

# **Business Development Services in Kyrgyzstan**

*A Study to Assess the Market for BDS  
among 500 Small and Medium Enterprises  
in the Kyrgyz Republic*

*July - December 2002*

Written by: Ulrike Roesler and Eugene Ryazanov

Export and Investment Promotion Project of German Technical Cooperation (GTZ),  
Kyrgyzstan, and

Support to Private Initiatives' Project of Helvetas, Kyrgyzstan  
financed by Swiss Agency for Development and Cooperation

Research by: M-Vector and SIAR Bishkek, Kyrgyzstan



## Acknowledgements

The authors would like to thank all participants in the survey, both service providers and users of business development services, for spending their valuable time to answer yet another questionnaire.

Special thanks go to the staff of M-Vector and SIAR Bishkek, who conducted the survey and did a very good job at collecting the data, sometimes under difficult circumstances. It is their analysis and their report on which this document is based. We are equally grateful for their patience in answering our various requests regarding the results of their survey.

We would also like to express our thanks to Susanne Bauer, consultant on private sector development to SDC and GTZ, in appraising the draft version and giving us her valuable comments, and to David Hutton, who undertook the proof-reading of the study and corrected our English mistakes.

Last but not least, we owe our thanks to the author of the Vietnam market assessment, Alexandra Miehlsbradt, as her study served as a benchmark for our own efforts.

## Executive Summary

This survey of business development services (any non-financial service provided to businesses on either a formal or informal basis) in Kyrgyzstan, studied the awareness, knowledge and use of a range of business services among selected industries. The authors of this study wanted to learn more about the demand and supply situation of business services in Kyrgyzstan, and to obtain recommendations for targeted intervention into specific segments of the market.

- The following sectors were analyzed regarding their attitude towards business services: agricultural processing, textile industry, medicinal herbs and herb processing, tourism, trade and services, wooden products, construction, and banking and finance
- on the supply side, the following services were analyzed: Accounting and auditing, financial and banking advice, legal services, management consulting, packaging, personnel services, printing and copying, transportation, advertising, marketing and research, product development, trade intermediary services, business information services, IT services, telecommunications, equipment and engineering consulting.

### BDS Market Size

- The BDS market is, like the market economy in Kyrgyzstan, extremely young. After all, the market economy was only introduced in 1991, which is reflected in the fact that most companies must still be considered as 'start-ups': 52% of SMEs are younger than 5 years, and 80% are younger than 10 years. Likewise, most BDS developed to a significant degree only after 1997, some even later. (We must remember that the market-led concept of 'service' was basically unknown in Soviet times, although 'public services' did exist to some extent).
- Due to the young age of the market (or rather: transition) economy, we must not be surprised that the market is still very weak on both the supply and demand sides. In addition, Kyrgyzstan is - even more than in Soviet times - a country where agriculture dominates the economy, with shrinking industrial production.
- Fifty percent of SMEs are located in the capital and 85 % in urban areas of the country.
- Taking all these factors into account, it must be positively noted that a market for BDS does exist, and that most companies are willing to pay for services, provided they are relevant and of good quality.
- The total annual evaluated market for the surveyed business development services in the selected industries was about 305 million Soms (more than \$ 6.4 million).
- The market for business development services in Kyrgyzstan is stable. There is a slight possibility for market growth within the next 2 years.

### Awareness and Use of Services

- Most services are relatively well known to the managers of companies and organizations. However, managers in the capital Bishkek seem to understand the essence of business development services better than their colleagues in other oblasts (which may also be related to the restricted availability of services in rural areas). Problems of awareness and understanding however, exist in most 'strategic' services, such as management consulting, marketing and research, business information, product development and, surprisingly, in packaging. From those sectors that were included in the survey, the textile industry was the sector with the lowest awareness, understanding and use of all services.

- The use of services is, compared to awareness and understanding, very low. Only the most essential service, telecoms, has a high user ratio. Services that have a weak to medium demand are 'operational' services such as, advertising (ranking second), printing and copying, and transport. The services with the lowest use are management consulting, product development, and packaging, closely followed by marketing and research and business information services.
- Major concerns of users are quality and price. A service that suffers a serious quality problem is personnel services: more than 50% of users suggested that quality should be improved. Other services where quality improvements were suggested are equipment consulting, business information, management consulting services and banking and financial advice.
- Nevertheless, retention is very high, more than 70% of BDS users do not usually change a service provider (this can be a sign of satisfactory quality, or low availability).
- It is no surprise that price is another prominent area of concern - to complain about prices is a standard procedure among businessmen worldwide. Nevertheless, what is surprising, is that 70% of those users that received services for free, said that they were able to pay. Also, free-of-charge services seem to suffer a valuation problem: they are often perceived as irrelevant and of low quality ('why else would they be given away for free?')
- Among non-users, 'lack of need' was quoted as the main reason for not using them. The reason could be that a company is still too small or in an initial stage of development, so there is no perceived need for services. Another reason could be low understanding of a service's benefits.
- Inability to pay (no means to pay) was the second major reason for not using a service. This problem is more significant for regional managers (Osh, Karakol and others).
- Service providers are usually selected through recommendations by friends, partner organizations and other trusted parties. Thus, the reputation of a company becomes the main asset in obtaining clients.

### **BDS Providers**

- Private companies, government and donor organisations, NGOs, partner companies, friends and family provide BDS services. In all services (but not in all regions), private sector companies dominate the supply situation.
- The supply is heavily concentrated in Bishkek; 73% of service providers are located in the capital. Some services, such as business information services, are almost exclusively available in Bishkek (91%).
- International and state organizations provide business development services, either free of charge, or at a very low price. This is the case in most 'strategic' services, such as management consulting, marketing & research, business information, and product development. The share of companies that received services for free or at a subsidized/ symbolic price is about 22%.
- Although the majority of managers positively evaluated the activities of international organizations and international consultants, it was often perceived that the experience and knowledge of foreign consultants could not be applied to the specific situation of the local market.
- On the other hand, users positively evaluated the activities of local consultants. It is, however, felt that local consultants need more training and experience to improve their services.

- Government agencies are active in all the services that were surveyed. The largest share of government provided services can be found in telecoms and personnel, followed by legal advice, audit and accounting, banking and financial services, and business information. Surprisingly, they also offer management consulting services, transport services and advertising, an area where one would not expect to find public services.
- As was already mentioned above, personal contacts and recommendations of friends and colleagues are the main source of information about BDS. Impartial information about the products and activities of local BDS providers though, seems to be limited.
- Almost all BDS providers understand that to sell more they should promote their services, study the market and needs of customers, and improve the quality. There is also an understanding that the qualifications of their staff need to be further improved through training.
- The fact that many BDS providers expressed concern about growing competition is, from a market development point of view, rather positive and encouraging. However, other issues of concern that were shared with other SMEs, were the unstable economic situation, the unfavourable legal and regulatory environment, and a lack of financial means for growth.

### **Recommendations**

- At policy level, it is recommended that donors and business associations lobby for an improvement in the legal and regulatory business environment. As long as the prevailing regulatory and legal environment, such as, frequent unofficial visits by tax inspectors and other impediments, force private economic activities into the shadow economy, there will be neither a healthy private sector, nor a basis for a business service market to develop.
- Government agencies should consider whether it is their role to provide BDS. The traditional division of labour in many countries, is that the government takes care of policies, regulations, creating incentives to invest, and the provision of public goods, whereas business services are usually provided by the private sector.
- A recommendation to donor agencies is to share information more freely and to coordinate their efforts. There is a lot of potential to exchange information (for instance sector studies) and to share lessons learned from individual donor-funded projects, instruments and manuals, and much more. This would increase the efficiency and effectiveness of overall donor activities in this area.
- Another recommendation is to harmonize the approach to BDS market development, as some interventions do set perverse incentives and can actually obstruct the development of market structures.
- Donor agencies must recognise that well-functioning private BDS providers do exist, and modify their support in such a way, that they do not compete with them in the provision of BDS.
- When planning interventions on both the supply and demand sides, it is important to consider each service, and each consumer segment on its own, as each has different problems and requires a different, custom-tailored, sector-specific approach. One size does not fit all!
- There is considerable potential to increase the awareness and understanding of services. This is the case in all strategic services: management consulting, marketing and research, product development, business information, and packaging.
- Service suppliers should be assisted in the development of service products that are geared towards the problems of specific target groups.

- Another area of intervention is to assist suppliers to improve service quality. One way to tackle quality problems is to look into each service individually, and to put more emphasis on the training of consultants. Another way is to address quality at the systemic level. Consulting associations for instance, could develop codes of conduct and quality standards, as a way of voluntary quality control.
- Training in technical skills and soft skills is also required, as well as the upgrading of skills, and assistance in developing appropriate marketing mechanisms, with a view to increasing the abilities to offer better, more focused and faster services.
- Services such as business information and management consulting are well suited to be embedded in other services. Business information for instance, could be integrated into marketing and research or trade intermediary services. Management consulting could be - at least partly - integrated into all other strategic services.
- As we have seen, the role of friends, partners and informal networks in recommending service providers is very important. It would be helpful to develop ways to utilize this important group more systematically. Customer referral systems could be one way of doing so.

# Table of Contents

<b>1. CONTEXT OF THE MARKET ASSESSMENT.....</b>	<b>4</b>
1.1. MARKET ASSESSMENT SPONSORS .....	4
1.1.1. GTZ, Promotion of Private Sector Development.....	4
1.1.2. Helvetas Kyrgyzstan, Support to Private Initiatives Project.....	4
1.2. MARKET ASSESSMENT RESEARCH COMPANIES.....	5
1.3. THE KYRGYZ CONTEXT .....	5
1.4. SMALL AND MEDIUM ENTERPRISES IN KYRGYZSTAN .....	6
1.5. BUSINESS DEVELOPMENT SERVICES .....	7
<b>2. SUMMARY OF THE RESEARCH.....</b>	<b>8</b>
2.1. QUANTITATIVE CONSUMER SURVEY .....	8
2.2. QUALITATIVE CONSUMER RESEARCH .....	9
2.3. BUSINESS SERVICES STUDIED .....	10
2.4. PROFILE OF THE RESPONDENTS .....	11
<b>3. OVERVIEW OF THE RESULTS.....</b>	<b>13</b>
3.1. OVERVIEW OF SERVICE USE.....	13
3.1.1. Market Penetration.....	13
3.1.2. Market Size and Market Growth.....	14
3.2. OVERVIEW OF DEMAND .....	18
3.2.1. Awareness and Use of BDS.....	18
3.2.2. Information Flow and Decision Making.....	20
3.2.3. Reasons for Purchasing Services.....	21
3.2.4. Reasons for not Purchasing Services .....	23
3.3. OVERVIEW OF SUPPLY.....	25
3.3.1. Types of Providers.....	25
3.3.2. Location of Providers.....	26
3.3.3. Basis of Competition.....	26
3.3.4. Service Quality .....	27
<b>4. COMPARATIVE ANALYSIS OF SERVICE MARKETS .....</b>	<b>29</b>
4.1. AWARENESS, UNDERSTANDING, USE, AND RETENTION .....	29
4.2. CATEGORIZATION DEMAND/SUPPLY .....	30
4.3. KEY FACTORS IN DEVELOPING SPECIFIC MARKETS .....	33
4.3.1. Management consulting.....	33
4.3.2. Financial and Banking Advice.....	34
4.3.3. Accounting and Auditing.....	35
4.3.4. Legal Services.....	36
4.3.5. Personnel Services.....	37
4.3.6. Packaging.....	38
4.3.7. Transport Services.....	39
4.3.8. Printing, Copying .....	40
4.3.9. Advertising.....	41
4.3.10. Marketing and Research.....	42
4.3.11. Product Development Services .....	43
4.3.12. Trade Intermediary Services .....	44
4.3.13. Business / Market Information.....	45
4.3.14. Information Technologies.....	46
4.3.15. Telecommunications.....	47
4.3.16. Equipment and Engineering Consulting.....	48
<b>5. SUMMARY ANALYSIS AND RECOMMENDATIONS.....</b>	<b>49</b>
5.1. STRENGTHS AND WEAKNESSES OF THE KYRGYZ BDS MARKET .....	49
5.1.1. Demand Side.....	49
5.1.2. Supply Side .....	49

5.2.	KEY CONSTRAINTS AND OPPORTUNITIES IN THE KYRGYZ BDS MARKET .....	50
5.3.	ROLE OF INTERNATIONAL DONORS IN THE BDS MARKET.....	51
5.4.	RECOMMENDATIONS .....	53
5.4.1.	<i>Policy Level</i> .....	53
5.4.2.	<i>Program Level</i> .....	53

## List of Figures and Tables

Figure 1: Schema of the SPI Project's working approach .....	5
Figure 2: Sample structure by number of employees .....	11
Figure 3: Sample structure by legal form .....	11
Figure 4: Sample structure by annual turnover .....	11
Figure 5: Sample structure by age of the company .....	12
Figure 6: Sample structure by education of managers .....	12
Figure 7: Market penetration .....	13
Figure 8: Market size of services .....	16
Figure 9: Importance of BDS evaluated by non-users .....	17
Figure 10: Awareness and Use of BDS .....	18
Figure 11: Ratio Use/ Awareness of BDS .....	20
Figure 12: Reasons for buying BDS .....	22
Figure 13: Payment for services .....	23
Figure 14: Reasons to refuse from a service those who need the service but do not use it ...	24
Figure 15: Service Providers .....	25
Figure 16: Customer satisfaction .....	28
Figure 17: How to improve services (% of users) .....	28
Figure 18: Services supplied only by private sector .....	30
Figure 19: Services supplied by all providers .....	31
Figure 20: Awareness and Use of Management Consulting .....	33
Figure 21: Awareness and Use of Banking and Financial Advice .....	34
Figure 22: Awareness and Use of Audit and Accounting Consulting .....	35
Figure 23: Awareness and Use of Legal Advice .....	36
Figure 24: Awareness and Use of Personnel Services .....	37
Figure 25: Awareness and Use of Packaging Services .....	38
Figure 26: Awareness and Use of Transport Services .....	39
Figure 27: Awareness and Use of Printing and Copying Services .....	40
Figure 28: Awareness and Use of Advertising Services .....	41
Figure 29: Awareness and Use of Marketing and Research Services .....	42
Figure 30: Awareness and Use of Product Development Services .....	43
Figure 31: Awareness and Use of Intermediary Services .....	44
Figure 32: Awareness and Use of Business Information Services .....	45
Figure 33: Awareness and Use of Information Technologies .....	46
Figure 34: Awareness and Use of Communication Services .....	47
Figure 35: Awareness and Use of Equipment and Engineering Consulting .....	48
Figure 36: Sample structure (potential demand) by region .....	50
Figure 37: Service suppliers by region.....	50
Figure 38: Roles of donor agencies in Kyrgyz Republic .....	52
Figure 39: Outline of main recommendations .....	54
Table 1: Sample of respondents .....	9
Table 2: Main statistic data about SME in Kyrgyzstan, 2000 .....	14
Table 3: Market size of services and growth perspectives .....	15
Table 4: Awareness and Use of BDS .....	19
Table 5: Awareness, understanding, use and retention of different services .....	29
Table 6: Possible interventions in BDS markets .....	32
Table 7: Strengths and weaknesses of the Kyrgyz BDS market .....	50

## Acronyms

ACC	Association of Kyrgyz Consulting Companies
APE	Agriprocessing enterprise
BDS	Business Development Services
CC	Consulting Company
EBRD	European Bank for Reconstruction and Development
FEACO	European Federation of Management Consultancies Associations
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation (Deutsche Gesellschaft fuer Technische Zusammenarbeit mbH)
IFC	International Financial Corporation
ILO	International Labour Organisation
IT	Information Technology
KAFC	Kyrgyz Agricultural Financial Corporation
KR	Kyrgyz Republic
ME	Medium-sized enterprises
MIS	Management Information Systems
NGO	Non-Government Organization
SE	Small-sized enterprises
SECO	State Secretariat for Economic Affairs
SDC	Swiss Agency for Development and Co-operation
SME	Small and medium sized enterprise
SPIP	Support to Private Initiatives' Project
UNDP	United Nations Development Projects
USAID	US Agency for International Development
USD	United States Dollar
WB	World Bank

## List of Terms

This list of terms refers only to the way these terms are used in this report. It does not necessarily reflect general usage in the international BDS field.

**Business Development Services (BDS):** Any non-financial service provided to businesses on either a formal or informal basis. In this report, this term is used interchangeably with **Business Services**.

**Consumer:** An entrepreneur/SME that is a potential, or actual, user of BDS.

**Customer:** An entrepreneur/SME that has purchased a particular BDS.

**Demand:** The quantity and type of services that SMEs wish to purchase at any conceivable price. (Describes the behaviour of consumers.)

**Embedded Services:** Business services that are provided as a part of another commercial transaction. The cost of these services is not paid in cash by the SME. Instead the cost is covered by the margin on the commercial transaction.

**Intervention:** A donor or government sponsored activity designed to develop a BDS market.

**Market:** SME consumers, BDS providers and the transactions between the two.

**Provider:** Any individual, firm or institution that provides BDS directly to SMEs. They may be private companies, state-owned companies, NGOs, national or sub-national government agencies, industry associations, etc.

**Service:** The product consumed by SMEs (e.g. auditing, technical training, advice, information).

**Subsidized Services:** Any BDS provided to SMEs by private sector or non-profit organization with covering costs by state or donor agencies.

**Supply:** The quantity and type of services that providers wish to sell at any conceivable price. (Describes the behaviour of suppliers)

**Supplier:** A private sector or for profit individual, organization or mechanism, that supplies BDS directly to SMEs.

# **1. Context of the Market Assessment**

## **1.1. Market Assessment Sponsors**

The German Agency for Technical Cooperation (GTZ) and the Swiss Association for International Cooperation (Helvetas), both have programs in Kyrgyzstan aimed at developing the private sector. Helvetas applies the approach of BDS market development in its project on promoting the private sector, small and medium-sized enterprises. GTZ plans to use the BDS approach in its new project (see below) and has used this survey to better define their level of intervention. Both agencies work along the same principles. They

- assume the role of a facilitator;
- apply a participatory development of the project;
- follow a market development approach;
- apply a business approach in project implementation;
- keep interventions at a concrete level and rely on research;
- promote vertical integration;
- promote networking among all stakeholders of the projects and sectors;
- and try to involve other donor organisations in project activities.

### **1.1.1. GTZ, Promotion of Private Sector Development**

The "Promotion of Private Sector Development" project will start in January 2003. It follows the previous "Export and Investment Promotion" project which, in an evaluation in mid 2002, was found to be too narrowly focused to achieve significant outreach. The new project therefore, addresses Kyrgyz SMEs in general and will focus its systemic approach at activities at the intermediary/ meso level. The project will consist of four components:

- Support of business development services (general and sector-specific services)
- Export promotion
- Support to business associations
- Horizontal cooperation (business linkages within the value-chain of identified sectors)

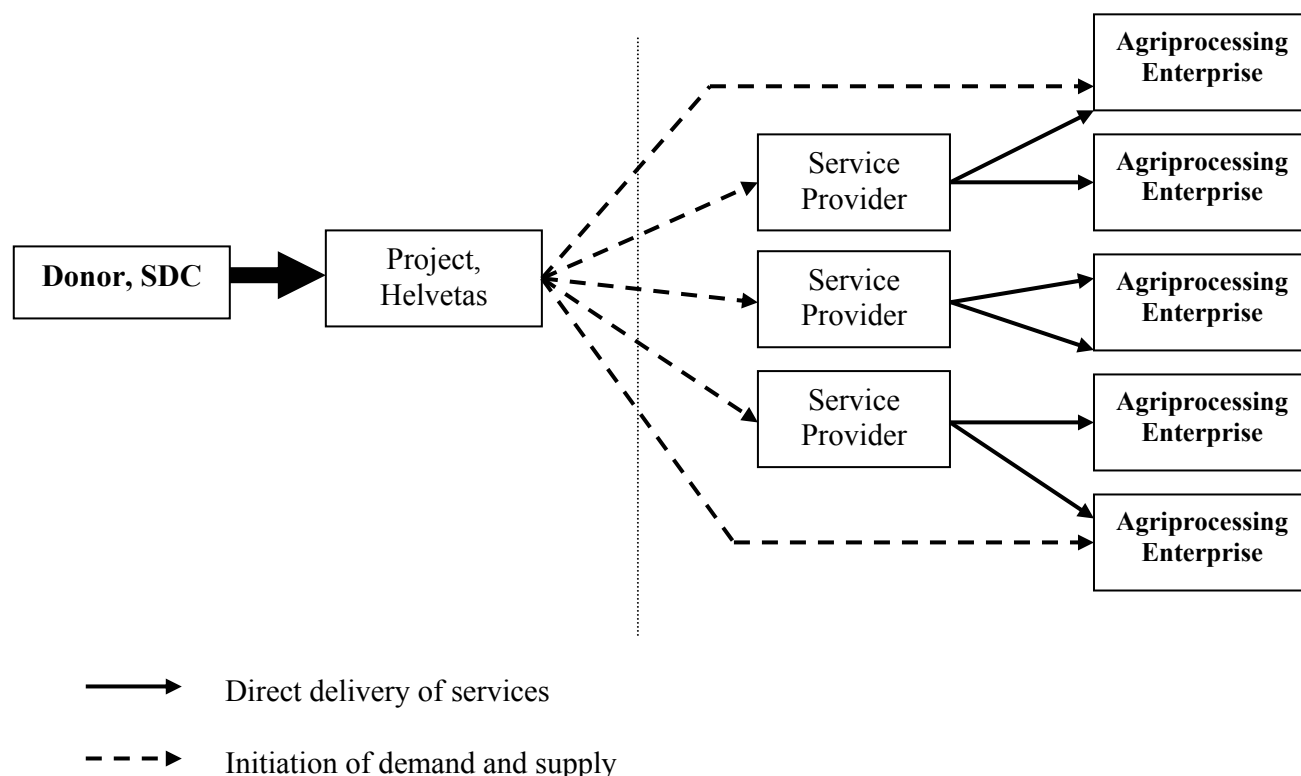
The project will address specific sectors, for instance medicinal herbs and textiles, and will work with a variety of partners from the private and public sectors.

### **1.1.2. Helvetas Kyrgyzstan, Support to Private Initiatives Project**

In 2001, Helvetas started the pilot project Support to Private Initiatives (SPIP), which aims at supporting food-processing enterprises, by improving their access to Business Development Services. In general, the project uses the BDS approach, a diagram of which is provided below (Figure 1). The SPIP is presently being jointly implemented with the Swiss NGO Intercooperation and is funded by the Swiss Agency for Development and Co-operation (SDC). From the beginning, the project has been closely co-operating with local private consulting companies. Though the service providers are mainly situated in Bishkek and oriented towards the urban service market, some of them are interested in working with rural companies and have proven to be valuable partners of the project. Helvetas has built up a network of reliable partners and now possesses a database of Kyrgyz service providers.

