed)	.792	.019	.	.051	.085	.067
		N	200	200	200	200	200	200
	How many people are employed in your SMEs?	Correlation Coefficient	.113	.015	.138	1.000	.078	.043
		Sig. (2-tailed)	.111	.835	.051	.	.271	.548
		N	200	200	200	200	200	200
	In your opinion, is this a fair rate?	Correlation Coefficient	.051	.147*	-.122	.078	1.000	-.227**
		Sig. (2-tailed)	.474	.038	.085	.271	.	.001
		N	200	200	200	200	200	200
	Do you have	Correlation Coefficient	.025	-.134	.130	.043	-	1.000

difficulties in repaying loans?						.227**	
	Sig. (2- tailed)	.727	.058	.067	.548	.001	.
	N	200	200	200	200	200	200

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Table developed by researcher, 2014

Outputs of Spearman's correlations

- 1.) With a 5% level of significance there is a weak positive relationship between the interest rates paying by the SMEs and difficulties to get a loan;
- 2.) The significant of 5% level there appears to be a weak positive correlation between the interest rates paying by the SMEs and on fair interest rates issues;
- 3.) With a 10% of significant there is a weakly positive relationship between difficulties to get a loan and employed people in the SMEs;
- 4.) There is 10% of significant level of weakly negative relationship between difficulties to get a loan by the SMEs and fair interest rates issues;
- 5.) With the 5% level of significant there is strong negative relationship between difficulties to repayment a loan by the SMEs and fair interest rates issues;

5.3.5. A Student's t-Test Analysis

The t –Test was used to analyze the interest rates paid by the SMEs in two different gender groups (male and female), a suitable null hypothesis would

be that there is no difference in paying interest rate between the two genders. The student's t-test will tell us if the data are consistent with this or depart significantly from this expectation (See Table 5.5).

Table 5.5
t-Test: Two-Sample Assuming Unequal Variances

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	0.029035	0.02737
Variance	1.70265E-05	3.66E-05
Observations	100	100
Hypothesized Mean Difference	0	
Df	175	
t Stat	2.273673127	
P(T<=t) one-tail	0.012100257	
t Critical one-tail	1.653607438	
P(T<=t) two-tail	0.024200515	
t Critical two-tail	1.973612422	

Source: Table developed by researcher, 2014

We can reject the null hypothesis that the two means are equal at a .0121 level of significance this shows that women pay a significantly higher interest rate than men.

5.4. Analysis of SMEs Non Clients of MFOs

5.4.1. Profile Observation of SMEs Non Clients of MFOs

The 120 non clients of the MFOs who are the SMEs were used as control group with the aim to help in the research for finding out the gaps of microfinance in the SME's growth.

Through the Table 5.6 were determined main characteristics of the SMEs non clients of the MFOs.

Table 5.6
Main Characteristics of the SMEs Non Clients of the MFOs

Category	Amount	In percentages
Age distribution		
Under 25 year	24	20.0%
25-40 years	59	49.17%
Above 40 years	37	30.83%
Total	120	100%
Gender		
Male	60	50%
Female	60	50%
Total	120	100%
Types of SMEs non clients		
Agriculture	6	5.0%
Animal husbandry	1	0.83%
Commerce/Trade	57	47.50%
Manufacture production	17	14.17%
Services	38	31.67%
Other	1	0.83%
Total	120	100%

Source: Primary data from field survey, August-September 2013

Source of Capital

To establish business 47.0% of the SMEs non clients of the MFOs got capital through saving their personal means sometimes through selling their own property; 28.0% of the SMEs got initial capital through friends and relatives but they paid non official interest rate to them; 25.0% of the SMEs got capital through loans from informal sectors such as money lenders and have difficulties to return them with interest rates. This situation undermined confidence of the SMEs to have any deal with credit organizations (see Figure 5.16).

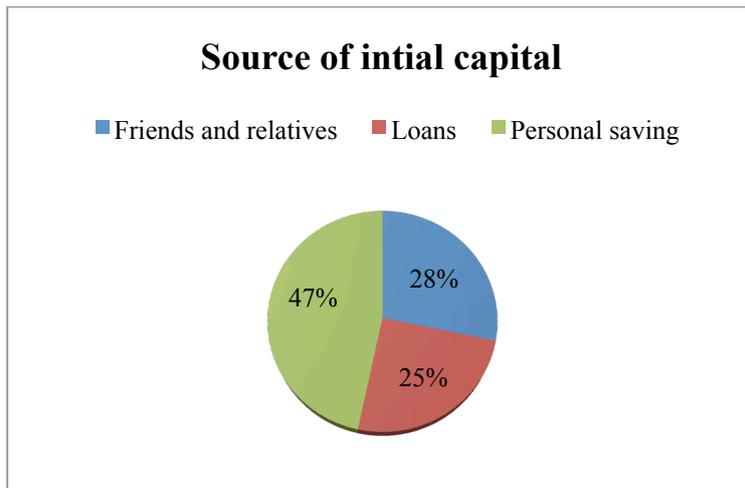


Figure 5.16 *Source of Initial Capital of the SMEs Non Clients of the MFOs*

Source: Primary data from field survey, August-September 2013

5.4.2. Key Findings of Analysis of SMEs Non Clients of MFOs

Reasons

The reason why the SMEs do not want to borrow loans from formal sectors is provided in Figure 5.17

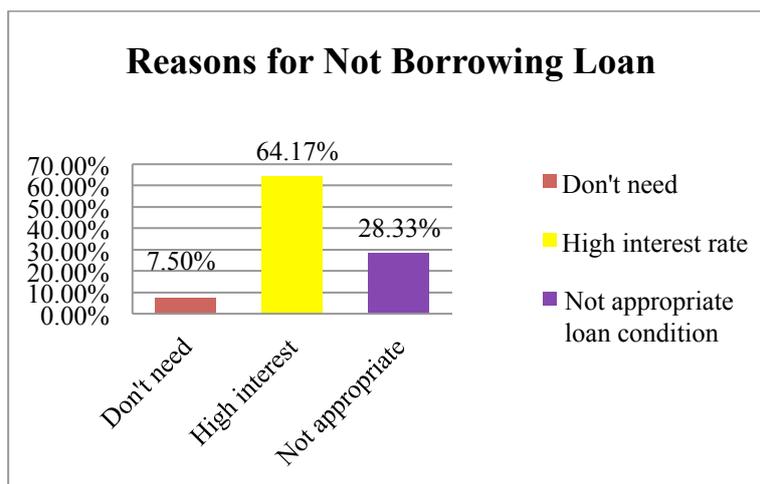


Figure 5.17 *Reasons for not borrowing loan by the SMEs Non Clients of MFOs*

Source: Primary data from field survey, August-September 2013

The major reason is that 64.17% of the SMEs argue that interest rates are very high and therefore they cannot afford it. 28.33% of the SMEs responded that there is no appropriate loan condition to them and many have misunderstanding in contracts. 7.50% of the SMEs said they do not need loans because they are fine without it.

Through the Figure 5.18 it will become clear how the SMEs non-clients solve their problems without loans from formal sector.



Figure 5.18 Data on How the SMEs Non Clients Managing Without Loans

Source: Primary data from field survey, August-September 2013

About 45.0% of the SMEs manage their financial issues through their family; 37.50% through friend; 10.83% of the SMEs do not need additional finance; 4.17% of the SMEs find solutions other ways through co-workers, neighbors etc.; and 2.50% of the SMEs manages through commercial money lenders with high interest rates.

Support

The SMEs non clients determined that they need support on their development and growth (see Figure 5.19). Here 33.0% of the SMEs non-clients need support through microcredits with low interest rates from the MFOs. 28.0% of the SMEs argue and demand for government support. 28.0% of the SMEs need tax preferences, because they have problems with difficult tax system with very high tax rates. 10.0% of the SMEs need minimal bureaucracy: tax office, banks, social, pension funds where they need to submit documents and they always face lot of bureaucratic issues and corruptions. 1% of the SMEs required to establish business insurance in case of emergency with business; prevention from corruption, etc.