In the course of implementing the SPI project, it became clear that the market for BDS in the food-processing sector does not have enough volume to justify a pure BDS approach. The project is currently developing other instruments that enable a deeper impact on the sector. On the other hand, Helvetas has gained positive experience working with local service providers. Helvetas is convinced that the promotion of BDS on a more general basis would contribute to the development of the Kyrgyz SME sector. The graph below shows project interventions focused on initiating supply from service providers or demand from agriprocessing enterprises of certain BDS services. Relations between SP and APE are based on market relations (APE buy services of SP). The dotted vertical line shows the different roles of donor (facilitator, focus on BDS market development) and existing suppliers and consumers of BDS.

Figure 1: Diagram of the SPI Project's working approach



## 1.2. Market Assessment Research Companies

A consortium of two private local research agencies – M-Vector and SIAR Bishkek – was contracted to collect the data on which this study is based, and to conduct data analysis.

Both agencies have been operating in Kyrgyzstan for several years, conducting research projects for the private sector, international and donor agencies.

SIAR Bishkek and M-Vector have the necessary experience, staff, methodologies and facilities to undertake research projects in a timely and professional manner.

## 1.3. The Kyrgyz context

The Kyrgyz economy is mainly dependant on agriculture: 70% of the 5.0 million population live in rural areas. Agriculture accounts for 35% of GDP and employs about 50% of the workforce. Other important sectors are mining and energy production. Other industrial companies produce far below capacity, and 20% of companies do not produce at all.

Thus, ten years after independence Kyrgyzstan has still not recovered from the big changes caused by the collapse of the former economic and political system. The initial enthusiasm that could be felt at the beginning of the 90's, was dealt a heavy blow by the Russian crisis in 1997/98, the perseverance of structural barriers and remnants of the old system. While many of the big, former state-owned companies have still not managed to adapt to the changed circumstances of a market economy, new small companies struggle with an unfavourable environment and internal limitations.

External constraints are an unfavourable and frequently changing, legislation and tax regime, obstructive bureaucratic practices and improper use of authorities, excessive direct intervention in business operations, and corruption among government employees in the various regulatory organs, such as the tax inspectorate, sanitary-health inspectorate, customs officials and local state administrations.

However, the Government of Kyrgyzstan has recognised these constraints and has recently taken measures to reduce impediments to SME development. Moreover, the government and donor organisations continue to actively support the SME sector. Local and international organisations provide assistance mainly in four areas: credit, policy development, training and capacity building.

Though many implementers of SME support projects agree, that only the government itself can eliminate the shortcomings in the policy and regulatory environment in Kyrgyzstan, they believe that international agencies can play a constructive role in the SME sector.

This study tries to look at SME promotion in a new and hopefully, constructive way, in order to open new perspectives to designing SME support services in Kyrgyzstan.

#### 1.4. Small and Medium Enterprises in Kyrgyzstan

The number of small and medium-sized enterprises in Kyrgyzstan is difficult to assess. According to official figures from the year 2001, there are 215.514 legal entities registered in Kyrgyzstan. Out of them, 22.858 are industrial enterprises, but only 8.500 were operational<sup>1</sup>. The remaining entities are individuals and farmers. Many of the officially registered companies do not exist anymore, or have never existed.

The Kyrgyz government<sup>2</sup> has defined SMEs according to sector, as described in the box below:

*Small enterprise: in industry less than 50 employees, in construction, transport, agriculture and trade less than 20 employees.*

*Medium sized enterprise: less than 100 employees in industrial companies, 50 in construction, 30 in agriculture and wholesale trade and 20 in retail trade.*

According to this definition, most Kyrgyz enterprises belong to the category of SME, as 80% of all companies have less than 30 employees and 70% of companies have a low turnover (< 20,000 USD p.a.). SMEs and individual entrepreneurs play a significant role in certain sectors (e.g., they represent 99.8% of all trade and catering business). In 2002, the SME sector in the Kyrgyz Republic employs 60% of the Kyrgyz workforce<sup>3</sup>. The number of people working in SMEs has increased in comparison to last year, by 6.7 %. SMEs' share of the GDP is 37 %, and they produce 22 % of industrial products. Moreover, there seem to be some unexploited niches and apparent opportunities, e.g. SMEs are practically non-existent in the agro-processing business.

In addition, there exist many informal businesses and the fluctuation rate between the formal and the informal sector, and between operational and non-operational, is high.

<sup>1</sup> Small and Medium-sized Business in Kyrgyzstan: Current Situation, Problems and Perspectives. Soros Fund. Bishkek. 2001.

<sup>2</sup> Draft of the Law of the Kyrgyz Republic "Support to SME development", 2002

<sup>3</sup> Speech by the President of Kyrgyz Republic to the IInd Conference of Entrepreneurs. September 2002.

One important feature of the business environment in Kyrgyzstan is a geographically uneven growth, resulting in concentrations in Bishkek and the Chui Oblast (70.5% of all working enterprises) and the Osh area (14.8%). Thus, 85 % of enterprises are situated in urban areas.

In addition to the unfavourable business environment that was mentioned above, lack of financial resources, together with difficulties in obtaining credit, is by far the biggest problem for the majority of companies. Another issue that is equally often stated by company managers and government officials alike, is the low purchasing power of the population (GDP per capita in 2001 was 300 US\$).

One has to consider though, that this is a very young business environment. Kyrgyzstan started to introduce market economy principles only ten years ago, when many economic sectors were privatized. As a result, about 95 % of enterprises today are in private ownership. 80% of private companies are younger than 10 years old, and about 50% of companies are younger than 5 years old. This data confirms the tender age of the whole private sector economy.

The short overview shows that the SME sector in Kyrgyzstan is still in its infancy. However, we believe that the sector does have a growth potential, especially since Kyrgyzstan has many well-educated, mainly younger people, that could be the backbone of an economic recovery.

## 1.5. Business Development Services

The concept of business development services (BDS) has, in recent years, been discussed by many donor agencies. They found that traditional approaches to SME development did not bring the intended outreach and results, and new ways to promote SMEs were sought<sup>4</sup>. The main differences when comparing the BDS approach to the 'old' approach consist of:

- Focusing on the development of a market (instead of, traditionally, one or two organizations),
- Stimulating both the demand and the supply side through developing new services and opening up to more SMEs (outreach, instead of subsidising),
- Pursuing a clear private-sector strategy to deliver business services in a cost-covering and profitable way, through commercial providers.

In Kyrgyzstan, there are approximately 100 providers of business development services. They offer different types of services in management, marketing, accounting, legal advice, advertising and others. Most service providers are located in Bishkek, and many of them have been trained, or were initiated, by international donor agencies. Thus, it is obvious that the influence of donors on the BDS market is big. However, donors are not only initiators of services, there are also (well paying) clients, and sometimes, they are also suppliers of services. This study has looked into the role of donors in the BDS market, and we will come back to this issue in chapter 5.3.

On the demand side, earlier business surveys have revealed a low level of organizational development of companies, which may also be the reason for low levels of awareness and demand for BDS.

This research of the BDS market in Kyrgyzstan tries to present a comprehensive and clear picture of the current state and perspectives of the market. We hope that the study will contribute to more support to BDS development by donors, and will also help business service providers themselves, to identify measures on how to improve their services and how to better focus on the development of local businesses.

---

<sup>4</sup> Business Development Services for Small Enterprises: Guiding Principles for Donor Interventions. 2001

## 2. Summary of the Research

The main idea of the study was to obtain an overview of the situation in the Kyrgyz BDS market. As a donor, it is important to know both the supply and demand for services and their weaknesses and opportunities, in order to carefully target interventions in this market. Assessing the BDS market thus provides information for designing and implementing local BDS market development programs and gives some answers to the following questions:

- How can an organization decide in which BDS markets to intervene?
- What strategies could be successfully used in this market?
- How can a program determine the appropriate time at which to exit a market?
- What measures can be used for monitoring BDS market development?

The research consisted of two parts:

- A quantitative consumer survey;
- Qualitative discussions with groups of managers of enterprises.

Respondents to the study were local private enterprises, state institutions and donor agencies. Most local enterprises were companies with limited obligations (Ltd.). Only a small number of respondents were joint ventures and joint stock companies. The survey has gathered data on awareness, attitude and usage of different BDS among a sample of enterprises and organizations in urban and rural areas of Kyrgyzstan.

The survey of existing BDS suppliers was complementary to the study of consumers and shows market issues from the point of view of suppliers. This combined data should allow us to identify activities that could be undertaken to improve interaction and transactions between BDS consumers and suppliers.

### 2.1. Quantitative Consumer Survey

The quantitative consumer survey was designed based on the sample of the Multi-Service Survey Questionnaire proposed in the “Guide to Market Assessment for BDS Program Design”<sup>5</sup>. This form was used by the International Labour Organisation (ILO) to assess the markets for a wide variety of services in Indonesia and other countries, and was adapted to Kyrgyz conditions. The questionnaires were administered through personal interviews.

The survey aimed at:

- Estimating the consumption of BDS in general and specific services (market size and penetration);
- Assessing the current level of awareness, reach and retention of various BDS;
- Estimating willingness and capabilities of SMEs to pay for services;
- Evaluating the use of BDS by customer segments, including a client assessment on perceived service quality and satisfaction (e.g. repeated use of providers, reputation, etc.);
- Defining the services not used by selected customer segments;
- Defining barriers and consumers’ reasons for not using BDS;
- Defining existing BDS suppliers and available services;

---

<sup>5</sup> Guide to Market Assessment for BDS Program Design. A Fit Manual by Alexandra Overy Miehlsbradt. ILO. Geneva, 2001

- Analyzing possible future BDS consumption.

The consumer survey covered 461 enterprises in all oblasts (regions) of Kyrgyzstan and in the capital. Approximately half of the surveyed businesses were from the capital (table 1). All enterprises were private and had existed for more than one year. 41 state and donor organizations were also analysed as they are the biggest buyers of some services, such as management training and marketing issues. These are bought from local consulting companies and then passed on, free of charge or subsidized, to local SMEs.

**Table 1: Sample of respondents**

	Trade and Services	Construction	Agricultural processing, food production	Banking and Finance	Tourism	Wood working	Textile	Medicinal Herbs	State Institutions	International Organizations	Total
Batken Oblast	7	3	2	2				1	2		17
Djalal-Abad Oblast	14	5	5	6		2	2	1	2		37
Issyk-Kul Oblast	10	4	5	5	2	1		1	2		30
Naryn Oblast	8	3	2	1	2				2		18
Osh Oblast	30	10	7	10	1	3	4	2	2		69
Talas Oblast	8	3	1	3		1			2		18
Chui Oblast	26	14	8	6	2	3	2	1	1		63
Bishkek	131	23	22	15	17	8	6		8	20	250
<b>Total</b>	<b>234</b>	<b>65</b>	<b>52</b>	<b>48</b>	<b>24</b>	<b>18</b>	<b>14</b>	<b>6</b>	<b>21</b>	<b>20</b>	<b>502</b>

Geographically the sample was taken throughout the whole of Kyrgyzstan. Interviews were conducted in all main oblast towns and the capital Bishkek. The given sample size allowed a margin of error not exceeding 2.5% in 95% of cases. Within each consumer segment (agricultural processing, tourism, etc.) enterprises were chosen at random (simple probability sampling). Data of the National Statistics Committee of the KR was used as a sample frame for the survey.

## 2.2. Qualitative Consumer Research

Motivation and demand for BDS of defined consumer segments were studied in focus group discussions. Eight focus groups (all in all, 31 participants) in the capital and two regional towns, aimed to explore how consumers perceive, choose, evaluate and value BDS. Each focus group was homogeneous with respect to their usage of BDS (users or non-users) and factors that made focus group participants comfortable in the discussion (size of enterprise, business sector, gender, etc.). The discussions included the following issues:

- Main problems of enterprises;
- Perception and knowledge of BDS;
- Attitude of enterprises towards BDS provided by international donor organizations and local companies;
- Practice / process / perspectives of collaboration between enterprises and BDS providers;

It is important to mention that many enterprises refused to participate in the discussions. The main reasons for refusal were lack of free time and distrust of seminars and training, which in their opinion often do not provide sufficient benefit from the time invested.

### 2.3. Business Services Studied

Sixteen different types of BDS were selected for the survey. These services were chosen because of an assumption of high usage among SMEs and for comparison with surveys in other countries (for instance, in Vietnam, 2002<sup>6</sup>). The following types of BDS studied were grouped into four categories:

#### Management

- *Accounting and auditing*: Services related to bookkeeping and auditing for internal use in the enterprise and also external users (stakeholders, tax inspectors and potential investors).
- *Financial and banking advice*: Services related to the attraction of financial resources (credit, investments) to a business. These services include advice on business plan preparation, financial management and elaboration of different financial prognoses for the business.
- *Legal services*: Services related to establishing a business, business regulation and laws, taxation, export, licensing and contracting.
- *Management*: All types of advisory services for entrepreneurs related to the management of an enterprise (production, efficiency, raw material delivery, etc.).
- *Packaging*: Services related to the packaging of production.
- *Personnel services*: advisory services related to human resource management, employment, motivation etc.
- *Printing, copying*: Services related to the printing and copying of paper and documents for internal use in the business and marketing activities.
- *Transportation*: Services related to the transportation of products within the country and abroad.

#### Marketing

- *Advertising*: Different types of services aimed at promoting products and services through different media and related consulting services.
- *Marketing and research*: Services provided by specialists on studying demand and supply factors, customers' behaviour, legal and market framework for enterprises to enter a new market or promote new product(s)/ services.
- *Product development services*: services related to design, with a focus on market demand or getting more income or margin.
- *Trade Intermediary Services*: Services provided by trade companies and intermediaries aimed at increasing sales.

#### Information and Communication

- *Business / market information*: Provision of business and market information by outsourced specialists, in order to improve their efficiency and profitability.

---

<sup>6</sup> Business Development Services in Vietnam - A study to assess the market for BDS among 1200 SMEs. Alexandra Overy Miehlsbradt. 2002.

- **Information technologies:** services in which outsourced specialists design software and adapt applications that can efficiently manage information on administrative matters and other business activities of a certain enterprise.
- **Telecommunications:** Different types of services: phone, mobile phone, fax, Internet, etc. for getting business and market information (Market size for telecommunication services in the research counted only for these purposes).

### Engineering Consulting

- **Equipment and Engineering Consulting:** The services, generally one-to-one advice, refer to the selection of best equipment, maintenance and user instructions.

## 2.4. Profile of the Respondents

The research studied two target groups: BDS consumers (mostly private businesses) and BDS suppliers (consulting companies, business associations, chambers of commerce, other service providers). The research sampled and surveyed the following 8 business sectors: Agricultural processing (share: 11 %), Banking and finance (9 %), Construction (13 %), Herb processing (1 %), Textiles (3 %), Tourism (5 %), Trade (47 %) and Wooden products (furniture, construction materials etc.) – 3 %, as well as state (4 %) and donor (4 %) organizations. This sample reflects the real proportions of industries in the country.

Figure 2. Sample structure by number of employees

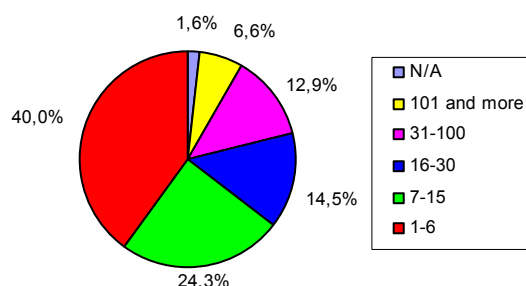
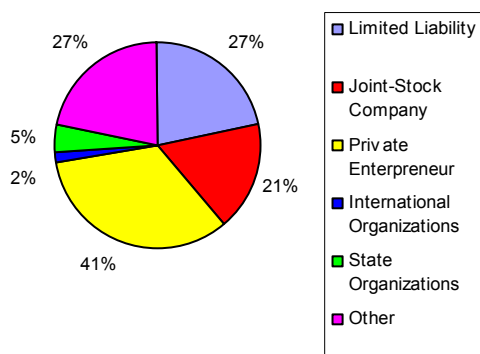


Figure 3. Sample structure by legal form



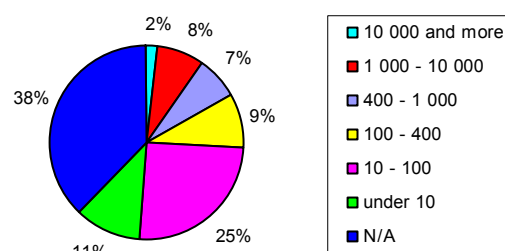
The majority of companies (79%) in the sample have less than 30 employees (see Figure 2) and are, according to the definition, SMEs.

Regarding Kyrgyz regulations, there are two types of business entities: physical and juridical. They have a slightly different taxation system and reporting requirements (physical entities pay 2.3 % less total taxes than juridical entities). A juridical entity can be

organized in the form of a limited company or a joint stock company. They act on the base of a Charter, have to have a bank account and can have several business activities. Physical entities, or individual entrepreneurs, are only allowed one kind of business activity, which is described in a certificate issued by the tax inspectorate. 41% of respondents are registered as individual entrepreneurs (see Figure 3). The share of private entrepreneurs is especially high in the Trade and Service industry - 68%. State companies have a very low share – 5 %.

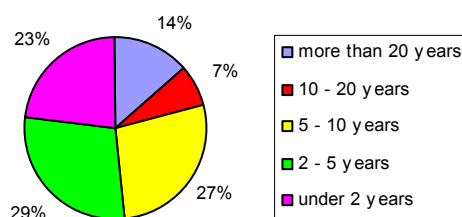
52% of respondents have an annual turnover of less than 1.000.000 soms (approximately \$20.600 US). However, the non-response rate

Figure 4. Sample structure by annual turnover, thousands soms



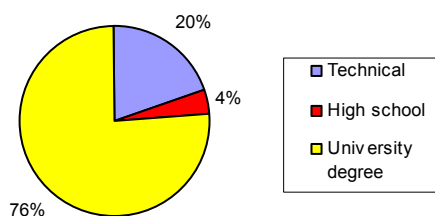
to this question is very high – 38% (see Figure 4). Managers do not disclose income information, because they are afraid of being visited by tax inspectors based on the information provided to the interviewers. However, it is reasonable to add at least half of non-responding companies to those who have an income of less than 1.000.000 soms. By doing so, 71% of companies are in this category. Such an income makes it impossible for the majority of companies to buy expensive business development services.

**Figure 5. Sample structure by age of company**



52% of companies are relatively young being less than 5 years old (see Figure 5).

**Figure 6. Sample structure by education of managers**



The vast majority of managers had a formal education after high school. 76% of them have university degrees, 20% have graduated from technical colleges or have completed higher education (see Figure 6). These figures show only the general education level. The professional level of managers is usually low, because in most cases, the subject of the formal education is not related to their current business.

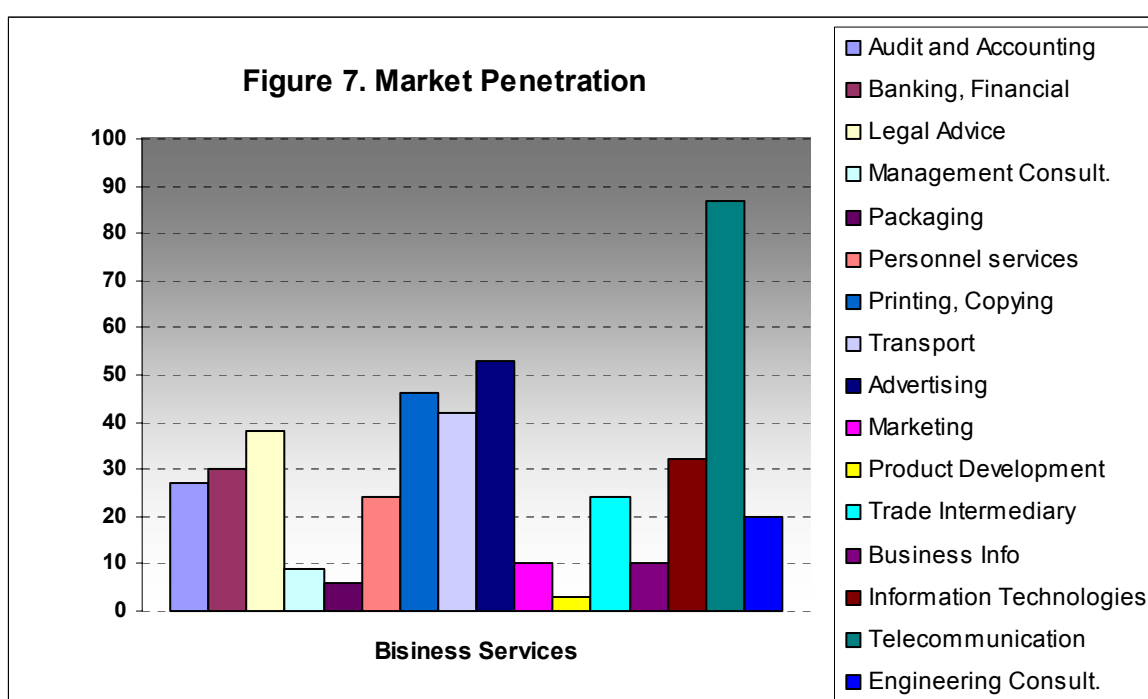
### 3. Overview of the Results

#### 3.1. Overview of Service Use

##### 3.1.1. Market Penetration

All SMEs studied used at least one kind of BDS. On average, SMEs used different types of business services 4.6 times per year. Most respondents mentioned that they had started to use services since 1997. Before 1997, they did either not know about the services, or the services were not available.

Figure 7 shows that different service markets have different levels of development and usage by SMEs. In particular, the graph illustrates the share of SMEs using a certain type of service at least once a year. In the study, users of BDS were asked about the number of times they had used a service. It is difficult to assess differences in the use of BDS by micro, small or medium sized enterprises. In general, use of services depends more on awareness and expected benefits than on size of business.



One third of BDS users purchase audit and accounting, management and engineering consulting, personnel and trade intermediary services several times a year. Almost half of BDS users make use of packaging and transport services several times a year and the remaining services were used by 2/3 of users several times a year.

### 3.1.2. Market Size and Market Growth

The number of SMEs in the KR is quite low, with only 1.8 per 1.000 inhabitants<sup>7</sup> (for comparison, in Russia<sup>8</sup> there are 6.1 SMEs per 1.000 inhabitants and in European countries about 30). The highest concentration is in the capital Bishkek, with 6.4 enterprises per 1.000 inhabitants (see table 2). In the rural regions, the number ranges from 0.5 to 1.7 SMEs per 1.000 inhabitants.

In 2000, 22.858 SMEs were registered in Kyrgyzstan. Of these, 20.672 were registered as small enterprises and 2.186 as medium sized enterprises. Only 37 % (8.500 SMEs) of them were operational at that time, the rest were not functioning due to different reasons: broken market links, lack of finance and raw materials, inefficient equipment, etc.