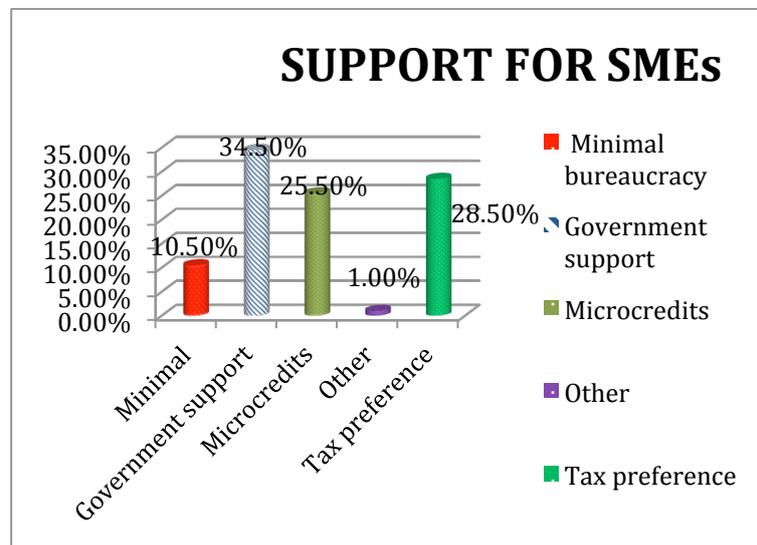


Figure 5.19 *Supports for the SMEs Non Clients for Growth*
Source: Primary data from field survey, August-September 2013

According to received data from questionnaire survey of the SMEs clients of MFOs group and the SMEs non clients group we determined the following issues are related to their growth.

Similarities

There were found several similarities in the both groups in the issues related to source of initial capital. In both group's; personal savings, friends and relatives and loans (in case of the SMEs non clients loans came from informal sectors) played crucial role in creating initial capital.

Also there were some similarities in the aspects of support issues. Both groups needed support for their development through the low interest rates and concessional microcredits, government support, tax preferences, minimal bureaucracy and etc.

Differences

Issues with high interest rates had negative influences in both groups but in different scale. In groups with the SMEs clients of the MFOs, the high interest rates created difficulties to obtain microcredits from the MFOs. But in case of the SMEs non clients of the MFOs, they determined that the reasons not borrowing from the MFOs were high interest hence they could not afford it.

Aforementioned comparisons are rates and very useful for enhancing the capacities of SMEs development especially for the MFOs because if they could

address the determined issues regarding the interest rate, they would be able to increase the number of clients also from the groups of the SMEs non clients.

5.5. Interview

The interview was conducted through using open-ended questions for which answers will not be limited to one response. This means of collecting information to achieve research objectives were very essential.

The interview was conducted by using in-depth interview techniques among of the following target groups:

1. **Government Group – Code G**
2. **NGOs Group – Code N**
3. **MFOs Group – Code M**

After collecting the data from interviews the researcher transcribed the recorded data into texts. The transcription was reviewed and the data was coded into categories and themes.

Received data was dividing into 2 parts:

A first part of data, which describes situations and observation of microfinance, SMEs and country programs was used in the Chapter 3.

A second part represents the data, which was categorized into themes for analyzing and developing conclusion and policy recommendations.

5.6.1. Microfinance as Tools for Mitigation Obstacles of SMEs Development

Microfinance Capacity

Microfinance is one of the most dynamic development sectors of the financial market in Tajikistan. It is an active and direct contributor of country's development also contributes in economic sectors and the SMEs. Financial sector portfolio of Tajikistan is 1.3 billion US dollar. Contribution of MFOs the membership of AMFOT is 286 million US dollar. That is equal to 21.9% of credit portfolio of financial institutions. If all key members such as government, international finance organizations, local finance organizations and NGOs will continue supporting microfinance development; it could be a powerful tool of economic and social development in Tajikistan (Code N2)⁹.

Microfinance stimulates people to start their own business that not only reduces social budget obligations but also increases tax revenues from the private sector and subjects of the financial market. Such another systemic impact of microfinance is a recession of the level of shade and usury capital in the sector of small business, supporting transparency increase and formation of credit history of business entities that with the growth of sizes of business simplifies attraction of finance to the equity market and long-term loans to banks. Nevertheless, the social function of microfinance especially in Tajikistan is above the economic ones. Certainly, microfinance is first of all an instrument of the social policy but

⁹ Interview with Shukhrat ABDULLOEV, (22th Aug, 2013) Deputy Director of AMFOT

at the same time a stimulation of entrepreneurship. Microfinance was one of the first programs in Tajikistan after civil war that contributed its efforts on poverty reduction during non-stable political and economic situation. Nowadays microfinance in Tajikistan supports not only to poor people but also provides its contribution to whole economic sectors of country (Code G4)¹⁰.