**Table 2: Main statistical data about SMEs in Kyrgyzstan, 2000**

	Number of SMEs per 1 000 inhabitants	Registered	Working	Share of working SMEs out of those registered	Number of employed people
Kyrgyz Republic	1.8	22 858	8 550	37 %	1 053 000
SE	1.6	20 672	7 628	37 %	442 000
ME	0.2	2 186	922	42 %	611 000
Rural area - oblasts	0.5 – 1.7	12 928	3 596	28 %	
SE	0.3 – 1.4	11 246	3 018	27 %	
ME	0.1 – 0.2	1 682	578	34 %	
Capital - Bishkek	6.5	9 930	4 954	50 %	
SE	6.0	9 426	4 610	49 %	
ME	0.4	504	344	68 %	

According to these numbers, 58 % of working SMEs in Kyrgyzstan are situated in the capital, which is thus the largest market for BDS. According to the experience of the Helvetas SME project, the managerial abilities of urban entrepreneurs in the capital are in general, higher than those of rural entrepreneurs. This means also that the awareness of BDS is higher in urban, than in rural areas.

The total market for all studied services (table 3) was evaluated at 305 mil som (about 6.4 mil USD). The biggest share of this market (21 %) is captured by telecommunication services (figure 8). Other large market shares are in transportation services (18 %), equipment and engineering consult-

<sup>7</sup> Small and Medium-sized Business in Kyrgyzstan: Current Situation, Problems and Perspectives. Soros Fund. Bishkek. 2001. Annex 3.

<sup>8</sup> Small Businesses in Russia 2000. Statistical report. Russian SME Resource Centre. Based on data from RF Goskomstat. Moscow, 2000.

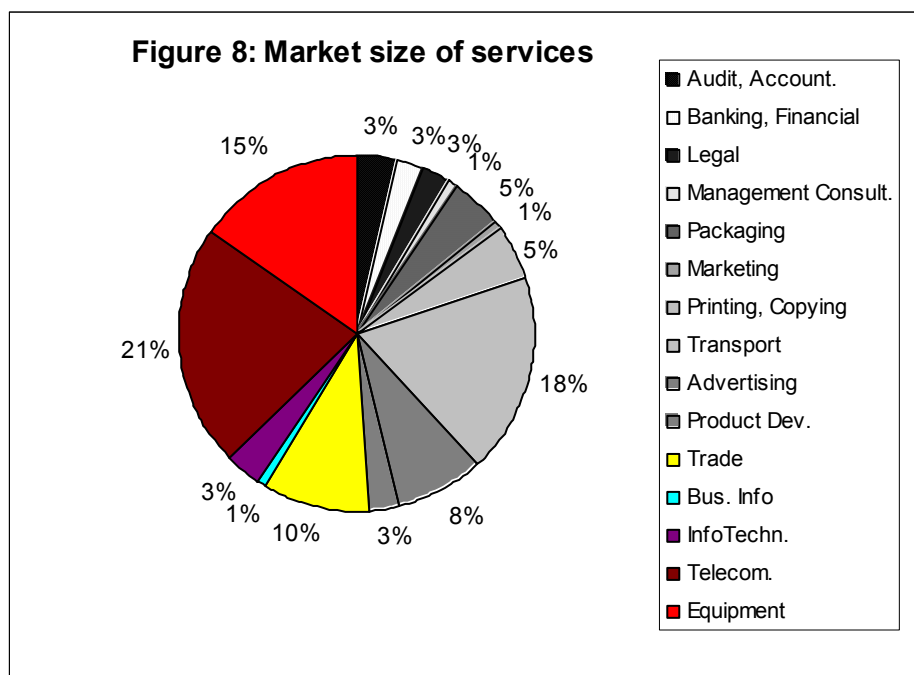
ing (15 %) and trade intermediary services (10 %). The lowest share (0.1 %) is in personnel services. Management consulting, marketing and research and business information services have insignificant shares (each kind of service has less than 1 % of the total market).

**Table 3: Market size of services and growth perspectives**

	Type of service	Evaluated market per year, mil soms	Budget of enterprises for services next year			Perspectives of market growth
			increase, %	keep the same, %	decrease, %	
1.	Audit and Accounting Services	10,60	34	57		Key consumers: Banks, APEs, construction
2.	Banking and Financial Advice	7,70	32	63		Market is growing
3.	Legal Advice	8,20	35	57		
4.	Management Consulting	2,03	27	67		Market is growing
5.	Packaging Services	15,00	57	43		Key consumers: APEs, Service
6.	Personnel services	0,35	16	73		
7.	Printing and Copying Services	15,40	49	46		
8.	Transport Services	55,20	57	39		Key consumers: Trade and Construction
9.	Advertising Services	23,80	55	40		79 % of consumers are Trade and Services
10.	Marketing and Research	2,20	37	56	7	40 % APEs are not able to pay
11.	Product / Development Services	9,10				
12.	Trade Intermediary Services	29,70				Key consumers: Service, Construction
13.	Business Information Services	2,50	51	49		Key consumers: Trade and Services
14.	Information Technologies Consulting	9,90	44	50		
15.	Telecommunication Services	67,10	34	63		
16.	Equipment and Engineering Consulting	46,20	27	54		
	Total, average:	304,98	33	44		

Many managers plan to change their budget for BDS in the next year. In general, 33 % intend to increase their budget: almost 2/3 of businesses plan to increase spending on transportation and packaging (!) services. 50% of businesses plan to increase their budget for advertising and business information services. Although the last type of service has a small market share (around 1 %), an increased demand for these services could increase the use of related services, such as telecommunica-

tion and IT consulting. 2/3 of managers want to retain their budget for management, marketing and research services. However, we cannot expect a visible growth in these market segments taking into consideration their small market shares (around 1 %). It is interesting to note that 7 % of users mentioned that they plan to decrease their budget for marketing and research. Therefore, between one third and a half of managers plan to increase the budget for operational services, two thirds want to keep the same budget for strategic services and some even plan to decrease it.



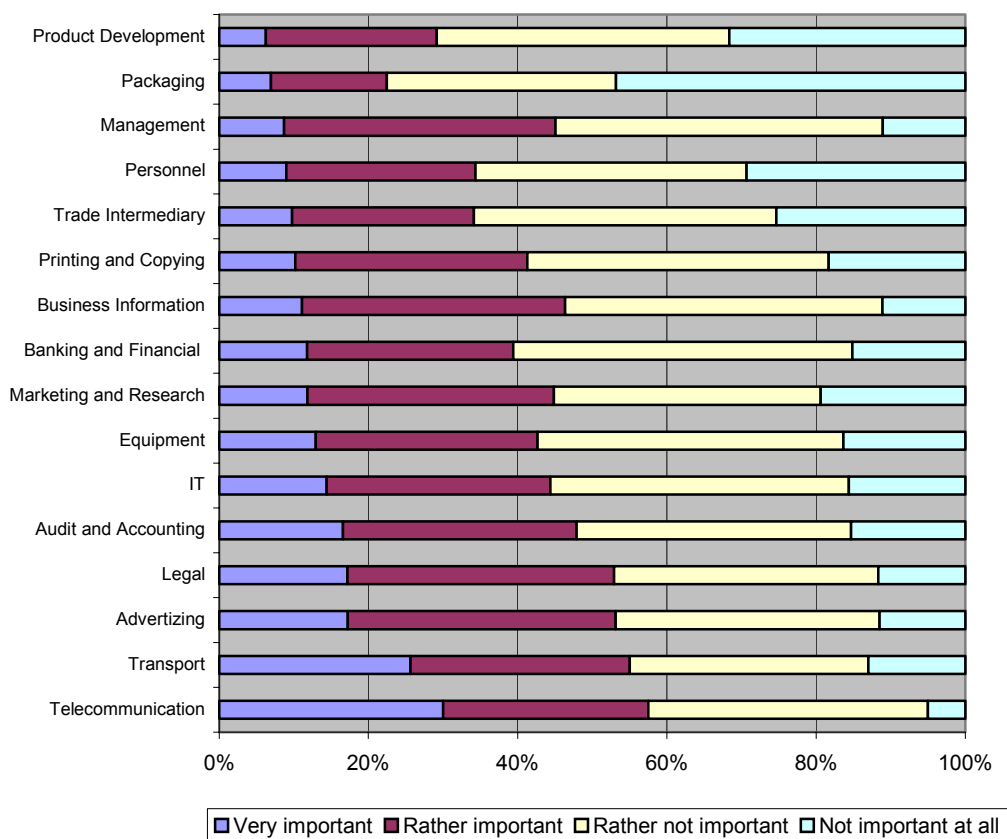
The information provided by *non-users* regarding the importance of services can likewise be taken as an, if imperfect, indicator for future growth, as some of today's non-users might become users in the future.

Figure 18 presents the importance of each service for business development among non-users. The share of *high* importance for business services range from 5 % to 30 %, and if we include 'rather' important, the share increases to 55 %. The biggest growth potential, with the highest rating as 'very important', is in telecoms, transport, advertising and legal advice.

Another finding that indicates growth potential is that awareness and use of services are positively correlated to the age of a company. Companies more than five years old show a significantly higher awareness, understanding and use of business services than younger companies. As more companies mature and grow, demand for services should pick up.

At this point in time though, it has to be noted that the Kyrgyz service market is not yet in a 'take off' situation.

**Figure 9: Importance of BDS evaluated by non-users**



## 3.2. Overview of Demand

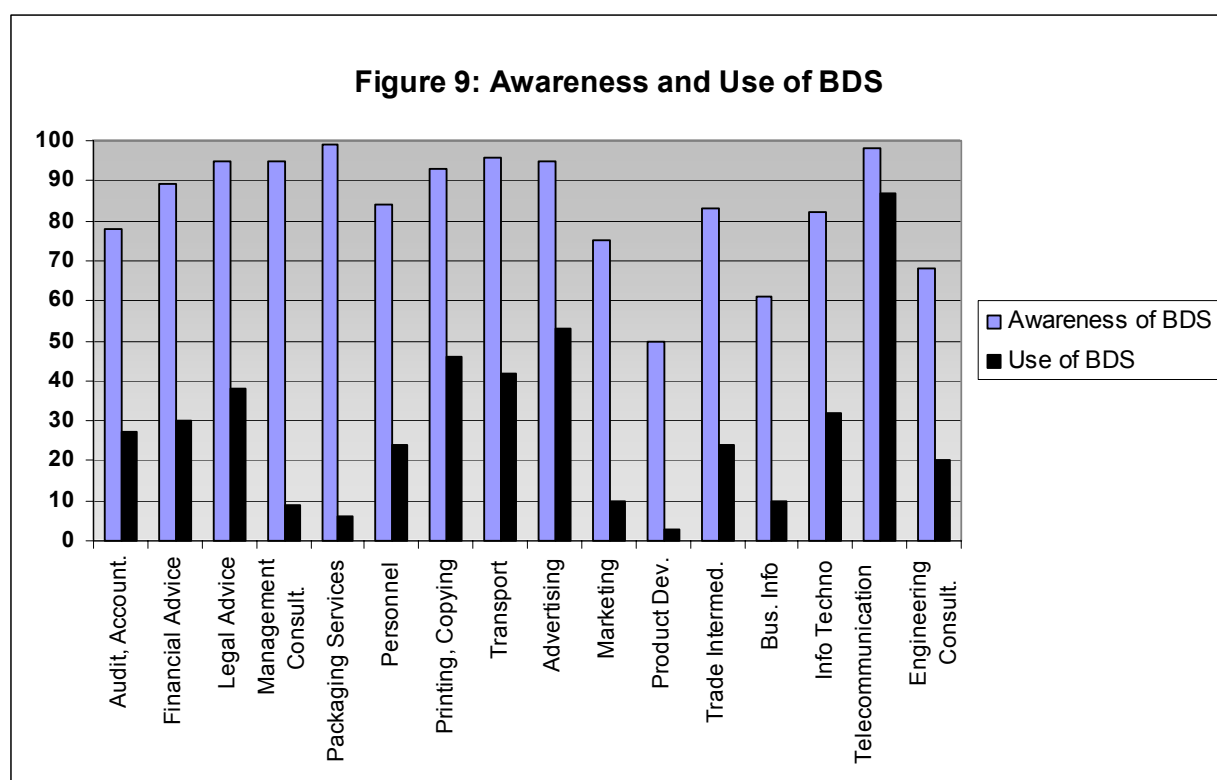
### 3.2.1. Awareness and Use of BDS

Demand for a service will depend on some basic conditions, such as knowledge of the existence of services (awareness) and understanding of their contents (understanding). Other necessary preconditions are that:

- ...services exist in the market;
- ...managers understand the possible benefits of a service and the applicability to their business, and can compare the value of its benefits with the risk of buying a service (expected benefits);
- ...enterprises are ready to pay (permanently) for receiving such services.

Figure 10 below illustrates the awareness and use of different types of services. “Awareness” represents those respondents who said that they knew where to get a service. “Use” represents those, who used a service at least once within the last two years.

Four out of five managers were aware of almost all BDS. The highest awareness (more than 95 % of respondents) is of telecommunication, legal advice, advertising, transport, packaging services and management consulting. The lowest awareness can be found in product development (50 %) and business information (61 %).



The analysis of awareness across the different client industries (textiles, agro-processing, tourism etc) shows a quite diversified picture. Whereas some industries have a quite good knowledge of services (e.g. agro-processing and wood processing enterprises, tourism), some industries have a low awareness, understanding and use of services (e.g. textiles and medical herbs).

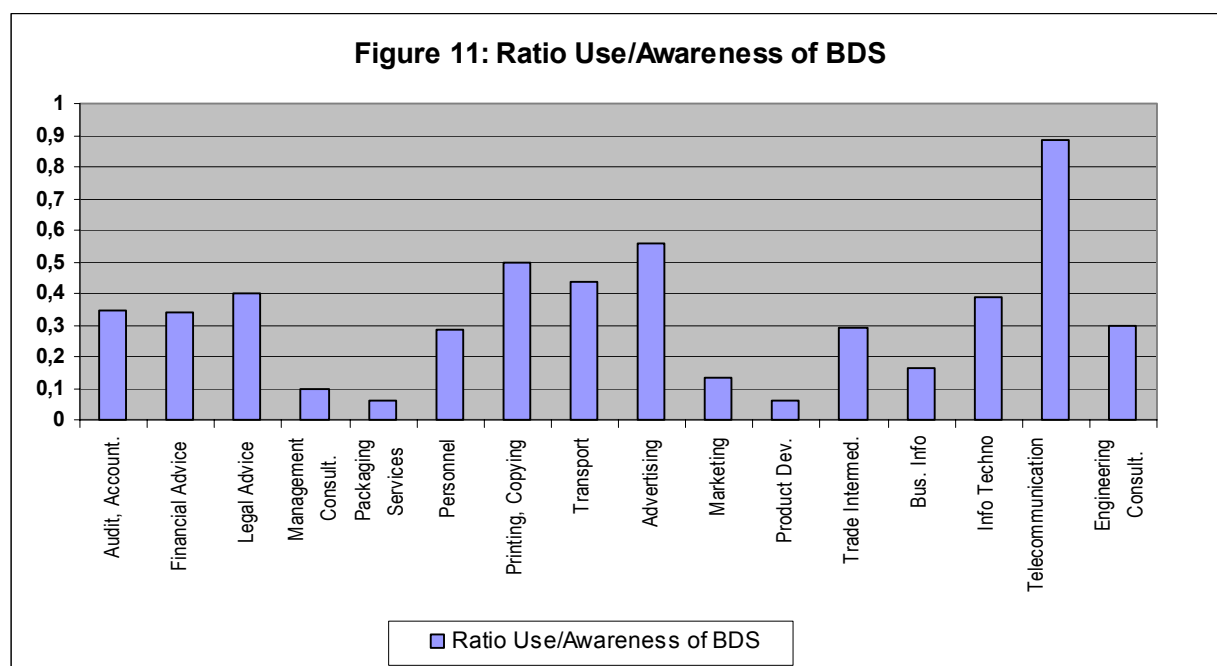
Moreover, some services do not seem to be clearly understood (see also table 5 in chapter 4.1). For instance, the use of management consulting services in all industries is very low (9 %), in comparison with high awareness (95 %). Other problems in understanding seem to exist in product development and marketing and research.

Table 4 shows the awareness and use ratios for all services for some selected industries:

**Table 4: Awareness and Use of BDS**

Type of services	Share of Awareness/ Use, %	Awareness/Use by type of business, %					
		APEs	Tourism	Wood process	Trade	Textile	Med. Herbs
Audit and Accounting Services	78/27	83/24	83/17	94/24	86/16	77/15	100/40
Banking and Financial Advice	89/30	94/37	83/30	100/65	82/15	85/ 8	100/60
Legal Advice	95/38	93/43	91/48	95/59	95/30	100/46	100/40
Management Consulting	95/ 9	54/11	57/13	53/6	51/4	15/ 0	60/ 0
Packaging Services	99/ 6	74/26	59/0	70/4	71/5	62/ 0	100/ 0
Personnel services	84/24	76/22	91/30	88/65	80/19	77/ 0	80/20
Printing and Copying Services	93/46	93/54	98/65	100/53	93/35	92/62	100/100
Transport Services	96/42	98/37	91/43	100/53	95/43	85/23	100/60
Advertising Services	95/53	94/52	100/78	94/82	95/55	92/46	100/40
Marketing and Research	75/10	74/20	65/13	76/12	73/5	46/ 0	80/80
Product / Development Services	50/ 3	48/15	43/0	53/0	48/1	46/ 8	60/ 0
Trade Intermediary Services	83/24	83/28	70/13	88/47	83/29	77/ 8	80/60
Business Information Services	61/10	63/13	70/13	76/12	54/7	31/ 0	80/ 0
Information Technologies Consulting	82/32	74/22	98/70	76/24	81/25	62/ 0	100/40
Telecommunication Services	98/87	94/93	100/100	100/94	58/85	92/77	100/100
Equipment and Engineering Consulting	68/20	74/37	65/22	82/10	63/13	77/31	100/60

The highest use of services is in telecommunications (87 %), followed by advertising (52 %), printing and copying (46 %) and transportation services (42 %). All other use is low, and the lowest use is in product development services (3 %), packaging (6 %), management consulting (9 %), marketing and research (10 %) and business information services (10 %).



Comparing awareness and use of BDS (Figure 11) shows that, if we group the services into strategic and operational services, the services in demand at the moment are those at operational level (e.g. telecommunications, advertising, printing and copying). Other operational services, such as audit and accounting, legal and financial advice, also have a quite high ratio in comparison with strategic services, such as management consulting, marketing and research, and business information.

An explanation for this behaviour is that most SMEs are still in a development stage where they do not yet need strategic services or have not yet discovered the benefit of those services to their company. Thus, demand for those services will increase with the development of the enterprises. In such a situation, donor-funded projects could take action to further increase understanding/ awareness of such services. Another strategy is to repackage services, i.e. to develop mixed or embedded service, for instance embedding management advice or business information services into an operational services such as advertising or trade intermediary services.

### 3.2.2. Information Flow and Decision Making

Two out of three (even more for some services) managers make their decision about choosing service providers based on recommendations of friends and colleagues. Only in a few services, such as telecommunication, advertising, transportation and personnel, do a quite high number (around 60 – 70 %) of SMEs make decisions based on the mass media. Nevertheless, the information provided by friends and colleagues is not always comprehensive and accurate (see comment). Independent information about BDS seems to be scarce.

***Example of donor intervention in the provision of BDS information***

In 2001, the Helvetas Support to Private Initiatives Project published a Guide Book of Consulting Companies in Kyrgyzstan. This brochure was subsequently updated by the Kyrgyz Association of Consulting Companies, following FEACO standards and was published in Russian and English. A third issue is planned for 2003. The guidebook provides information about service providers and their services, and allows consumers to choose between different providers, based on impartial information. Different SMEs mentioned that they preferred to have printed matter in hands instead of having this information only available on a website, as most enterprises in rural areas do not have access to the Internet.

A similar approach was taken to inform SMEs about existing credit lines and producers of equipment. To this end, the project supported the idea of one consulting company to establish an information and technical centre. This centre was established in August 2002 and started to provide information for agro-processing enterprises about available credit lines, producers of agricultural and food processing equipment, potential investors, etc.

**3.2.3. Reasons for Purchasing Services**

It was mentioned that 80 % of surveyed SMEs have less than 30 employees and 70 % have an annual turnover of less than 20.000 USD. They are small businesses and it is important for development projects to understand why those companies purchase BDS.

Before we pursue this issue further, we divide the surveyed services into two groups:

<b>Services at operational level (day-to-day activities)</b>	<b>Services at strategic level (activities related to further development of the enterprise)</b>
<ul style="list-style-type: none"> <li>• Audit and Accounting</li> <li>• Legal advice</li> <li>• Management (operational) consulting</li> <li>• Packaging</li> <li>• Printing and Copying</li> <li>• Transportation</li> <li>• Personnel services</li> <li>• Advertising</li> <li>• Trade Intermediary services</li> <li>• Business and Market information</li> <li>• Information technologies</li> <li>• Telecommunications</li> <li>• Equipment and Engineering consulting</li> </ul>	<ul style="list-style-type: none"> <li>• Financial and Banking advice</li> <li>• Management (strategic) consulting</li> <li>• Advertising (new markets and products)</li> <li>• Marketing and Research</li> <li>• Product development services</li> <li>• Business and Market information</li> <li>• Equipment and Engineering consulting (expanding, diversification of business)</li> </ul>

Kyrgyz SMEs buy operational services for their day-to-day activities. Some of these activities are part of their technological process, for instance, packaging or transportation to the market. Other activities, such as audit and accounting, are required by government regulations: quarterly and annual

reports to the taxation inspectorate and to shareholders, in the case of joint stock companies. For instance, purchase of these services directly influences an enterprise because they can be fined by the tax inspectorate if they do not submit a financial report on time.

Demand for services at strategic level (management consulting, marketing and research, business and market information, product development) is much lower. If we glance for a moment at the supply side of these services, we see that they are often provided or supported by international donor projects, and that they are often subsidized, or even, offered for free. Thus, one reason for the use of strategic services, is that they are offered free of charge. 12 to 14 % of the following services were used for this reason: banking and financial advice, management consulting, personnel services and marketing and research.

There are some possible explanations for the low demand for strategic services: on the one hand, companies may not (yet) need those services, or they are not fully aware of their benefits. Another reason seems to be quality-related: in the focus group discussions, managers mentioned several times that those services provided by donor projects (or their related organizations) were sometimes irrelevant to their conditions (examples from other countries, no consideration of local features, etc.). That means that the service lacks focus and relevance - an obvious quality problem. Also quality-related, however based on *assumptions* of potential clients, is that some managers do not value and trust free services and that they consider free services as a useless product that nobody wants to buy. This is an example how well intended market interventions (to provide a service to support poor companies or to stimulate demand), meet with a totally different perception on the side of the client (a free product can have no value).

Thus we conclude that paid for services seem to be more highly appreciated than services that are provided for free. Nevertheless, most services were purchased because managers considered them useful for business development (Figure 12).

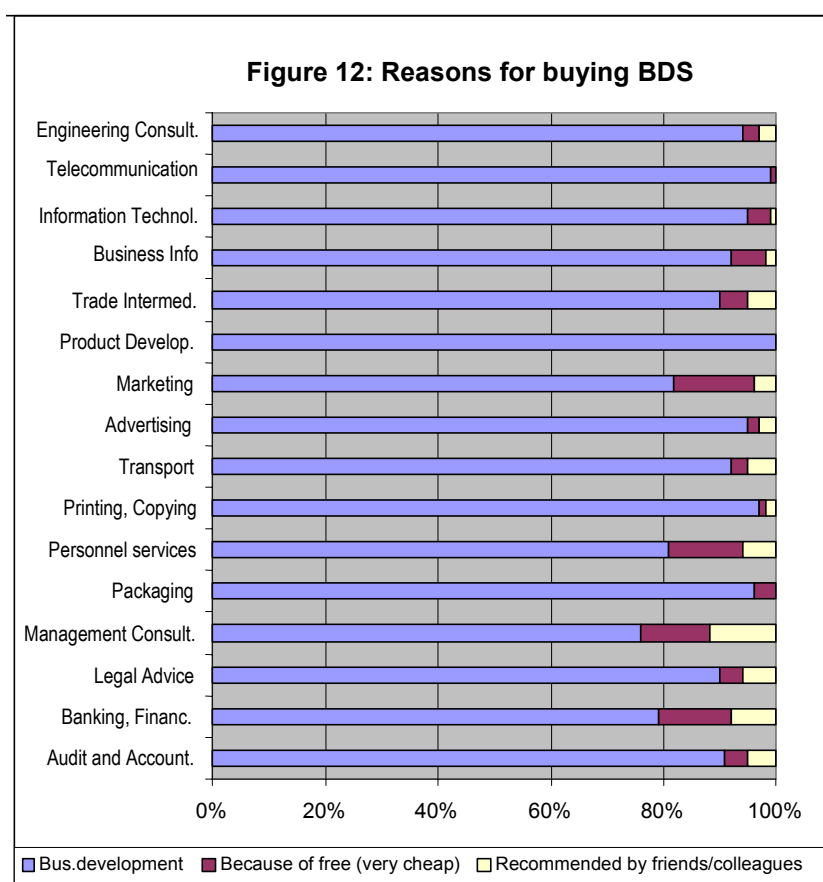
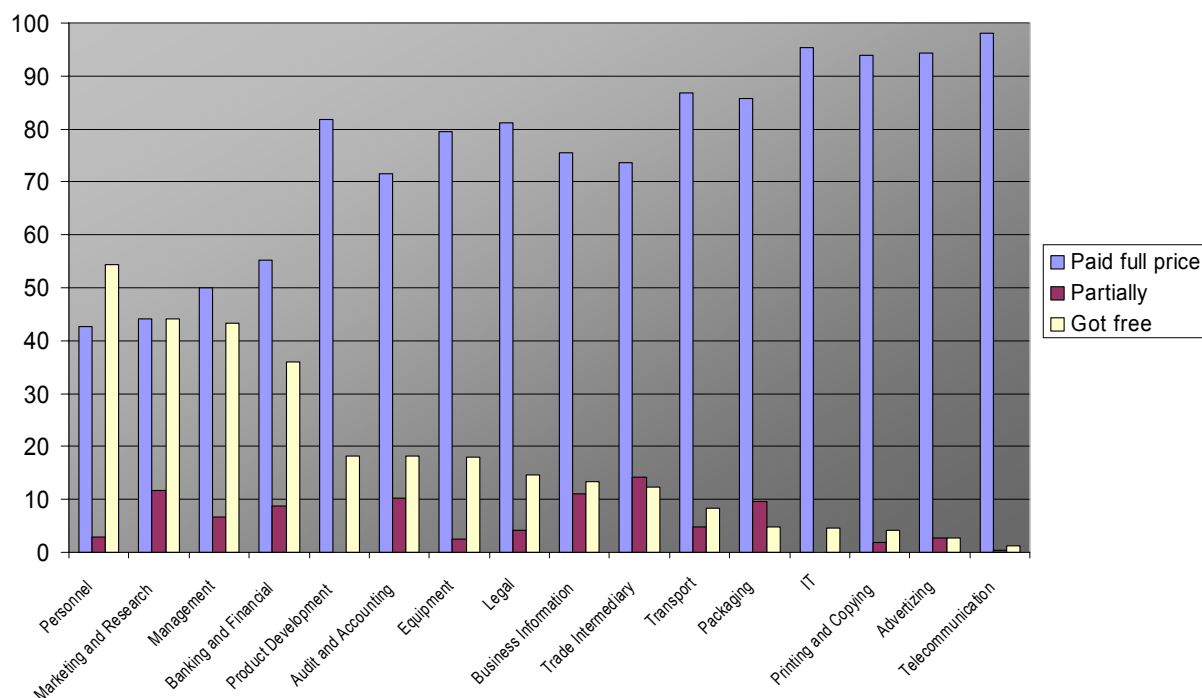


Figure 13 shows that enterprises pay for absolutely all services. The lowest share of fully paid services is in personnel (42 %), marketing research (44 %), management (50 %), banking and financial (55 %). These four groups have the biggest share of services for free (35 – 55 %). IT, Printing and Copying, Advertising and Telecommunication are usually fully paid for and have the smallest share of free services (not more than 4 %).

**Figure 13: Payment for the Services**



### 3.2.4. Reasons for not Purchasing Services

90 % of non-users mentioned a lack of need for the following services: banking and financial advice, packaging and personnel services, product development and business information services, (those strategic services that are heavily subsidized by donors). 50% of non-users said the same about audit and accounting, printing and copying services, management and information technologies consulting, legal advice, transport and trade intermediary services, marketing and research. Only one third of non-users mentioned a lack of need for advertising.

Here we see again that small companies are not interested in strategic services. An owner of a bakery in a small rural town said: *“I have a small business. A small business has small problems. My small education allows me to manage these small problems”*.

Lack of need is however, not the only reason for not purchasing services. Other possible reasons are that managers are not aware of their benefits, do not know about the availability, the prices are too high, they are disappointed with the quality, or simply because services are not provided. Another reason may have its roots in the provision of free services: enterprises may get so used to receiving certain services for free that they feel they have to be provided for free - another example of a well-meant intervention that may set perverse incentives.

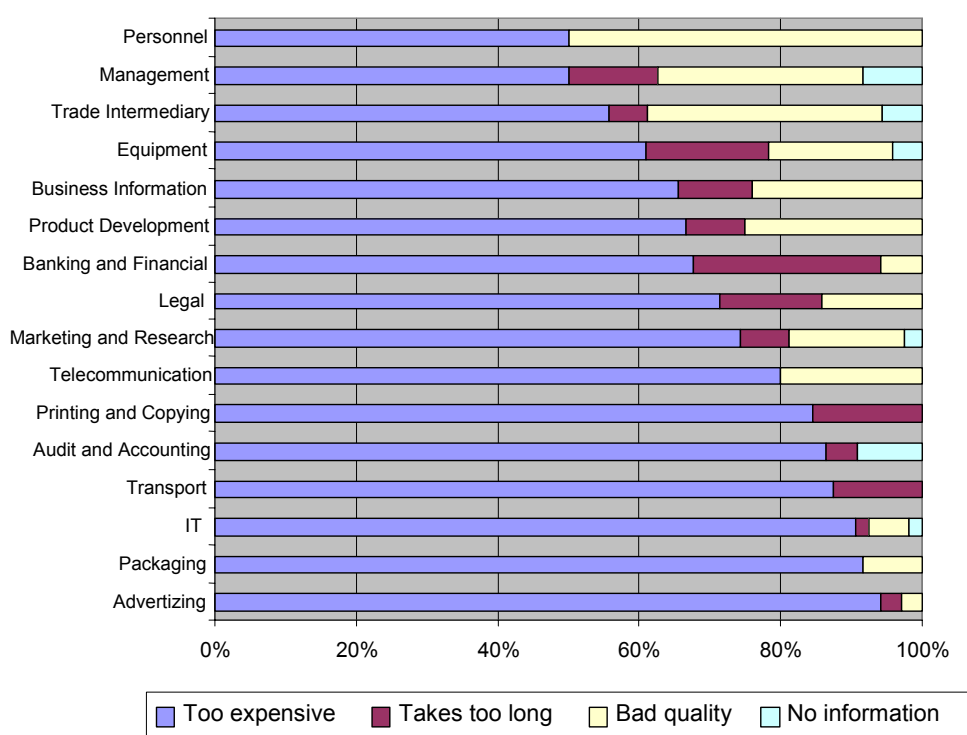
Therefore, we can divide the reasons for not purchasing a service into three groups:

- 1) no demand for, or no supply of, some services at the moment,
- 2) services do not correspond to SMEs' expectations and

- 3) free supply of services by donor and state organisations (Note: 70 % of studied SMEs who received services free of charge said they were able to pay for them).

The survey also studied the reasons for refusing a service among those who need them, but do not use them. Services are perceived as too expensive, as taking up too much time, being bad quality, or there is no information available (Figure 14). More than half of SMEs named price as the first reason for not purchasing the service: more than 80 % said that operational services such as telecommunications, printing and copying, etc. were too expensive. Nevertheless, these services have the highest share of fully paid prices. From 50 to 70 % of SMEs mentioned strategic services, namely management, product development, marketing and research and business information, as being too expensive.

**Figure 14: Reasons for refusing a service by those who need the service, but do not use it**



The second reason for non-purchase is poor quality. This may be related to a shortcoming on the side of the service provider (weak experience and knowledge, lack of focus, etc), but also to a lack of knowledge and skills or trained staff, within the client company. Extraordinarily high is the poor quality that was assigned to personnel services. Other services with a quality problem are trade intermediary services, management, business information and product development.

The third reason was that the service "took a long time". This applies mainly to banking and financial advice, and engineering consulting. In banking and financial advice this may have external reasons (for instance, banks take a long time to approve business plans and provide a loan).

The last reason (less than 5 %) for non-purchase of such services as management, trade intermediary, audit and accounting, is lack of information about the service.

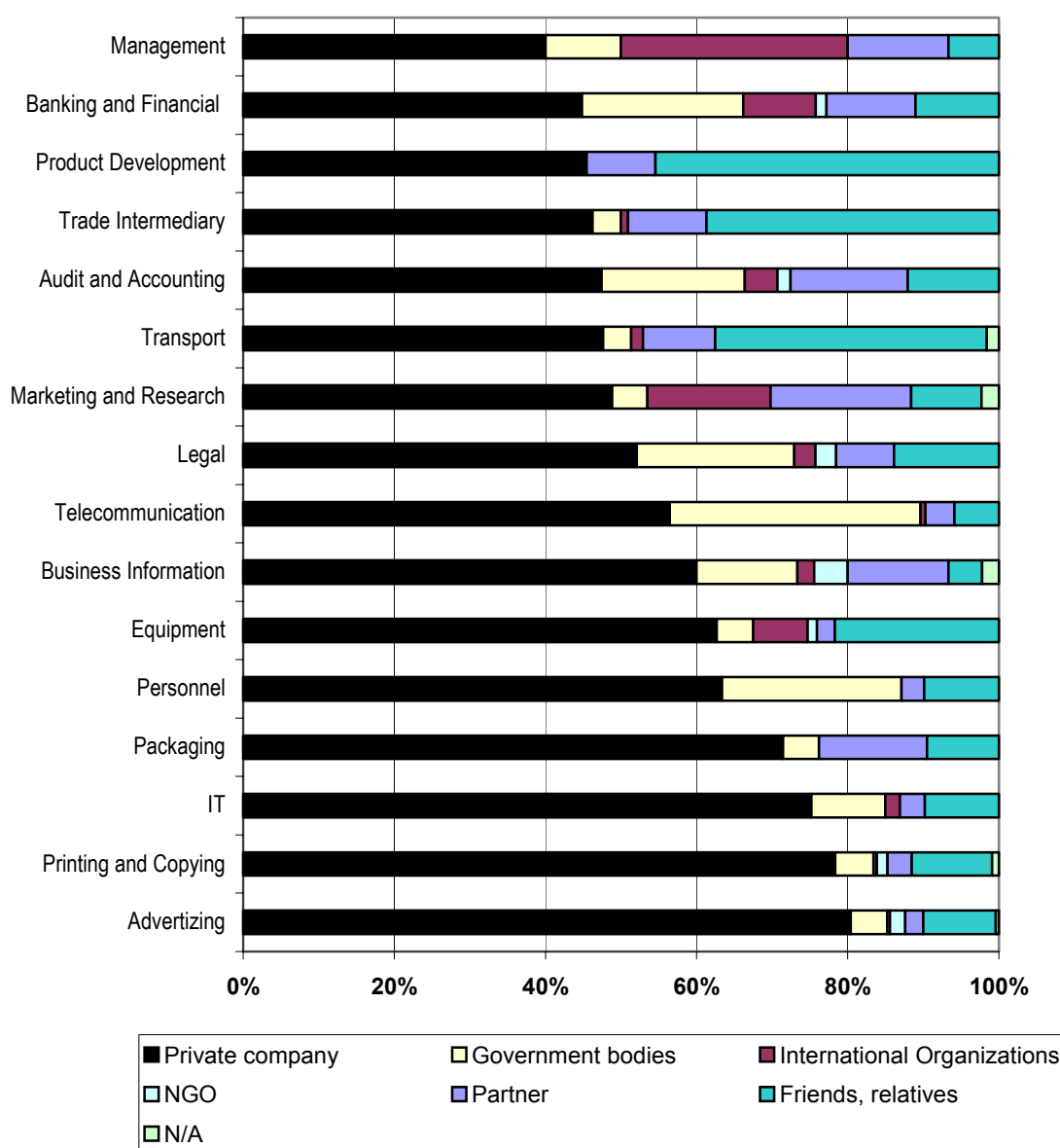
### 3.3. Overview of Supply

#### 3.3.1. Types of Providers

There are different types of service providers in Kyrgyzstan; private companies, state-owned or government agencies, NGOs and donor agencies.

Private companies provide most services (from 40 % in management, banking and financial advice, product development up to 80 % in IT, printing and copying, advertising). The share of government providers is around 20 % in Banking and Financial, Audit and Accounting and legal services and up to 30 % in telecommunications and personnel (Figure 15). International organisations provide about 30 % in management and 15 % in Marketing and Research services. NGOs have a very small share of the market, providing around 2 – 3 % in Business Information and Legal services. In general, the role of NGOs in the provision of BDS is insignificant. Services provided by them are usually free of charge or at a token price.

Figure 15: Service Providers



Private companies supplying BDS dominate all other suppliers; they provide about 2/3 of all services. This is an important feature of the Kyrgyz market, compared to other countries. For instance, in Vietnam, the share of services provided by private companies and government bodies is approximately equal. The total share of services provided by government bodies in Kyrgyzstan is only 10 %, mainly in the fields of telecommunications (30 %), Banking and financial Advice, personnel, bookkeeping and auditing (each of them has around 20 % of the market share). Most BDS provided by state bodies are on a payable base and consumers pay the full price for a service.

Donor projects provide many types of BDS, many of them free of charge, or for a token payment, which usually does not cover expenditures related to the provision of this service. The main services with a significant share of donors are: Management consulting (30 %), Marketing and Research (15 %), Banking and Financial Advice and Equipment (~ 10 %).

A very important group of service suppliers are *friends and partners*. They provide about 25 % of the BDS market in Kyrgyzstan, and up to 50% in some fields, such as product development, transportation and trade intermediary. The reasons why this group figures so prominently may be that it is difficult to find service providers in some areas of Kyrgyzstan, that they provide the service for free or at low cost, or simply because they are trusted and reliable.

Most service providers (75%) have less than 50 employees, which mean that they also fall into the category of SMEs.

### 3.3.2. Location of Providers

The highest “density” of services is in the capital, Bishkek (73% of providers). In some types of services this concentration is even higher, for instance 91 % of business information services are located in Bishkek, as are 100 % of private companies providing management consulting services. There are only a few affiliates of private companies providing strategic services in rural areas, namely marketing and research, financial and banking advice, but the majority of such services in rural areas are offered by donor and state organisations.

### 3.3.3. Basis of Competition

Understanding why SMEs choose a certain service provider allows to define the base of competition.

For most services, the biggest influence is personal recommendations of friends and colleagues. For instance, between 80 % and 90 % of consumers chose audit and accounting, banking and financial advice, legal advice and management consulting through recommendations of friends and colleagues. The choice of other services (packaging, engineering, marketing and research, trade) also depends very much, (about 60 %), on recommendations. We can assume that for these types of services, the main factor for purchasing is *trust*. Therefore, establishing a trusting relationship between a service provider and an enterprise for the abovementioned services is most important.

About 30 % of managers named a '*good reputation*' as the most important factor for choosing a service provider. Some services, like advertising and personnel, are identified and chosen through the mass media (about 60 %).

Surprisingly, the *price* of a service was a minor factor in the choice, with the exception of transport and personnel services and management consulting and marketing services, which were chosen by 20% of users because they were offered for free.

Therefore, we can say that providers are competing on the basis of reputation for quality services, trust of their clients, and personal recommendations.

### 3.3.4. Service Quality

It is difficult to assess the quality of services, as this may depend on subjective factors and perception of the client business at the moment of research, for instance, managers may link some of their own weaknesses to service providers. Nevertheless, the level of dissatisfaction with a service can show possible interventions for BDS support programs.

Figure 16 summarizes customer satisfaction with the services that were surveyed. The figure shows that each service has a different level of quality. When asked whether they were satisfied with the quality of a consumed service, 80 % to 90 % of customers were totally or rather satisfied. The highest share of totally satisfied customers can be found in packaging and IT services (however, at the same time packaging has one of the biggest shares of customers that are totally dissatisfied). The worst rating was given to personnel services.

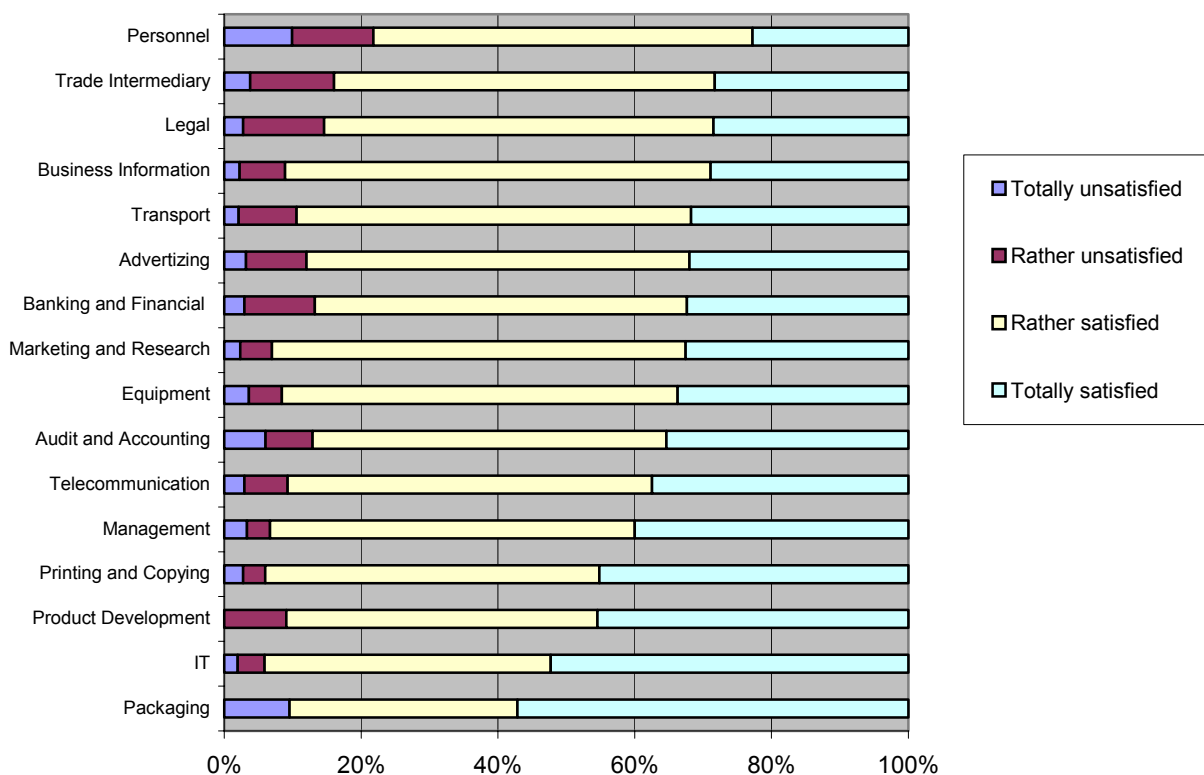
Customers also provided reasons for their dissatisfaction and suggestions to improve the services. One of the main reasons is the high price of the service (Figure 17). Product development and telecommunications are “leaders” here. Again, personnel services have the worst quality, while price did not play an important role. This confirms that price does always not play the main role in the choice of a service. Marketing and research, business information and management consulting have weak access and there is little information provided about the services.

Figures 16 and 17 show that, depending on how the question was asked, the findings regarding quality are somewhat contradictory. Users stated quality much more often when asked about measures to improve a service, than when directly asked about their satisfaction with a service.

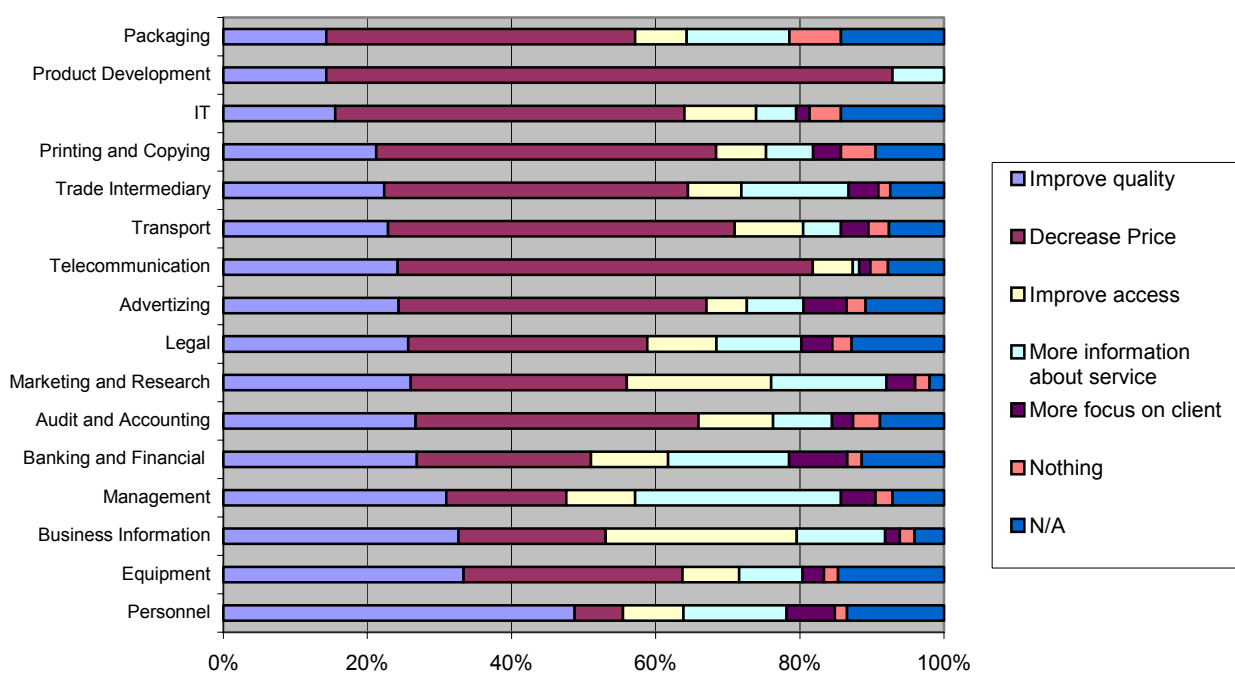
Another finding that emerged during focus group discussions was that international consultants were sometimes said to lack the ability to adapt to local circumstances, whereas local consultants would need more training.