Microfinance Challenges

Even microfinance is growing in Tajikistan it is faced with challenges, which has negative impact on its development. The major issues are related to limitation of FDIs. For foreign investment the MFOs in Tajikistan considered as risky because of the major risks considering on country risk (policy and decision-making by the government, etc.) but with all this difficulties the quality of the MFOs development in Tajikistan is much higher in comparison with Kazakhstan and the Kyrgyz microfinance markets. From the position of the target clients - the market is not wholly covered and is still far from satisfaction. But at the same time a lot of MFOs, in particular MDO ARVAND, trying to expand its products and services. Become a full supplier of financial services through regular monitoring needs and innovation, they are not just confined in loans or deposits. (Code M3)¹¹.

¹⁰ Interview with Nailya MENLASHEVA, (26th Sep, 2013) Director, PIU “Access to Green Finance and Rural Development Finance” under the Ministry of Finance of the RT

¹¹ Interview with Shahnoz IKROMI (1.10.2013) Director of business development of MDO “ARVAND”

Access to finance is still a hot topic in Tajikistan due to the fact that the most of the population lives in rural areas and mountainous regions. MFIs that implement its activities are also facing a shortage of funds and with the difficulties on involvement of foreign capital. And in this regard, they cannot use their opportunities in full power to meet the needs of the population in accessing finance with appropriate interest rates. If the Government will develop and implement new strategies on attracting foreign capital and mobilizing domestic capital in the country as a formalization of the population's savings it will allow financial institutions, including the MFIs provide better financial products and services that will meet the requirements of consumers and solve the problem of access to finance once and for all (Code M1)¹² .

Perspectives of Microfinance to support SMEs

MFIs in Tajikistan in general offers a wide range of modern and different products and services that focuses on continuous study of their current and potential clients with the aim to offer more affordable and appropriate solutions for people employed in various sectors of the economy including the SMEs. At the moment, only the microfinance sector is the linkage that can solve the problem of accessing finance for different layers of population, where other financial institutions cannot implement its activities. Microfinance in their activities affects the SMEs sector. And therefore support the development of the SMEs by microfinance is reality rather than theory. To improve and solve SMEs

¹² Interview with Ziyoda DAVLATBEKOVA (19.08.2013) Director of MCO “BEHNAMO”

issues related access to finance and also to improve microfinance sectors itself was developed and signed MOU between AMFOT, ABT and NAMSAB. Through this cooperation microfinance sector will spend more efforts to support the SMEs sector and it would support the economic development of Tajikistan (Code N1).

It's safe to say that microfinance for its 16 years of existence in Tajikistan has shown its relevance and effectiveness in dealing with many issues concerning the development of the economy, improvement social level of the population and others. Government supports microfinance sector and is actively involved in this development knowing that it is beneficial not only to the public but also for the development of the country's economy as a whole. At the given moment, government is actively involved in attracting investments and projects for the given sector and the introduction of new features to it. Possibilities and perspectives of microfinance sector in Tajikistan are unique. Small and medium MFIs implement their projects with beginners and existing small or medium-sized enterprises enabling them to develop and large MFIs on par with commercial banks allowed developing a large companies and enterprises of the country. This all leads to the development of the country as a whole and the need to support microfinance and SME is strategically important for the Government. In this regards, Government should actively collaborate with AMFOT, MFIs, NAMSAB

and other organization with the aim to support to each other to achieve country's development strategies (Code G2)¹³.

¹³ Interview with Timurali AVGANOV (20.09.2013) Head of Department of Budget policy in the Economic area of Ministry of Finance RT

CHAPTER SIX

6. DISCUSSION OF FINDINGS

6.1. Introduction

This chapter provides discussion of the research findings. The discussion of the research findings presents answers on research questions obtained through conducted research. In this section, issues related to the growth of SMEs through microfinance support, the relationship between microfinance and SMEs concerning access to finance and SMEs development etc. will be discussed.

6.2. Discussion of the Research Findings

The focus of this discussion on the research findings is targeted at answering the following research questions:

- How do SMEs get access to credit in Tajikistan and what is the role of microfinance in facilitating SMEs access to credit?

Research Sub-question

- What are the current issues affecting the growth of SMEs?

Other research sub-questions were answered and provided in Chapter 3 and 5 of the given paper.

6.2.1. How do SMEs get Access to Credit in Tajikistan and what is the Role of Microfinance for Facilitating SMEs Access to Credit?