It would be useful for service providers in those fields to get some training to improve the quality of services. Donor and state organisations could play a very important role in this process.

**Figure 16. Customer satisfaction**



**Figure 17: How to improve Services (% of users)**



## 4. Comparative Analysis of Service Markets

### 4.1. Awareness, Understanding, Use, and Retention

Table 5 highlights the critical factors for each surveyed service, which can give us some preliminary indications regarding possible interventions into the market.

**Table 5: Awareness, understanding, use and retention of different services**

	Awareness	Understanding	Use	Retention
Banking and Financial	89%	82%	27%	85%
Management	59%	76%	6%	90%
Marketing and Research	76%	80%	9%	79%
Transport	96%	96%	38%	48%
Legal	95%	93%	29%	75%
Audit and Accounting	88%	89%	23%	82%
Equipment	68%	85%	17%	63%
Business Information	62%	79%	9%	73%
Trade Intermediary	83%	86%	21%	55%
Telecommunications	98%	98%	88%	93%
IT	82%	92%	30%	74%
Advertising	95%	96%	50%	58%
Printing and Copying	93%	96%	43%	58%
Product Development	51%	76%	2%	64%
Packaging	69%	80%	4%	71%
Personnel	83%	91%	20%	71%

**Awareness** of a service is the critical starting point. The table shows that low awareness, often combined with low understanding, leads to only minimal use of a service. This is the case in management, marketing/research, business information and product development, all of which we would categorize as 'strategic' services. Especially with these services that do not lead to an immediate benefit, interventions to increase awareness would be among the first steps on the demand side.

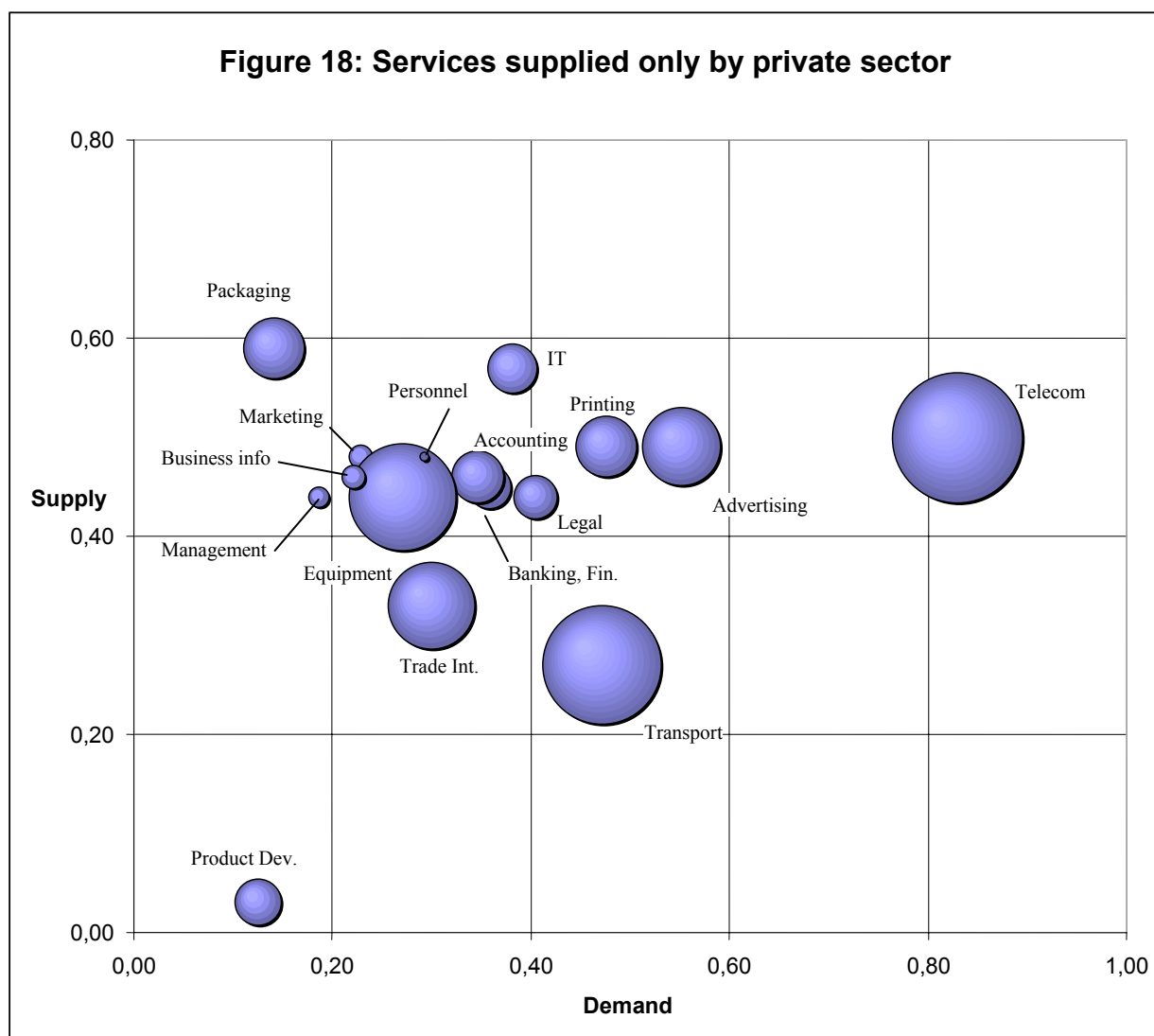
Surprisingly, the **understanding** ratio of services is quite high. In some cases however, this may be questioned, as some services are not available outside the capital and may thus not be known at all. We learned that 'product development' for instance, was often confused with 'packaging and marketing', and that 'marketing' may be confused with 'advertising'.

The **use** of services is, compared to awareness and understanding, very low in all but the most essential service, which is telecommunications. Many other services are either performed in-house (such as packaging). For other services, there appears no perceived (or: expressed) need, such as marketing & research or product development.

Some services have a low **retention** ratio, which may point to a problem with service quality. The lowest retention rates are in those services, which have a medium user ratio and which occur at relatively high costs to the user, such as advertising, printing & copying, and transport. High retention, on the other hand, can also be due to a limited supply situation and does not necessarily indicate high quality.

## 4.2. Categorization Demand/Supply

If we try to categorize the surveyed market segments we arrive at the following picture:<sup>9</sup> Please note that in this graph (Figure 18), only the private sector supply was taken into account, i.e. all services rendered by donor or government agencies, friends and relatives were subtracted in order to show the situation of the Kyrgyz private service market:

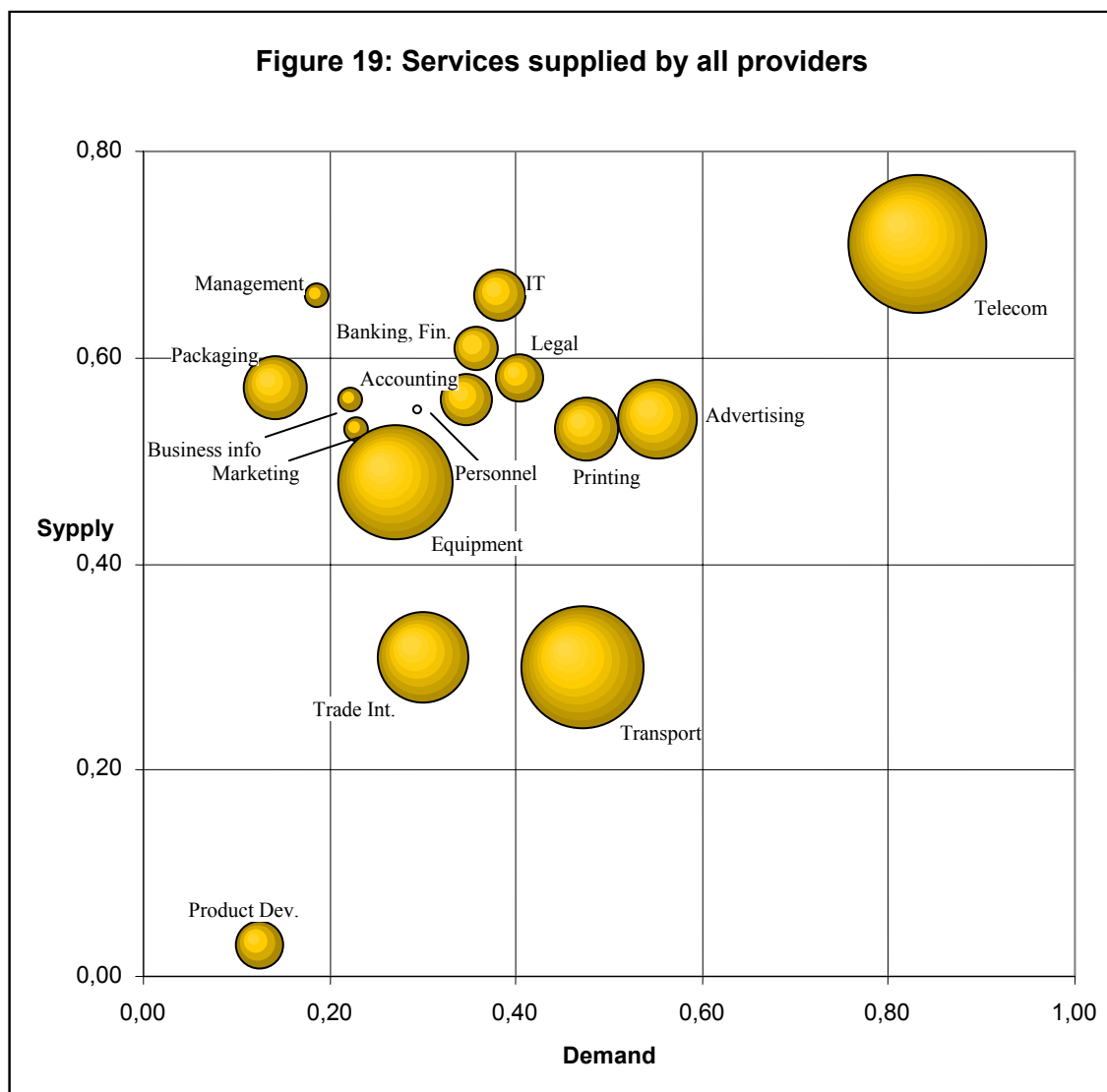


This graph illustrates that most services range from very weak to weak demand. The situation with regard to supply is slightly better; supply ranges from weak to medium.

However, it must be noted that no reliable information is available regarding the quantitative supply situation specifically in the rural regions of Kyrgyzstan, and that therefore, no data about the amount of suppliers has gone into the calculus of the supply situation (a relatively high rating of 'packaging' on the supply scale does not necessarily mean that there are many suppliers, but rather that the available suppliers provide good services). The result regarding the supply situation must therefore, be regarded with reservation. What this graph does indicate, based on the available data, is *the relative competitive strength or weakness* of a specific sector.

<sup>9</sup> demand was calculated as follows: actual use \* 0.7 + importance attributed by non-users \* 0.2 + awareness \* 0.1  
 supply = (retention \* 0.5 + quality \* 0.5) \* use, private sector suppliers only (except telecom)

In the following graph (Figure 19), we have additionally taken into account the service supply by government bodies, NGOs and international organizations. This changes the supply situation slightly for the better:



This analysis shows that Kyrgyzstan has a service market that is characterized by a generally weak demand and also by a relatively weak supply situation. The latter is to some degree mitigated by the existence of services provided by donors and the government. Whether the supply of services for free, or at highly subsidized prices, stimulates demand or leads to a crowding out of private sector suppliers, needs to be considered for each service individually. However, some services seem to function quite effectively, such as advertising, printing, and IT services.

In the situation described above, donors would have to address both the supply and the demand side in order to stimulate the market for specific services. International experience gained during recent years, shows that a number of interventions exist for both sides of the market, either to increase demand, or to strengthen the quality and range of services available.

The table below<sup>10</sup> illustrates possible interventions in BDS markets, depending on the categorization of the demand and supply situation.

**Table 6: Possible interventions in BDS markets**

<i>Demand / Supply</i>	<i>Strong</i>	<i>Weak</i>
<i>Strong</i>	No intervention	<ul style="list-style-type: none"> <li>▫ Technical assistance to suppliers</li> <li>▫ Product development</li> <li>▫ Help start new suppliers</li> <li>▫ Promote supplier franchising</li> </ul>
<i>Weak</i>	<ul style="list-style-type: none"> <li>▫ Voucher program</li> <li>▫ Provision of information to consumers</li> <li>▫ Promote “third-party paid-for” services</li> <li>▫ Promote trial inducing marketing (e.g. coupons, one free trial, demonstrations)</li> <li>▫ Promote customer referral marketing</li> </ul>	<ul style="list-style-type: none"> <li>▫ Multiple interventions on both demand and supply side</li> <li>▫ Promote embedded services</li> </ul>

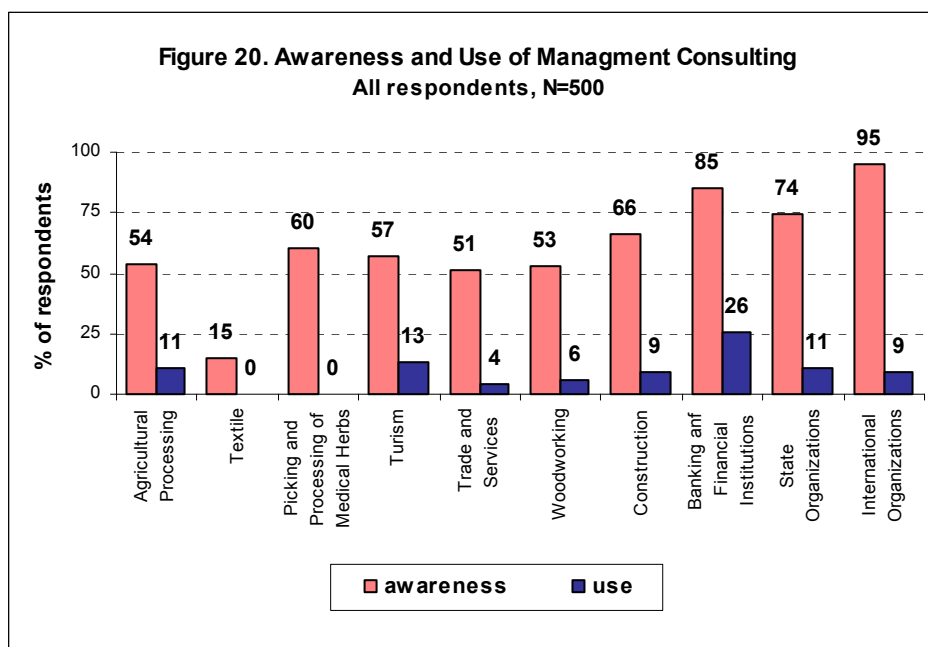
<sup>10</sup> From: Business Development Services in Viet Nam, June 2002, Alexandra Miehlbradt

### 4.3. Key Factors in Developing Specific Markets

#### 4.3.1. Management consulting

Management is one of the (strategic) services where benefits are not visible in the short term. This is a problem in a society and culture where long-term planning is not well established and where the struggle for daily survival occupies the mind of both private households and small companies alike. This is reflected in the results of our survey:

Awareness and understanding of this service are very low. Even in those sectors that have a relatively high awareness, the user ratio has remained low and is, in some industries, even zero. We must keep in mind though that the market for this service is very young, as more than 56% of users started to use this service only in 1998. The results show that in 2001 and 2002, use was more frequent, with 33% of users purchasing the service several times a year.



47% of respondents stated that they could pay the full price. Nevertheless, 7% of users received the service at a subsidized price and 43% received it for free (main recipients of free services are banks /financial organizations and 60% of agro-processing companies). Those two sectors and trade & services companies are the main clients.

Thus, management consulting is one of the services that is heavily subsidized by international and government agencies. This may help to stimulate demand, as 12% of users said that they used the service only because it was for free. It remains to be seen however, whether this stimulation is sustainable and that users have recognized the importance of the service and would now be willing to pay for it.

Suggestions to improve the service are quality (31%) and information about the service (29%). 5% of users suggested a better focus on the client.

*This service has one of the lowest demands among all services. The supply situation is very weak when we consider private sector, suppliers and medium when we take into account other service providers (donors, government agencies). Interventions in this market should focus on stimulating demand. This could be done by providing more information about the benefits of management consulting to increase awareness and understanding, and promotion e.g. through vouchers or embedded services. On the supply side, it is recommended that direct provision of services should be reduced in favour of strengthening the supply of private sector suppliers. Donors could provide training to local consultants to improve service quality, and assist in the development of products that are adjusted to the need of the particular client.*

### 4.3.2. Financial and Banking Advice

Kyrgyz companies have a good awareness and usually know where to apply for such services. Nevertheless, the user ratio is low at 27%, with the lowest use in the textile industry and trade and services companies. A rather remarkable finding among respondents was that 47% of them considered the service to be of little importance for their competitiveness and survival.

Just as with management consulting, this is one of the services frequently offered by government, donor organizations and NGOs, and is one of the highly subsidized services (36% of users received the service for free and 9% paid only partly). The sectors most subsidized are financial institutions, agro-processing companies and construction companies. 13% of users even stated that the main reason for using the services was because it

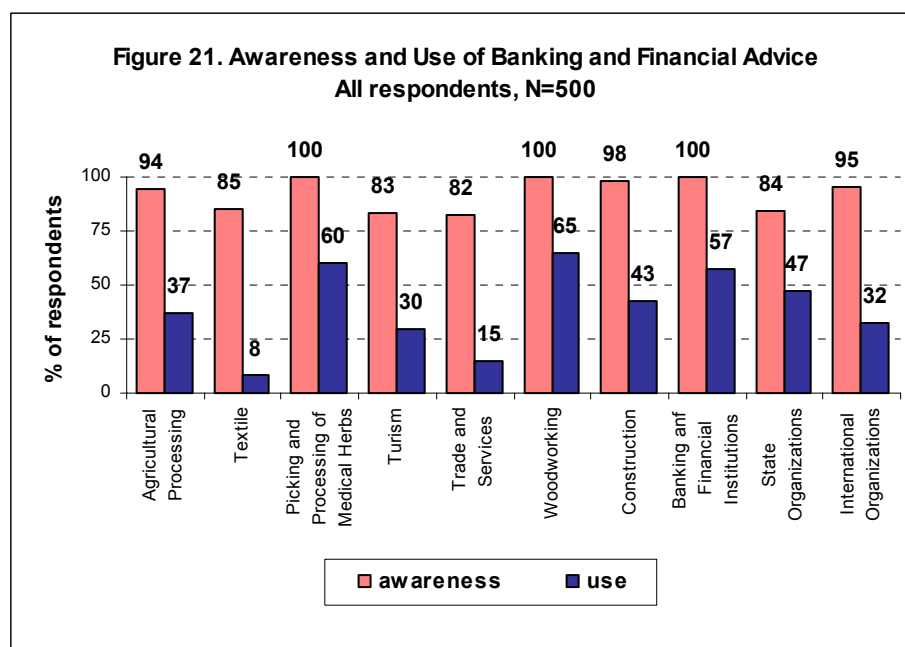
was provided for free, or cheaply. Target segments, if rated by spending, are woodworking companies, trade and services companies, and international organizations.

Constraints on the consumer side may be related to limited resources and/or the existence of subsidies that reduce the willingness to pay and distort the market. At the same time, the provision of free services may lower private suppliers' abilities to develop an attractive, competitive offer.

The most pressing issue is quality, as 27% suggest that quality must be improved and an additional 8% want a stronger focus on the individual client. However, we must note this low effectiveness may be an external factor and be rooted in a weak banking system. 11% would like to have improved access (the supplier statistics showed that services are only available in 3 regions, but this may be misleading), and 17% would like more information regarding the service.

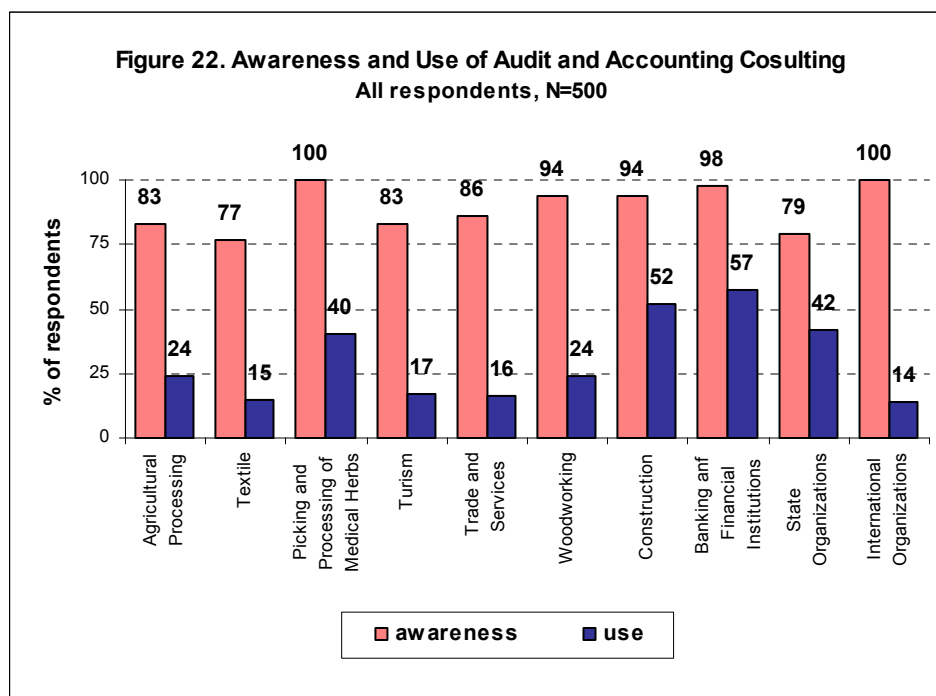
This service ranks medium on the demand side. Usually, we would assume a high recognition that the service addresses important business problems (for instance, a business plan may open the door to external finance). However, considering the low importance that respondents assigned to the service for their competitiveness, we must assume that demand would be weaker if customers had to pay for services. The supply side is medium if we take into account the services provided by government and international agencies, much weaker if we consider the private sector only.

*Recommendations for market intervention are to reduce direct (donor or government) supply and instead support the development of a stronger supply sector, while at the same time stimulating demand. On the supply side, one issue could be a stronger focus on the client, and improved access to services in the rural regions. On the demand side, more information (even better: demonstration) of the service's benefits should be provided to increase awareness and understanding of the service. Other instruments could be referral, for instance, by financial institutions prior to using their service, or embedded services (e.g. when purchasing industrial equipment).*



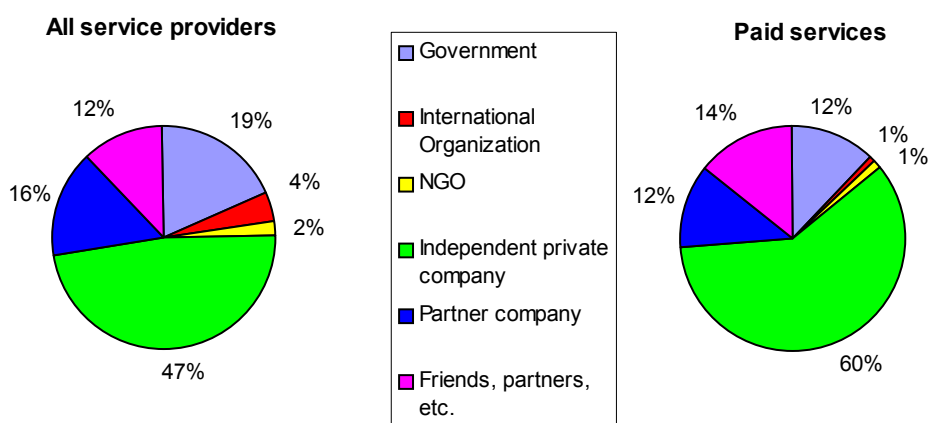
### 4.3.3. Accounting and Auditing

Accounting and auditing has a good awareness and a use factor of 23%. Users are mainly joint stock and limited companies; banks/financial institutions and construction companies have the highest use in terms of spending and the target sectors also include agro-processing companies.



67% of users first used the service after 1997, which can be related to a change in the Kyrgyz accounting system and an additional need for professional support. However, only 32% of users use the service several times a year, whereas 61% use it once a year, or even less frequently.

18% of users received the service for free and 10% partly subsidized. Agro-processing companies and financial organizations had the highest share of subsidized services. However, only 4% of respondents said that price was an obstacle to using this service. The graphs below show the distribution of service providers and providers of paid services.

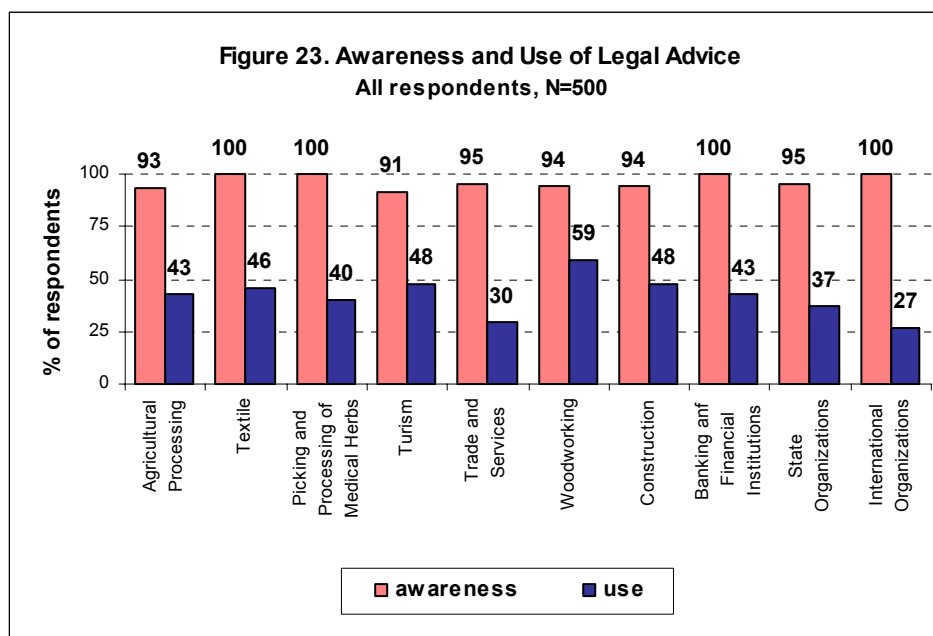


Major issue for users is the price (39%). 27% would like to see the quality improved; 10% would like to have better access.

*This market segment is characterized by weak demand and weak (private sector only) to medium supply. It is one of the 'middle-field' players, and we can assume slight growth in demand in the future. Possible interventions on the supply side should focus on rural regions, based on a closer examination of the actual situation of demand and supply, and on quality improvement.*

### 4.3.4. Legal Services

Legal services are widely known and understood and one of the services with a user rate of almost 30%. It is also available in the rural regions of Kyrgyzstan. The relatively high use may be due to the fact that this is a service that has to be outsourced, due to a lack of knowledge and contacts within a company, and at the same time a difficult regulatory business environment that 'stimulates demand' for this service.



The sectors that spent most on legal services were state organizations (33% of market), construction (26%), trade and services (20%), and agro-processing companies (16%).

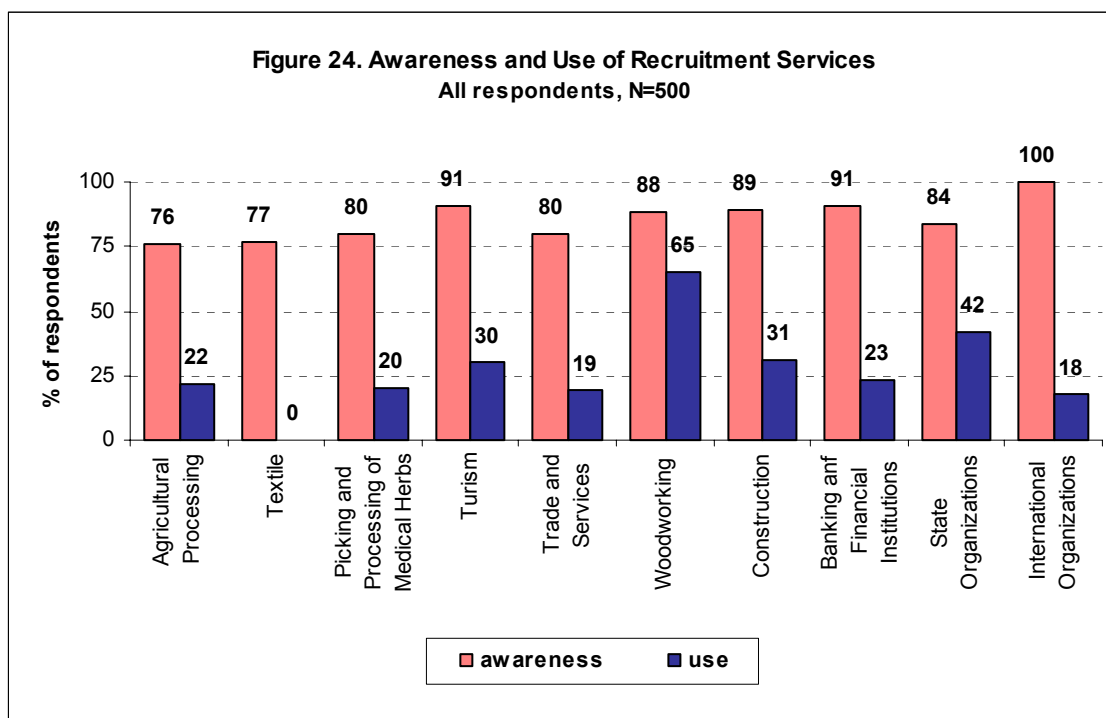
The supply is provided to 52% by private companies and to 27% by government and international agencies and NGOs. The rate of subsidization however, is around 15%; some government agencies and NGOs do charge for the service, international organizations seem to provide the service for free. The sectors receiving the largest share of free services being woodworking and banks/ financial organizations. 85% of respondents said they could pay the full price of the service.

Price is still the major concern for users of legal services. However, other issues of concern are quality (26% want the quality to be improved), access (10%) and information (12%).

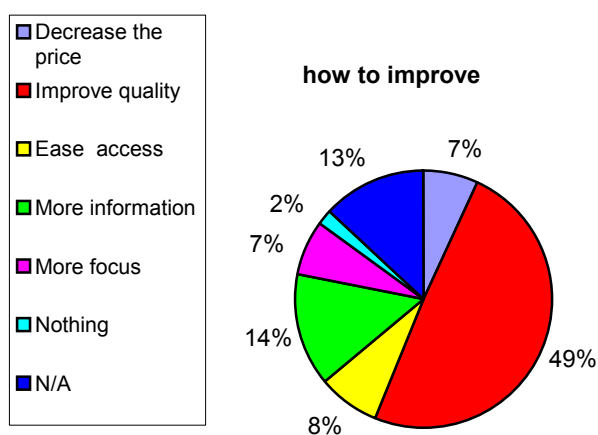
*Legal services have a medium demand and a weak (private sector only) to medium (private sector plus other organizations) supply situation. The major point for intervention can be seen on the supply side, as consumers have clearly stated that quality, access and information about the service should be improved. However, these issues should be further investigated before taking action, as these recommendations may apply differently to different service providers - e.g. private sector companies may have a better service quality than government services, whereas access in rural regions may be mainly restricted to government agencies and NGOs.*

### 4.3.5. Personnel Services

Although personnel services have a rather high awareness and understanding rate (83/ 91%), they are only employed by 20%. Key consumers are construction companies (34%), trade and services (34%) and agro-processing companies (15%).



Only 43% of the users paid the full price of the service, while 55% received the service for free. This is surprising, considering that government agencies only provide 24% of the services, while private service suppliers represent 63%.



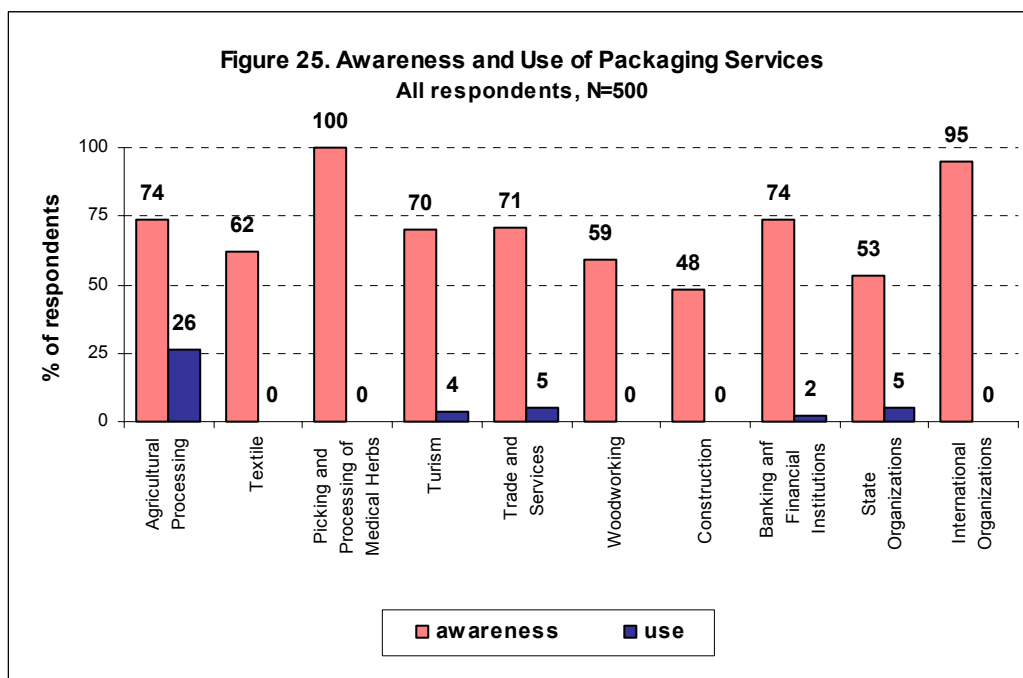
Nevertheless, this is a service that suffers a quality problem (in spite of a retention rate of 71%), as it has the lowest quality rating; almost 50% of users suggest improving services, and 7% want a stronger focus on clients' needs.

*In this sector, which is characterised by weak to medium demand and supply, it is quite obvious from the graph on the left that one of the main concerns on the supply side is the quality of the service. Other measures are to increase information about the service to increase awareness.*

*It is recommended that, before intervening in this market, the supply situation, which seems to be different from that of other services, be more closely investigated.*

### 4.3.6. Packaging

The use of packaging services rates almost at the bottom of the user list, with 4%. This may be due to a limited supply, relatively high prices and internalization of the service, and to the fact that many companies do not consider good packaging a priority. This is why a relatively moderate awareness is not reflected in the user rate. The agro-processing sector is the only one that uses packaging services to a significant degree.



Generally, this service is assumed to be quite expensive (43% of users suggest that prices need to decrease). 14% of users would like to obtain more information about packaging services.

Main providers are private companies, partner companies and friends. Nevertheless, 29% of users said they chose the particular provider because it was the only one they knew.

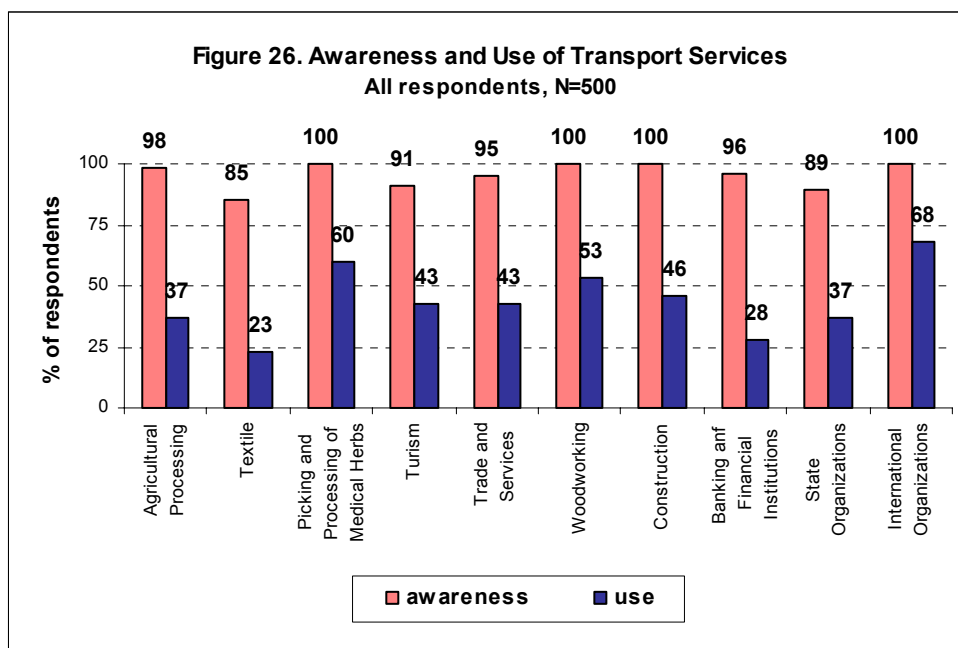
The survey predicts a slight growth in demand, as 57% of users mentioned that they plan to increase their budget for packaging services.

*This service has a very low demand and a surprisingly well- developed supply situation. As is the case with product development, donors should carefully consider whether to intervene in this market - clearly, any intervention would have to focus on demand stimulation. For instance, advice on packaging could be an embedded service in marketing and other services, whereas the service itself would have to be provided by other service suppliers. On the other hand, we can also assume that there simply is no need for better packaging, at least for products that are sold locally and that the market will develop by itself, if the overall market should pick up.*

*As in product development, it is recommended to intervene on a pilot basis, in order to test the market.*

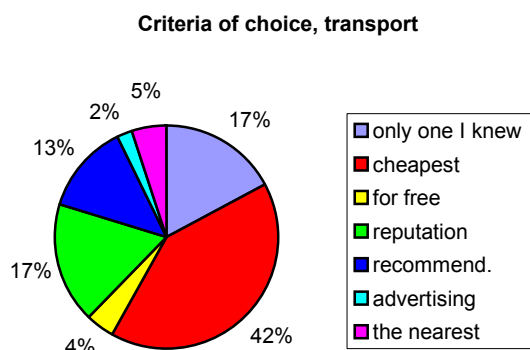
### 4.3.7. Transport Services

Transportation is an essential service to many companies and therefore, it has a very high awareness and understanding rate and a user ratio of 38%.



Main users are international organizations, trade and woodworking companies. However, the largest users in terms of spending, are construction and trade and service companies; most frequent users are tourism companies. Remarkably, agro-processing companies and textile companies (where one might assume a demand for such services), have a very low user ratio.

This service is usually not subsidized and companies have to pay the full price. Users are very sensitive to the price, which is not surprising, considering that transport services - especially in export - are easily among the most expensive services. However, recommendation and reputation also play a role in the choice of the appropriate provider, which may be reflected by the result that 45% of them are partner companies or friends / relatives.

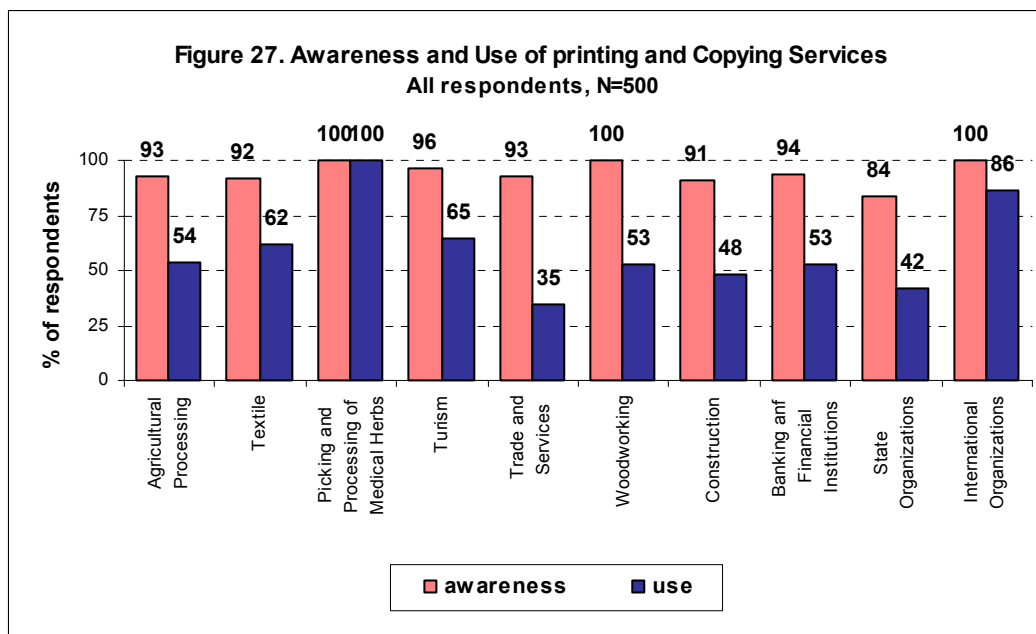


Still, this sector seems to suffer a quality problem as it has the lowest retention rate of all services - 48%, and 23% of respondents suggest that quality must be improved. This however, must be seen in relation to the fact that 40% of users chose the suppliers according to the price (and not quality). In addition, both quality and price may often depend on circumstances that are not in control of the service provider, such as frequent delays at borders, cumbersome customs procedures, and unofficial taxation in- and outside Kyrgyzstan.

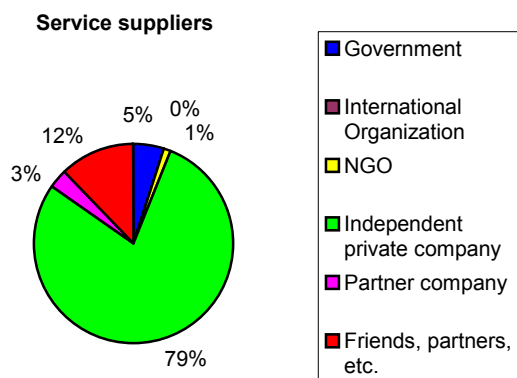
*Transport is a service with a medium demand and a somewhat lower supply situation. Assuming that the demand for this service will further increase and that competition may cause transport companies to improve their services, not much intervention in this market segment would be necessary, although it might be interest to look more closely into the quality issue (external and internal causes).*

### 4.3.8. Printing, Copying

This service is well known and has a user rate of 43% (ranking third behind telecom services and advertising). The market volume is approximately 15.4 million soms per year. Key markets in terms of volume are international organizations, agro-processing companies and trade and services companies. All other shares are, in spite of high levels of use, rather insignificant.



Printing services were already available before 1990. However, a significant increase in demand occurred only after 1997. 94% of users paid the full price, which is not surprising if we look at the supply structure where international organizations, NGOs, and government agencies play a small role:

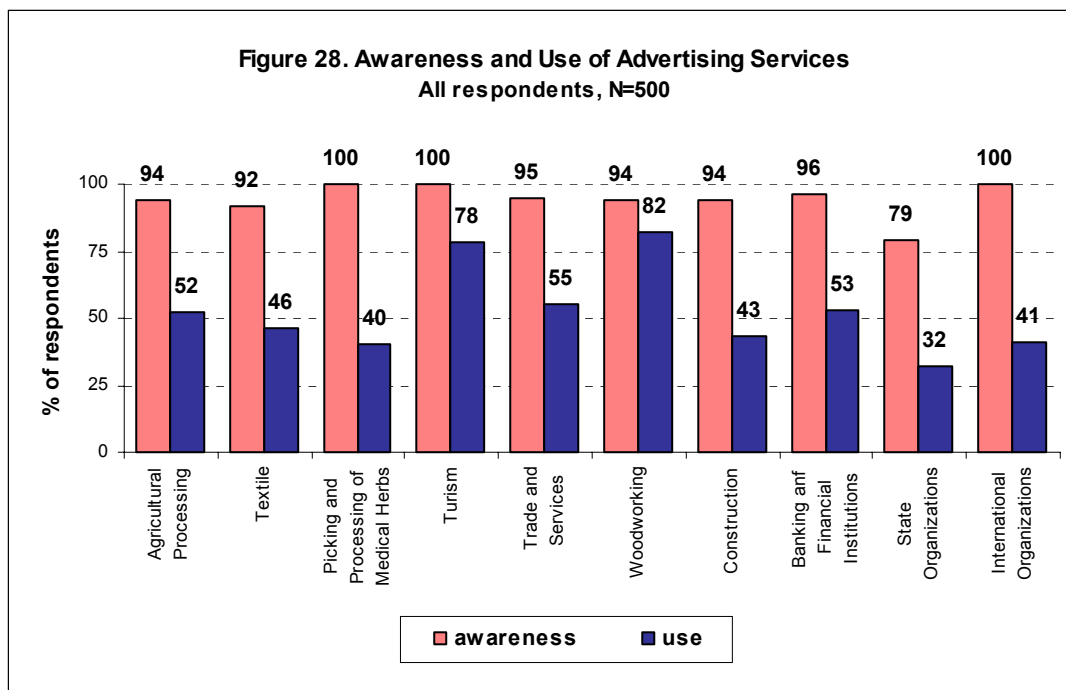


This market segment has a medium demand and medium supply rate - similar to advertising - and the market seems to function quite efficiently, considering that the service had the lowest rate (6%) of users that stated it was the only service they knew. 47% of users would like to see lower prices and 21% better quality (retention rate is only 58%).