To get answer to the question above, a survey was conducted using questionnaire survey and interviews.

It was determined that SMEs in Tajikistan have access to credit in the formal and informal sectors of the country. But this access is inadequate and conditions necessary for SME's development are also lacking. This is because SME's in Tajikistan need more financing in order to solve the many challenges that facing SME's development in Tajikistan.

According to data that was received from conducted research found that despite the difficulties, SMEs prefer to get credit from the MFOs and would also prefer much expansion of the MFOs in Tajikistan. The SMEs determined that microfinance sector has positive effects on the growth of SMEs than other financial sectors in the term of access to finance. MFIs sectors have become a linkage that can solve the challenges of accessing finance by SMEs. This is because they reach different layers of population, where other financial institutions cannot. Therefore it is evident from the findings that microfinance plays a significant and effective role in SME's getting access to credit. And also it was determined that SMEs have been benefiting of using microcredits from MFOs (40.50%) because it has improved their business, increased their incomes up to 50% annually (40.0%); increased their labor in workplace (14.50%); increased salary (4.50%) and other benefits such as new equipment, technology

etc (see Chapter 5, Figure 5.14). So, all of these outcome could provide support and make it evident that MFIs could have positive benefits for the promotion of SMEs in Tajikistan. Thus the support of the development of SMEs by microfinance is a reality rather than just a theory.

It should be mentioned that microfinance since its 16 years of existence in Tajikistan has shown its relevance and effectiveness in dealing with many issues concerning the economic development of Tajikistan, improvement living standard in of the population and many more. Now, the Government's active involvement and support to the microfinance sector has made the sector not only beneficial to the public but also to the economy of Tajikistan as a whole. The possibilities in, and perspectives of the microfinance sector in Tajikistan are unique. Small and medium MFIs offer projects to start up businesses and existing SMEs that enables them to develop. Furthermore, MFI's also cooperates with the commercial banks, thereby allowing them to also support developments in large companies and enterprises in the country. All these lead to the development of the country as a whole, therefore the need to support the microfinance sector and SME's in Tajikistan is strategically important for the Tajikistan Government.

6.2.2. What are the Current Issues Affecting the Growth of SMEs?

Based on findings, SMEs huddles are related to poor infrastructure in terms of communication, transportation and lack of energy during winter seasons, poor access to finance, ineffective and difficult legislations, weak government supports, high tax rates, and corruption.

In relation to SME's poor access to finance, even if they had access to finance from the formal and informal sectors it would not be significantly enough and would not be in appropriate conditions for the SMEs development.

The reasons for these difficulties in access to credit for SMEs are due to the external and internal problems in the country. External problem is related to insufficient foreign funds. The country has a problem with attracting investment due to the unstable economic and political conditions in the country. This creates distrust among investors and discourages them to invest. Even if the formal financial sector, through the mobilizations of savings from the population creates means for loans, it would still be insufficient for whole country.

Several issues from the findings could explain the internal problems. Issues such as; interim for access to credit (mainly for rural and mountain regions); high interest rates (62.50% of SMEs faced difficulties with high interest rates from 24% up to 48% annually)¹⁴; lack of transparency on contract terms in regards to loans (17.50%); bureaucracy (15.50%) and others. There are also difficulties with market isolation, corruption and business insurance (these have not yet been established in proper way).

¹⁴ To analyze issues according high interest rate were used interview but respondents from different organizations could not provide adequate answer why it is high rate and how it is made. Many respondents addressed these issues due to lack of foreign funds and NBT refinancing rate others to monopolization by large MFOs. To find out the real calculation on estimation of interest rate were impossible because nobody provide transparency and correct data on it.

All the above mentioned issues that affect SMEs growth in Tajikistan need special attention. Government, with the collaboration of international and local organizations should develop and implement new strategies for attracting foreign capital and mobilizing domestic capital in the country as a formalization of the population's savings. This would allow financial institutions, including the MFIs to provide better financial products and services that will meet the requirements of consumers and solve the problem of access to finance once and for all. Also Government should solve the problems of infrastructure, i.e.: communications, transportation and lack of electricity. Finally, legislative issues should not be left untouched.