*This sector is remarkably free of donor intervention and, considering what was said above, could remain so.*

### 4.3.9. Advertising

Advertising has a high rate of awareness and understanding and is, after telecom services, the most used service, with a user rate of 50%. It is the only service that rates equally highly with young and older companies, and, compared to other services, well established, as companies had already started to use the service in 1992. Main users in terms of value, are trade and service companies (79% of market), construction (8%) and banks /financial institutions. However, demand is very heterogeneous as some companies have a rather high advertising budget. Most frequent users are tourism, and trade and service companies.



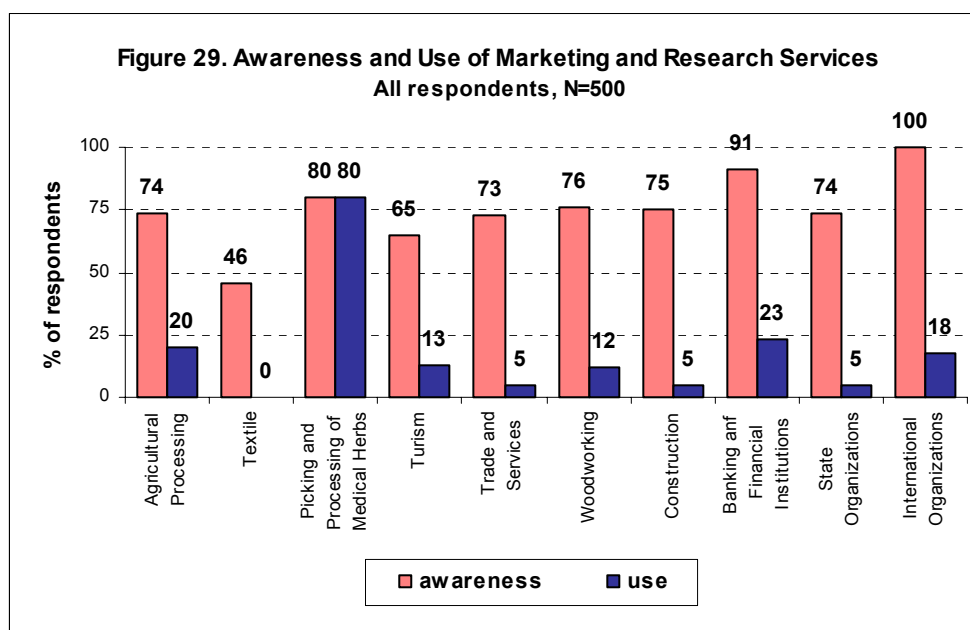
70% of respondents consider the service important and only 6% say that they don't use the service because they cannot afford to pay. 79% of those who received free or partly subsidized services stated that they would be able to pay the full price. Some indicators show that the average price of the service is decreasing over time, which may point to an effective market (competition among suppliers - private companies supply 80% of all services.)

At the same time, the retention rate is only 58%. As 24% of users would like to have better quality advertising services and those that chose the service as it was the only one available is very low (9%), there seems indeed to be a problem with the quality of the service (or too high expectations on behalf of the clients). 43% of users complain about high prices.

*Advertising services show a healthy demand and a good supply situation, even without the involvement of international organizations and this market can be considered to work quite effectively on its own.*

### 4.3.10. Marketing and Research

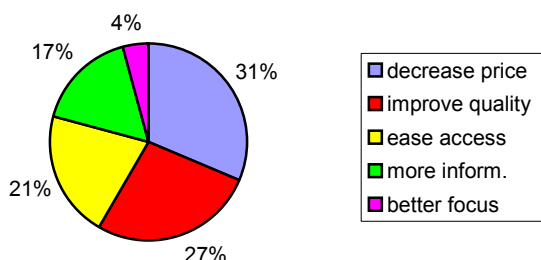
Marketing and research is a service with 'strategic' character and, in spite of a rather high awareness rate, a very low user ratio of only 10 %. The main consumers of this service are agro-processing companies and international organizations; together they account for 95% of the market. Construction companies and trade and services companies are also frequent users; however they seem to use cheaper and less complex services. Also, 4 out of 6 herb companies use the service; this may be due to a donor-supported service provider. 23 % of users said they used the service because it was free of charge.



This is another market segment that is heavily subsidized: Only 56% of users paid the full or part of the service price. However, 75% of users said that they would be able to fully pay the service, which shows that the free services distort the market and lead to a crowding-out of private sector suppliers. The supply by government and international agencies amounted to 21% of total supply. Government services are provided for free and donor services are partly provided for free. Private companies delivered 50% of the services.

The graph below shows that quality, access and information are issues that need to be improved.

how to improve - proposals by users

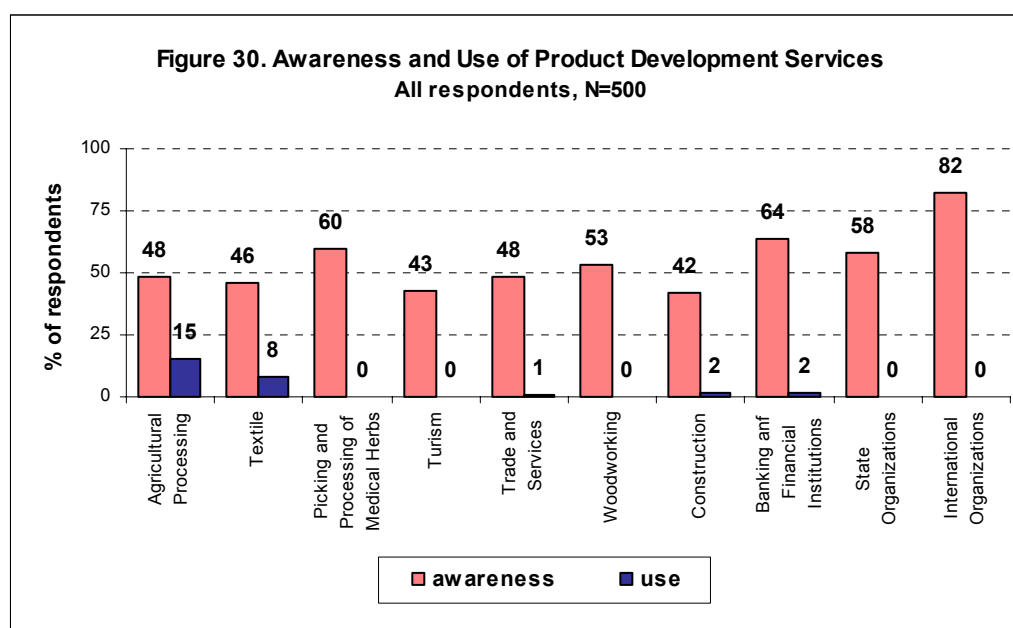


*This market segment is characterized by a very weak demand and a weak private sector supply (medium if we take into account government and donor services). Lower than average awareness and understanding rates show that measures should be undertaken to improve those factors, especially as we can assume that this service may often be confused with advertising. However, due to the very weak demand, additional measures could be undertaken to stimulate demand. On the supply side, it is recommended to reduce market distortion by providing free or subsidized service and instead to strengthen*

*private sector supply, for instance by assisting providers to develop products that are focused on specific industries.*

### 4.3.11. Product Development Services

This service has the lowest awareness rate of all services (51%) and thus, the lowest user rate of only 2%. The graph below is self-explanatory:

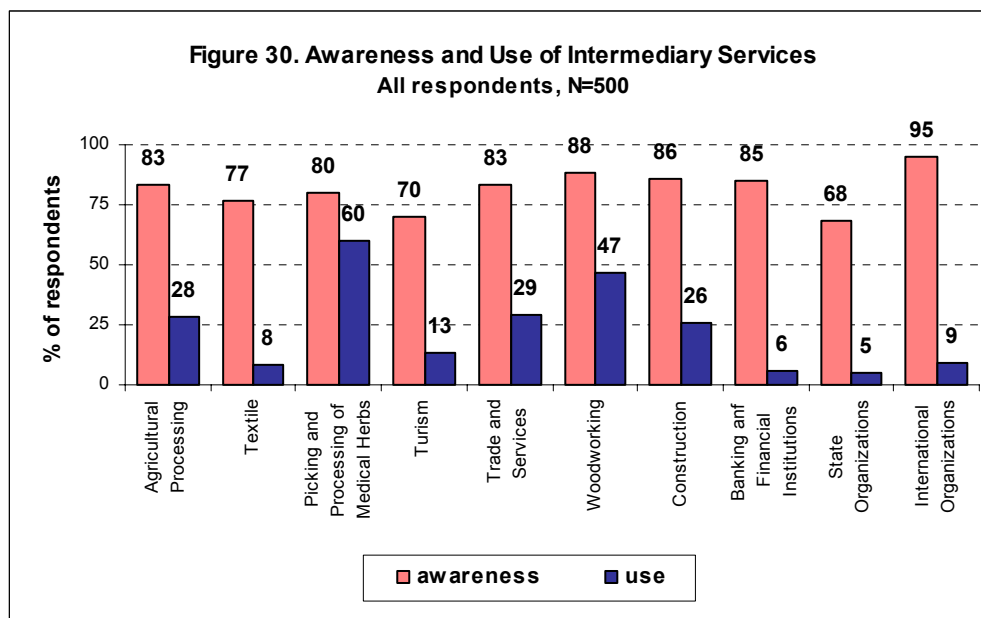


This is a service that is little known in Kyrgyzstan. Most companies do not understand what 'product development' encompasses. Due to the low awareness and understanding, and likewise low supply of this service, not enough statistical data could be provided to analyze this market. We can assume that some of the suppliers in this market segment are donor agencies and projects, which is supported by anecdotal evidence.

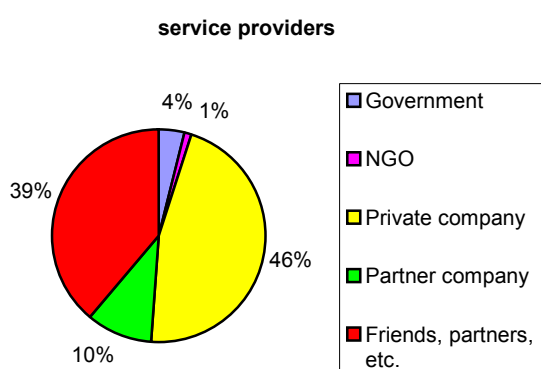
*Due to the very weak demand in this market segment and the similarly low supply, it is difficult to develop appropriate recommendations. From a market facilitator's point of view, many donors will recognize that product development is one of the services that are in dire need in this country, considering the few products with value-added, the conformity of many existing products, and the lack of quality features of products. It is clear that this market segment would require considerable intervention on both supply and demand side. However, due to the almost non-existent demand (consumers are not aware that a problem exists and have no willingness to pay), this may be a quite risky undertaking. We therefore propose product development on a pilot basis to test the market and, while doing so, to learn more about this specific market.*

### 4.3.12. Trade Intermediary Services

With a medium awareness and understanding ratio (83 respondents. 86 %), this service was used by 21 % of respondents. Main clients are trade companies and the construction sector. Surprisingly, agro-processing companies have a user ratio of only 6 %. Likewise, textile companies and wood-working companies use trade intermediaries only to an insignificant degree. This can be partly explained by the size of the businesses, as small companies prefer to have direct links to their customers.



32% of users utilize the service several times a week, 11% several times a month and 32% several times a year. 26% of users received the service for free or at a subsidized rate - but 71% of them said that they would be able to pay for the service (with the exception of agro-processing and medicinal herbs companies). However, this is one of the few sectors without involvement of international organizations. As the share of friends among the service providers is rather high (39%), we can assume that it is them that provide the services for free.



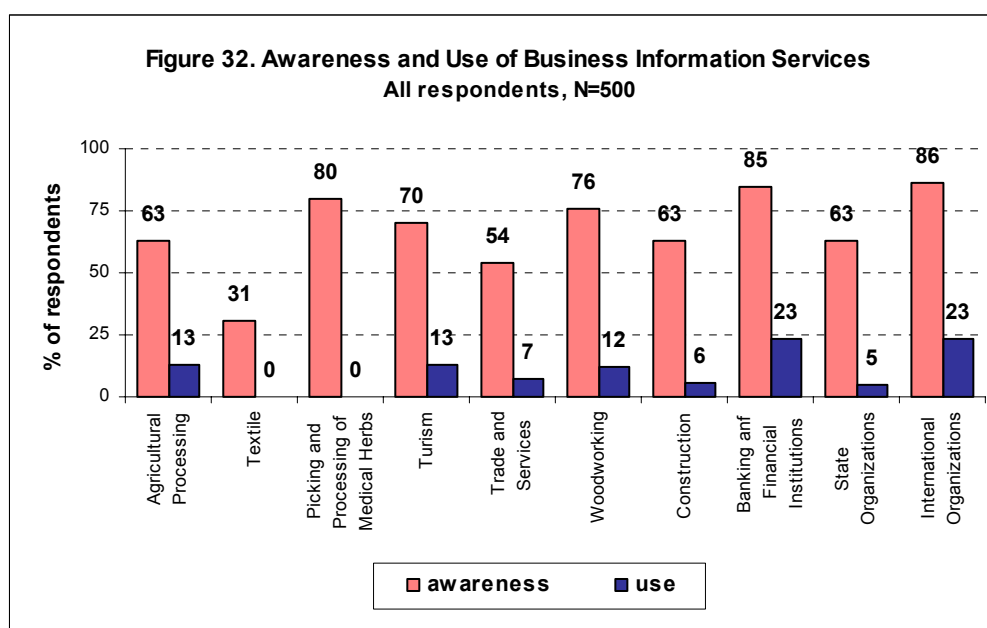
At the same time, this service has the second-lowest retention rate (55%) and thus a quality problem. However, only 22% of users complain about the quality (as opposed to 42% about the price). This may again have to do with (free) services that are provided by friends and relatives - and price still reigns over quality.

*This service has weak supply and a slightly better, but still weak, demand. The low supply is caused by the fact that many service providers are private individuals (39%), which were not included in the calculation of supply.*

*Trade intermediary services consist per se of different services, such as distribution, packaging, logistics, and storage. It can easily be combined with other services, such as business information or marketing and research; these services could also be embedded. It is therefore recommended to donors (which traditionally are not very supportive to this sector) to use this service as a vehicle to improve the supply of other services.*

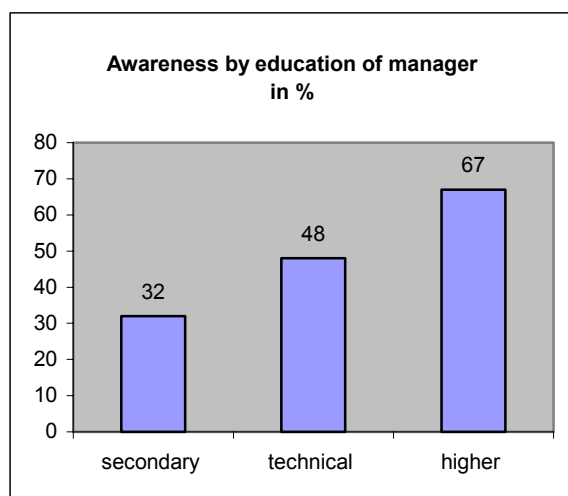
### 4.3.13. Business / Market Information

This service has, after product development and management consulting, the lowest awareness rate (62%) and the second-lowest rate of understanding (49% of respondents).



Awareness was strongly correlated to the education of managers (see graph below).

Main private sector users are trade and services companies (72%). All other sectors purchase business information only to an insignificant degree, which is why overall use is at only 9%.



Generally, business information is not considered to be important for the development of a business. This can imply that supply is insufficient (either not available or of poor quality).

Non-availability is supported by the facts that outside Bishkek, hardly any service could be found and that 27% of respondents wished to have better access. On the other hand, it may imply that managers do not know how to use information, or what information they would need to improve their business. The latter can be supported by anecdotal evidence and by the fact that 73% of users use the service only several times a year, or even less frequently. Also, price is not the major concern of

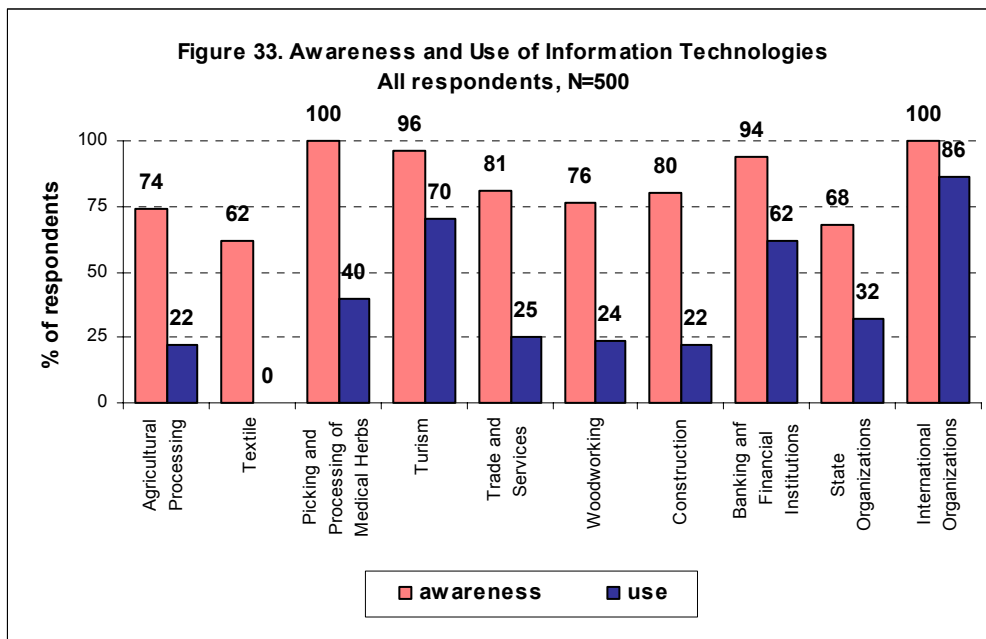
users, but quality (33%) and information about the service (12%) is.

*All in all, the market for business information can be assessed as underdeveloped, with weak demand and weak supply (medium if we take into account other non-private providers). As business information is essential to the development and growth of a business - this is a sector where donors could intervene both on the supply and the demand side. There are many examples from other countries, which illustrate that business information is a product that sells well, even in poor countries - provided that the information is relevant, timely and applicable.*

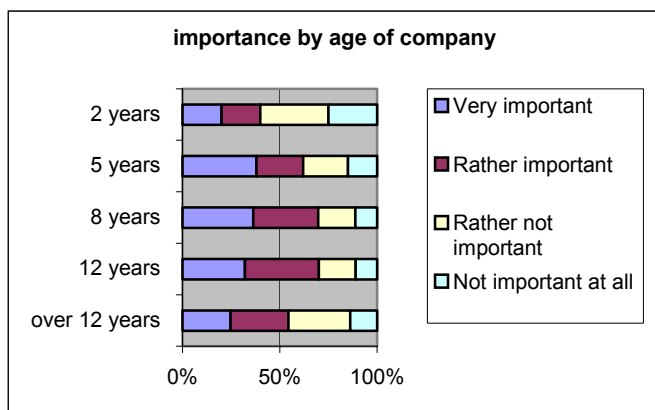
*On the demand side, one can think of many measures to improve awareness and understanding. Information can be easily provided as an embedded service, therefore, on the supply side it is recommended to assist service providers in the development of suitable products and appropriate marketing mechanisms. Another issue is to look into service quality.*

### 4.3.14. Information Technologies

IT services fare well in the ratings, however, still with a quite low user rate of 30 %. IT services have become widely available only since 1997. The evaluated market is around 10 million soms per year. Main private sector users are tourist companies, the banking sector and herb processing companies. However, tourist and herb companies obviously tend to buy small, cheap services. The biggest spenders on this service were trade and services companies (58 %), construction companies (11 %) and the banking sector (13 %).



IT services are usually not subsidized: 95 % of consumers had to pay the full price of the service. Private companies delivered 75 % of the services, 10 % by government agencies, and 10 % by friends and relatives. Customers are quite satisfied with the quality as the retention rate is 74 %. The biggest concern of users is price, followed by quality.



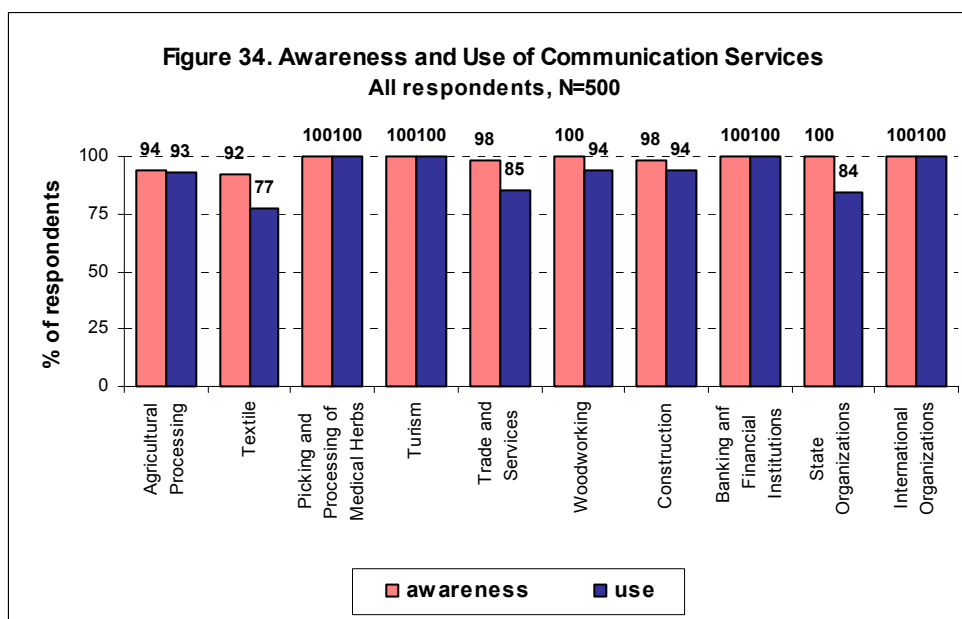
It is interesting to note that both very new and older companies attach comparatively less importance to IT services than do companies that were founded after 1991. Young companies probably focus on different problems than the use of IT, whereas old companies are often state-owned, have never used Information Technology and may have neither the finance nor the inclination to do so in the future.