CHAPTER SEVEN

7. CONCLUSION AND POLICY RECOMENDATIONS

7.1. Conclusions

This research intended to find out possible ways SME's in Tajikistan could get access to credit and the role the microfinance sector is playing to facilitate the SME's access to these credits. The research also intended to determine the positive effects of microfinance on the growth of SME's in Tajikistan in the terms of their access to finance. It was found out that; access to credit, which is one of the major challenges of SME's in Tajikistan, could be reduced to a large extent through the operations and expansion of MFIs in Tajikistan. The findings also revealed that if MFIs and other formal financial sector would decrease their interest rates, interim period of access to finance, their bureaucracies and other issues (see Chapter 6.2.2.), and the SME's involvement in microfinance sector could increase significantly which this could further lead to economic growth of Tajikistan. This research also found that despites difficulties in obtaining loan from MFIs by SME's, they firmly want to continue their cooperation with the MFOs because it is the only viable way to get credit and with the most suitable conditions.

It is also critical to highlight that, despite the current growing trend of MFIs in Tajikistan; they are nonetheless facing lots of huddles in their development process. Their major challenge is related to limited foreign funds.

Many of the MDOs have, through mobilization of savings from the population created means for loans. But this is still not enough. Local commercial banks provide loans at high interest rates to MFIs such that in the end the burdens of these loans are transferred onto the clients of the MFI's. Thus the MFI's, cannot adequately meet the needs of the population who generally want to get access to funds at lower interest rates. If the Government would develop and implement new strategies for attracting foreign capital and mobilize domestic capital in the country as a formalization of the population's savings, then this would allow financial institutions, including MFIs to provide better financial products and services, that could meet the requirements of consumers and solve the problem of access to finance once and for all.

In the midst of the challenges, the findings of this research clearly indicates that MFIs have a positive effect on access to finance and growth of SMEs in Tajikistan

7. 2. Policy Recommendations

Based on the findings and conclusions drawn for this research, the following policies are recommended for the microfinance and SMEs sector of Tajikistan, with the aim of supporting and maintaining the sustainable growth of these sectors. Also, recommendations are made to help improve the operations and services provided by the MFIs in Tajikistan.

Recommendations on MFIs issues

Government (Ministry of Finance, Investment Committee, NBT and etc.) need to improve and modify country's strategies for attracting foreign capital and mobilize domestic capital in Tajikistan as the formalization of the population's savings. This would allow financial institutions, especially MFIs to provide better financial products and services with the appropriate conditions. It would also help the formal financial institutions to have access to inexpensive loans that could in a long run reduce the operational cost of MFIs by decreasing interest rates on their products. These problems could also be improved through the introduction of foreign financial institutions such as banks, financial corporations etc. In addition, if the process of adoption Law of Islamic banking in Tajikistan would be passed it could also have positive effects by pumping additional funds to the finance sector of Tajikistan, especially into the microfinance segment.

To address problems on transportation, communication and electricity, the Government of Tajikistan spent all of its available Budget funds, attracted foreign funds, servicing grants and external debts. The Government needs to understand that above mentioned issues are urgent required not only for population but also for SMEs and MFIs activities. However, country needs time and funds to solve these issues.

NBT should create strong network with the entire MFIs in the country. These networks should not only be for gathering reports on their portfolio and

assets issues. These can only be used analyze quantitative aspects of their development. Therefore, it is necessary for the NBT to organize networks with the MFIs that could carry out qualitative evaluation of the MFIs sector. Good examples could be AMFOTs quarterly reports on their member's activities that provide all necessary data in two ways, i.e. qualitative as well as quantities.

MFIs should spend more of efforts on capacity development of their organizations regarding bureaucracies, transparency (especially in contract and interest rates terms), preventions of corruptions etc. These could be done through educating their staff members, developing contracts using simple and understandable words and clauses, require and conduct only that procedures that are relevant and are related to credit procedures that will decrease bureaucracy and corruption. Finally, provide platform for clients and users to lodge their complaints and suggestions, as it would help MFIs increase the number of clients and avoid misunderstandings between them.

Recommendations on SMEs issues

Government and its authority agencies (Ministry of Justice, Ministry of Finance, Ministry of Economic Development and Trade, Tax Committee, Investment Committee etc.) should improve and modify all relevant laws and normative legislations on SMEs activities in Tajikistan based on the "Program on State Support of Entrepreneurship for the period 2012-2020". This is because most of these laws and normative legislations have become controversial with the existing Programs and the adopted Tax Code. This issue could be solved through

creation of working groups among Government authorities and NGOs representatives to evaluate and modify these laws and normative documents. It would also help to establish appropriate conditions for SMEs in the county and decrease the misunderstandings within the registration process among entrepreneurs and the increasingly unnecessary bureaucracy.

It is necessary to organize an evaluation and monitoring department for SME's within the related government organizations to monitor and evaluate the activities of SME's. Because the real situation of SMEs in Tajikistan is very difficult to determine due to the fact that there is ineffective network system between ministries and government agencies, these is the problem of lack of information access that leads to misunderstanding and differences in data which could further lead to serious blunders on analysis regarding entrepreneur's development.

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APPENDICES

Annexure I

In 2002 Tajikistan first adopted the Law "On the State Protection and Support of Entrepreneurship in the Republic of Tajikistan", №46, which eventually was updated and the latest revision was made in 2011. This law provided a clear definition of entrepreneurship and its forms in particular SMEs.

According to Articles 6 and 7 of the given Law the State recognizes and allows any type of entrepreneurship that provided in the existing laws of the Republic of Tajikistan.

Entrepreneurial activity is divided into the following types:

- 1) Small enterprises;
- 2) Medium-sized enterprises (as amended by Law of RT 25.07.2005, N98);
- 3) Large enterprises (as amended by Law of RT of 12.05.2007, № 259), (Investment Committee, 2014).

Article 7 (1): To small enterprises are related individual entrepreneurs and legal entities who are involved in entrepreneurship activities, and also in the authorized capital of which the government participation does not exceed 25 percent and meet the following criteria:

The size of their gross income at the beginning of the fiscal year, excluding value added tax (VAT) and the tax on retail sales do not exceed of four times of the limit set by Article 290 of the Tax Code of the Republic of Tajikistan in new edition (as amended by Law of RT as of 25.03.2011, № 701);

Average number of employees during the calendar year is not more than 30 people, and for agricultural producers are 50 people (Investment Committee, 2014).

Article 7 (2): To medium and large enterprises are related individual entrepreneurs and legal entities engaged in entrepreneurship activities in accordance with the following criteria:

If the size of their gross income at the beginning of the fiscal year, excluding VAT and retail sales tax exceeds four times of the limit set by Article 290 of the Tax Code of the Republic of Tajikistan, but not more than 15 million somoni (somon (TJS) is a national currency of the Tajikistan), (as amended by Law of RT as of 25.03.2011, № 701);

If the average number of employees during the calendar year is 30 up to 100 people, and for agricultural producers is from 50 to 200 people (Investment Committee, 2014).

Economic Development Division

Graduate School of Asia Pacific Studies

RITSUMEIKAN ASIA PACIFIC UNIVERSITY

Dear Respondent,

I am a Graduate Student at the aforementioned University undertaking research on “Exploring the possibility of using microfinance institutions for the promotion of Small and Medium-sized Enterprises in Tajikistan”.

Your assistance in filling out the interview questionnaire will help this study achieve its objectives. I would like to assure you most sincerely that whatever information is supplied by you through these questions will be strictly confidential and used for the research purpose only.

With the best regards

MAXUDOVA Oliya

QUESTIONNAIRE SURVEY

A. DEMOGRAPHICS (To provide a detailed profile of Small and Medium-sized Enterprises)

1. Age

Under 25

25-40

Above 40

2. Gender

Male

Female

3. What kinds of SME are you involved?

Commerce/Trade

Manufacture production

Services, (clarify) _____

Agriculture

Other _____

4. What was the source of your initial capital?

Personal saving

Friends and relatives

Loans

Other, please specify _____

5. How many people are employed in your SME?

Less than 6 people

6-9 people

10-29 people

30-99 people

Above 100 people

6. Do you have a need for additional funding for your business?

Yes

No

7. If YES, for what purpose?

To start up new business

To expand or renovate the work place

To buy equipment

To hire additional workers

Other, please specify _____

B. THE CONTRIBUTION OF MFIs IN THE OPERATIONS OF SMEs

8. Do you know about the operations of Microfinance Institutions?

- Yes No

9. If yes how did get information on MFI?

- Friends
- Mass media (TV, Internet, Newspaper etc.)
- MFI official
- Handbill
- Others, please specify _____

10. Have you ever-borrowed micro loans?

- Yes No

11. When you need money where do you prefer to obtain loans from?

Formal sector:

- Bank
- Cooperatives
- Government programs
- Microloans organization please specify _____
- Micro Deposit Organization please specify _____
- Micro Loans Fund please specify _____
- Other, please specify _____

Informal sector

- Commercial Money lenders
- Family
- Friends
- Other _____

12. What kind of credit do you normally request from MFIs?

- For 3-6 months

- For 6-9 months
- For 9-12 months
- Longer than 1 year

13. How long does take to access credit if you borrow money from MFI?

- Less then a week
- 1-2 weeks
- 2-3 weeks
- More than 4 weeks

14. How long have you been using loans to fund your business?

15. What interest rate do you pay on your loans? In your opinion, is this a fair rate?

16. Do you have difficulties in repaying loans?

- Yes
- No

17. What kind of benefits have you received after using loans?

- Increase of income (profit)
- Improve business
- Increase labor
- High salary
- Other, please specify _____

18. Has your average monthly income from SMEs activity increased after using loans?

- Yes, please specify _____
- No

19. How difficult is to get a loan?

- Very difficult
- Difficult but manageable
- Manageable
- Easy

20. What kind of problems do you faced when receiving micro loans?

- Bureaucracy, please specify _____
- Corruption
- High interest
- Bad services
- Other, please specify _____

21. Would you like to continue cooperation with microloans agencies?

- Yes
- No, please specify _____

If you answered No (no need for additional funding) in question 6, please answer the following questions

22. What are the reasons of not borrowing the loans? (select one or more)

- Lack of information
- Not appropriate loan condition
- High interest rate
- Don't need
- Other, please specify _____

23. How are you managing without loans?

24. What kind of support for you think is needed for the smooth growth/functioning of SMEs?

- Government support
- Tax preference
- Microcredits
- Minimal bureaucracy

Other, please specify _____

25. If there is any thing more you would like to add or ask, please feel free to do so.

INTERVIEW QUESTIONNAIRE (government officials)

1. Name of organization
2. Position
3. Please describe the mission and main objective of your organization on SMEs growth (and microfinance).
4. What is the current condition of SMEs and the microfinance sectors in Tajikistan and the current issues affecting the growth of SMEs (MFI)?
5. What institutions have been providing finance to SMEs (other than MFI)? Are they providing adequate amount of finance to SMEs?
6. What kinds of legislation exist on SMEs and MFI? In your view does this legislation need to be improved? How?
7. In your view, are there any obstacles for sustainable and efficient development of SMEs in Tajikistan?
8. How can Government (MFI, IFO, AMFOT) help to mitigate these obstacles?
9. What do you think about the role of AMFOT and NASMBT in the SME's growth?
10. Does SMEs (MFI) need any kind support from Government or International Financial Corporations?
11. What kind of policies or recommendations should be introduced to improve the SME sector?
12. Any other questions or comments regarding SMEs or microfinance?

Annexure IV

INTERVIEW QUESTIONNAIRE (SMEs association, IFC, NGOs)

1. Name of organization
2. What best describes your position at your organization:
 - a) Owner/director
 - b) Manager
 - c) Employee
3. What is your an organization overall mission or strategy to promote SMEs development?
4. Can you give any examples of activities or projects that your organization is involved in with regards to SMEs development?
5. What is the current situation of SMEs in Tajikistan and are there any obstacles for sustainable and efficient development of the SMEs sector in Tajikistan?
6. How can microfinance Institutions help to mitigate these obstacles?
7. In your organization's view, do SMEs need support from either the Government or International Financial Corporations?
8. Is there any thing more you would like to add?

INTERVIEW QUESTIONNAIRE (MFI)

1. Name of organization
2. Position
3. When was the organization established and when did it begin to be actively involved in the microfinance sector in Tajikistan?
4. Please describe the mission, primary objective and covered regions in Tajikistan by your organization?
5. How many clients does your organization have in Tajikistan? How many SMEs clients do you have?
6. What challenges does your organization face when doing business with SMEs?
7. Please describe what kinds of financial services and conditions (credit policies) are providing by your organization to SMEs.
8. What is your view of the current situation of the microfinance sector in Tajikistan?
9. Are there any obstacles for sustainable and efficient development of the SMEs sector in Tajikistan and how can microfinance Institutions help to mitigate these obstacles?
10. Is there any thing more you would like to add?