*All in all, this service segment shows weak to medium demand and a medium supply situation. It is expected that this market segment will develop on its own, however donor organizations that wish to be involved in this segment could focus on both supply (for example by mixing IT and improving the flow of and access to information), and demand in the rural regions of Kyrgyzstan.*

### 4.3.15. Telecommunications

Telecommunications is a service that is essential to any business, therefore, it is no surprise that this is the only service with a high rate of both supply and demand. The only sector with a relatively low user rate is the textile sector (77%). Also, companies in the countryside show less frequency of usage (once a month or less) than companies situated in the cities.

In terms of value, main users are state organizations (31%), trade and service companies (29%), construction (14%) and banks/financial organizations (14%). All other sectors have insignificant use. In terms of intensity/frequency of use, international organizations, tourism and construction companies are the strongest users.



The supply of telephone services can be divided into fixed-line services provided by the state and cell phone services, which in Kyrgyzstan are provided by two private companies. 45% of users said that they were using private telephone services, which points to the high use of cell phones, which is probably concentrated on Bishkek and Osh.

Telecom service providers were chosen mainly because it was the only service provider they knew (50%). Second highest rated the good reputation of the service at 23%.

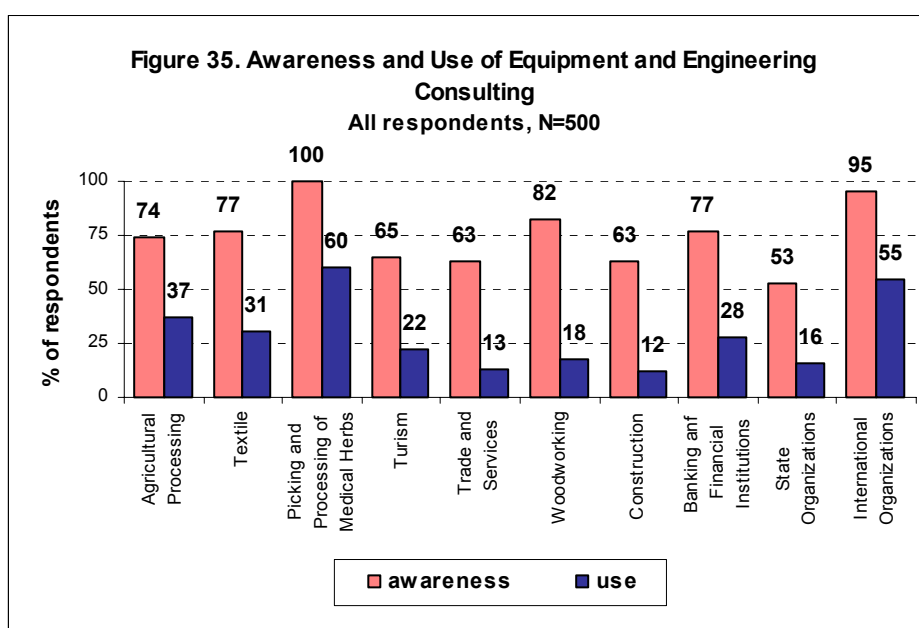
Clients wish to pay lower prices (57% - here it is not clear whether this refers to local or international calls). 24% would like to see better quality, and 6% would like to have better access.

*This is a market where donor agencies active in the BDS market would have difficulties to intervene (price, quality).*

### 4.3.16. Equipment and Engineering Consulting

This service has a low rate of awareness (68 %) and a user ratio of 17 %. The main consumers of this service (96 % of the market) are agro-processing companies that need advice on the selection, installation and maintenance of rather expensive industrial technical equipment. Here however, installation and other advice is often included in the purchasing price of the equipment and not accounted for separately (embedded service).

Other users, such as tourism or trade and services companies, usually use inexpensive services related to office equipment.



The fact that 90 % of non-users stated the main reason for not using the service was that they had no need for it, further confirms that this is a very specific and focused market.

Price sensitivity is at 30 %, quality issues are quoted by 33 % of respondents.

This service sector is characterized by weak demand and weak supply which is predominantly private sector based. Demand is basically concentrated in one industry (agro-processing) although one could think that also textile companies would develop demand for this service - which is not the case. The reason may be either the dismal situation of the majority of textile companies or the company structure (small companies). However, according to the survey, 27 % of users plan to increase their budget within the next two years, and 8,4 % plan to do so to a significant degree.

*It is recommended to further look into the quality issue, as this seemed to be the major concern of consumers, which is confirmed by the relatively low retention rate of 63 %. Interventions in this regard may be in technical training of suppliers, but also in 'soft skills', such as responsiveness and focus. On the demand side, actions could be undertaken to increase the awareness rate.*

## 5. Summary Analysis and Recommendations

### 5.1. Strengths and Weaknesses of the Kyrgyz BDS Market

#### 5.1.1. Demand Side

One fact the study illustrated is that, contrary to some opinions, a market for business services in Kyrgyzstan *does* exist. Kyrgyz companies use, and use repeatedly, an array of different services.

Contrary to what is often believed by government and donor agencies and claimed by many company owners, most Kyrgyz companies are both *able* and *willing* to pay for services, provided they bring a visible, immediate benefit. As we have seen, most operational services, such as IT services, printing or advertising, have a high awareness and understanding and a medium-range use - in spite of the fact that these services usually have to be fully paid for at market rates.

However, awareness and understanding of services of a more strategic kind - such as product development, management consulting or marketing & research - is still low. Thus, the fact that 90% of non-users said they did not use a service because they *did not need it*, may have two reasons: companies are small and still in an initial stage of development, so that there is indeed no need for "strategic" services. This is supported by the generally young business environment - after all, the transition to a market economy only started in the 90's - and the low turnover and staff of companies. On the other hand, the perceived lack of need may result from a low understanding of the potential benefits of services. This line of reasoning may be supported by the fact that many managers have little management education and weak managerial skills (although the general level of education is quite high.)

#### 5.1.2. Supply Side

On the supply side, things look similar. Private companies offer most services that we surveyed and some services - again, those of an operational kind - are almost exclusively offered by the private sector.

One shortcoming on the supply-side is that many service providers have their strategic orientation towards donors and big companies as clients. This is understandable from a financial point of view, however, it restricts supply to small companies with less purchasing power - which is a considerable market that should not be under-estimated. Also, supply in the rural areas is very limited.

Quality is another issue that may be addressed in some services; this includes both product design and the competence of service providers.

In addition, the study has illustrated that some services are provided by donor and government agencies. This applies mainly to strategic services, such as management consulting or marketing and research.

This leads us to one important finding of the study: most donor interventions seem to occur on the supply side. They increase the supply of services, either by providing services at subsidized prices or for free. Generally, these interventions are in those services that have the lowest awareness, understanding and user ratio. However, whether direct interventions on the supply side are the best choice in the given market situation, is arguable. Donor projects may underestimate the abilities of local, existing service providers, and by offering services on their own - or creating a new organization to do so - may cause a crowding-out of existing service suppliers. On the other hand, in structurally weak regions, they may fill an existing gap.

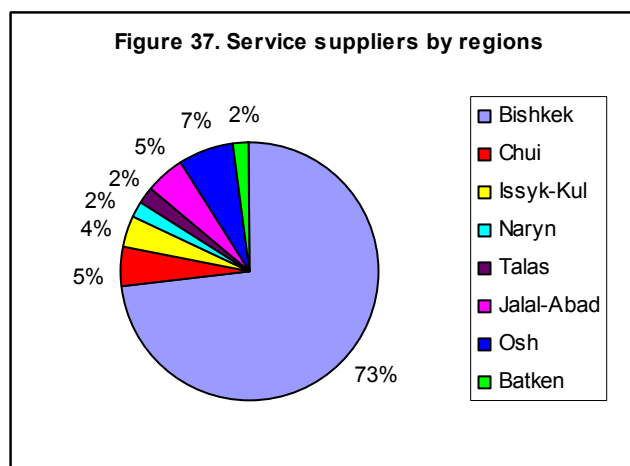
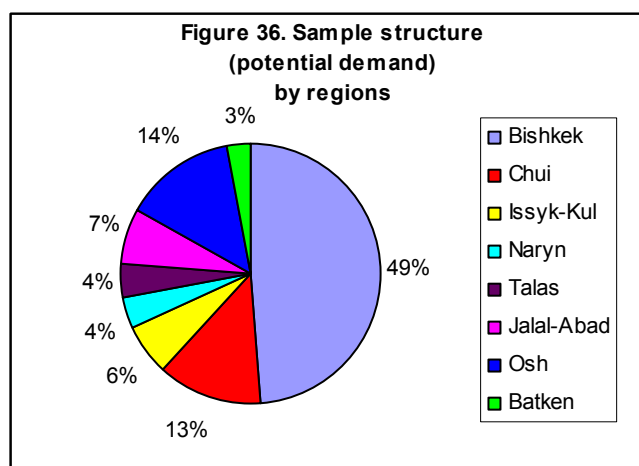
Table 7 summarizes strengths and weaknesses of the Kyrgyz BDS market:

**Table7: Strengths and weaknesses of the Kyrgyz BDS market**

	<i>Demand</i>	<i>Supply</i>
Strengths	Demand exists in all surveyed services; Most companies are willing to pay for good services.	Sufficient to good quality in many services; Most suppliers are local, private companies.
Weaknesses	Low awareness and understanding of some types of services, and in some industries (e.g. textile); Low use of strategic services.	Weak supply in the rural areas; Suppliers oriented towards international clients (donors).

## 5.2. Key Constraints and Opportunities in the Kyrgyz BDS Market

The major constraint for the development of a thriving BDS market in Kyrgyzstan is the small market size, due to the small number of working SMEs in the country. This is inhibiting growth in services, especially in rural areas, where both supply and demand for business services are very low or non-existent, due to the economic structure, which is predominantly agricultural and often, at subsistence level. We know that 85% of SMEs are situated in urban areas, and most demand and supply is concentrated in the capital Bishkek.



Kyrgyz SMEs in turn, are inhibited by the low purchasing power of the population, which makes it difficult to extend an existing business beyond certain limits. For sectors such as agro-processing or textiles, export may be the only opportunity for growth (although the diversification of products may offer additional potential on the local market). However, we know that export is difficult due to numerous internal and external reasons. Another factor that inhibits growth is the unfavourable business environment, to which we already referred in chapter 1.

The fact that many managers prefer to solve their problems in-house, or rather refer to friends and family, than to professional service providers, can be interpreted in different ways. The resistance to

outsourcing shows that managers do not trust outsiders - be it because they doubt their abilities or their word to keep business matters confidential (which again is rooted in the business environment). On the other hand, when other people are consulted, it shows that there is an inherent demand for business services and thus, an opportunity for service providers.

Opportunities do indeed exist for almost all services that we have surveyed. The analysis showed that services such as transport, IT services, advertising and packaging have a potential for growth in the near future.

Other opportunities are to be found both on the supply and demand sides. An increased awareness and understanding of services may lead to increased demand, even more if the benefits of services can be demonstrated. On the supply side, improved quality and a better client focus may lead to a diversified service structure (e.g. content-wise, regional) and to a higher demand, too. Suggestions for the individual services were made in chapter four.

Likewise, the different consumer segments can be targeted individually. The textile industry for instance, shows the lowest awareness and use across all industries. Especially striking is that textile companies do not use services such as marketing, financial services, IT or business information at all. This may be connected to low awareness and understanding, to the company structure, but also to a supply situation that is not customized to the needs of those companies but rather donor-driven.

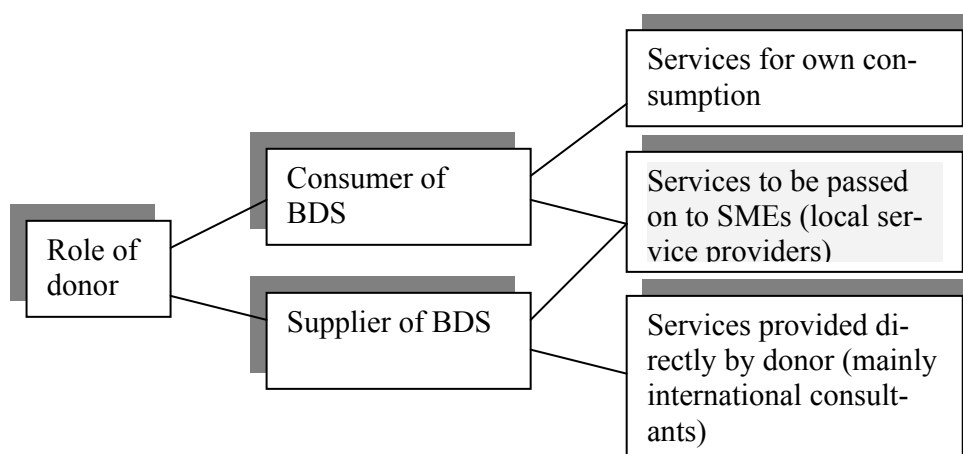
Other services deliver mainly to specific industries, such as equipment and engineering consulting or packaging, where the largest client group is agro-processing companies and where improved efforts at client focus and a customized marketing approach may offer opportunities for growth.

Therefore, each service and each client group have to be considered individually, to assess the opportunities for growth. Moreover, the situation of demand and supply is different in each region in Kyrgyzstan, which is why it is recommended that any service provider and any donor agency carefully consider their approach in their individual BDS market segment.

### **5.3. Role of International Donors in the BDS Market**

As we have seen throughout the study, international donors often assume several roles in the BDS market at the same time. On the one side, they are *consumers* of services (Figure 36). They purchase operational services (such as IT support or studies) for internal use, and they buy strategic services to pass them on to SME managers. On the other hand, they are often in the role of the *supplier*, either through the mechanism described above, or by offering services themselves (such as management training and consulting services).

Figure 38: roles of donor agencies in Kyrgyz Republic



As clients, donors are the group with the highest purchasing power, and many service providers have adapted both products and prices accordingly. In fact, for many service providers, donor contracts are probably the only way to make a decent living. The risk is high, however, that service companies will not be willing to offer (unsubsidized, direct) services to the Kyrgyz private sector, as the prices that can be charged to this client group have to be at local price levels and will thus be much lower than the income that can be generated from international clients.

A higher risk of market distortion exists where both the supplier and the consumer role overlap. Usually what happens is that a project purchases local services at a 'donor price' and passes the services on to local SMEs for little or no payment from the end-users. This means that a service that would otherwise be offered at a normal market price to SMEs, is now purchased at a price presumably *higher* and passed on, *below* this market price. This can have negative effects, both on the supply and the demand side: service providers may have no incentive to provide direct services at the local market price (reduced supply), and clients may not be willing to purchase the service at market price (demand is reduced).

An example of direct supply of services by a donor project or agency is when a foreign consultant is being flown in to provide training or advice to local enterprises. Of course the donor also acts as a customer, but the purchasing transaction takes place abroad and no money is spent on the local market. Again, the service - this time even more expensive - is provided at low or no cost to the end-user (SME). The distortion on the demand side is this time even bigger: demand is reduced - just as above - and at the same time, SMEs may develop the perception that foreign consultants are more qualified or professional than local consultants. On the supply side, a crowding out of local services may occur (provided this kind of service is offered).

However, there are other factors to consider. Donors in Kyrgyzstan mainly subsidize the provision of strategic services, an area where demand is weak or very weak. One now needs to consider whether interventions on the *supply* side - lowering the price of a service - will lead to an increased *demand* (a demand that can be expressed in willingness to pay). We also have to analyse whether there is indeed a crowding out, or whether private sector suppliers would abstain from those markets.

This has to be considered for each service individually and also for each region and sector. In a region where a certain kind of service has been previously unknown, a direct intervention on the supply side (best done jointly with activities on the demand side) may actually make sense. In this case, it is important to define an *exit strategy*, or to redesign the support once a service sector has started to develop.

Furthermore, market distortions may not be all that big in Kyrgyzstan, due to a quality and perception problem. In the focus group discussions, managers mentioned not only that services provided by

donor projects (or their related organizations) were sometimes quite irrelevant to their situation (examples from other countries, no consideration of local features, etc.), but it also turned out that some of them do not value and trust services that are for free - something that is given away for free could be a 'useless product' that nobody *wants* to buy. In this sense, the market economy and business thinking, have indeed taken root in the Kyrgyz manager.

## 5.4. Recommendations

### 5.4.1. Policy Level

Recommendations at policy level are mainly concerned with the overriding issue of improving the business environment for the private sector in Kyrgyzstan. As long as the prevailing regulatory and legal environment, frequent unofficial visits by tax inspectors and other impediments, force private economic activities into the shadow economy, there will be neither a healthy private sector, nor a basis for a business service market to develop.

Government agencies should also consider whether it is their role to provide BDS, or whether this is rather a task that should be left to the private sector. A 'classical' division of labour in many countries is that the government takes care of policies, regulations, creating incentives to invest, and the provision of public goods, whereas business services are usually provided by the private sector.

In Kyrgyzstan, government agencies are active in all the services that were surveyed, except for product development, which is a new and unknown service, with negligible demand and supply. The largest share of government-provided services we find in telecoms and personnel, followed by legal advice, audit and accounting, banking and financial services, and business information. Surprisingly, they also offer management consulting services, transport services and advertising, an area where one would not expect to find public services.

Another recommendation for donors is to closely monitor their activities and to introduce any relevant lessons learned in the policy discussion.

### 5.4.2. Program Level

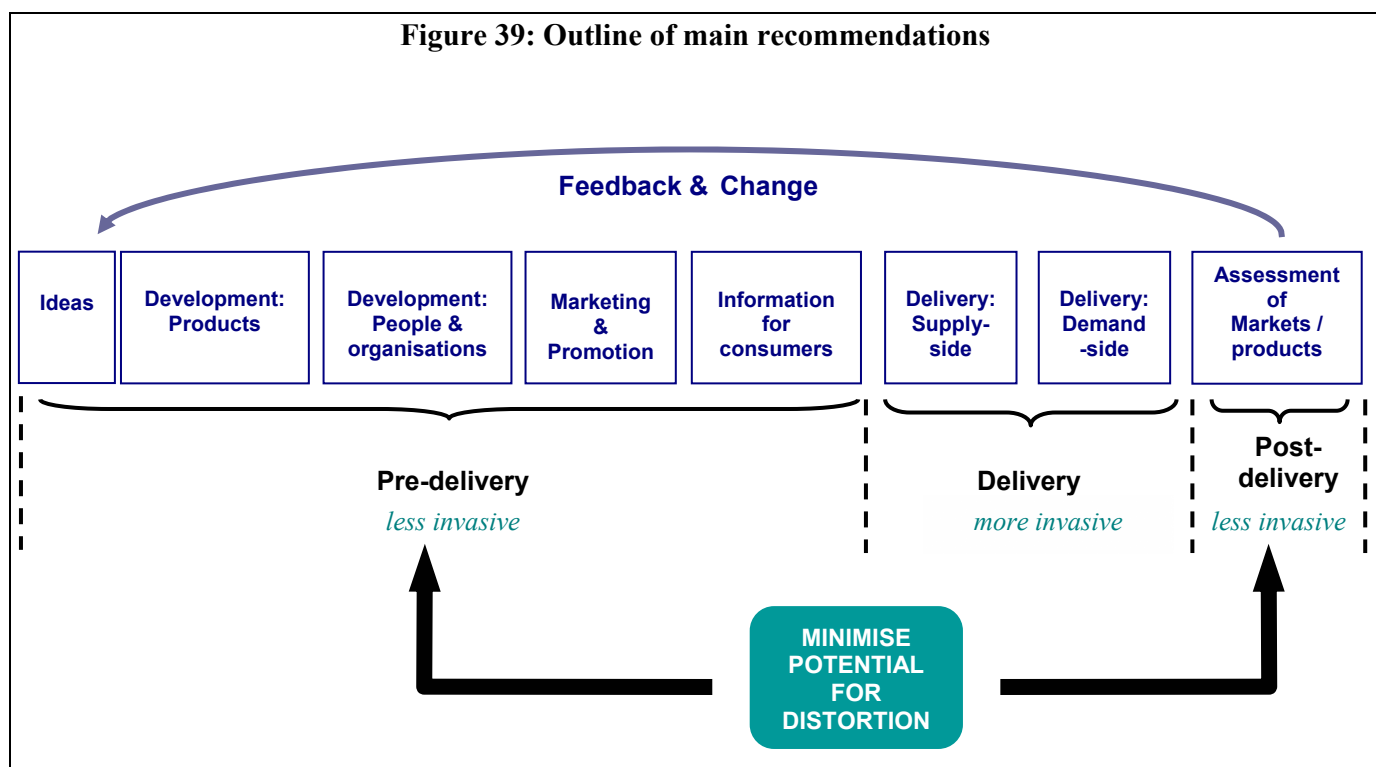
#### General recommendations

One overriding recommendation to donor agencies is to share information more freely and to coordinate their efforts. There is a lot of potential to exchange information (for instance sector studies) and to share lessons learned from individual donor-funded projects, instruments and manuals, and much more. This would increase the efficiency and effectiveness of overall donor activities in this area.

An even more important (but very ambitious) step is to harmonize the approach to the BDS market development, as we have seen that some interventions may set perverse incentives and can actually obstruct the development of market structures.

There are many ways to intervene in the BDS market, either by direct activities on the demand or supply sides, or by providing assistance in the areas of pre- and post-delivery, instead of in the market transaction itself. To illustrate this, we have borrowed an illustration from the *SED-Issue Paper 5, "Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions"*, which nicely describes the different options for donor interventions. The further away from the direct market transaction, the less distorting an intervention will be.

It is likewise important to consider each service, and each consumer segment on its own, as each has different problems and requires a different, custom-tailored approach. One lesson that we have learned from this survey is that one size does not fit all!



Based on this graph and the findings of this study, we have outlined the main recommendations below.

#### Interventions on the supply side

- *Increase awareness and understanding of services*: as we have illustrated, there is considerable potential to increase awareness and understanding of services. This is the case in all strategic services: management consulting, marketing and research, product development, business information, and packaging.
- *Assistance in the development of service products*: assist suppliers to develop new products that are geared toward the problems of specific target groups, or assist in adapting existing products.
- *Quality issues*: closely connected to product development. At least one of the services, personnel, has a serious quality problem. Other services where quality is an issue are: equipment consultancy, business information, management consulting, and banking and financial services, but basically, quality is an across-the-board topic.

One way to tackle quality problems is to look into each service individually, and to put more emphasis on training consultants. Another way is to address quality at the systemic level. Consulting associations for instance could develop codes of conduct and quality standards as a way of voluntary quality control.

- *Qualification of service providers*: training in technical skills and soft skills, upgrading of skills, assistance in developing appropriate marketing mechanisms, with a view to increasing the abilities to offer better, more focused and faster services.
- *Buyer/seller meetings*: provide a chance for providers and users to meet and discuss difficulties and expectations, and to jointly develop ideas to overcome existing problems.

### Interventions on the demand side

- *Develop new referral systems*: as we have seen, the role of friends, partners and informal networks in recommending service providers is very important. It would be helpful to develop ways to utilize this important group more systematically. Customer referral systems could be one way to do so.
- *Develop embedded services*: topics such as business information and also management consulting are well suited to be embedded into other services. Business information for instance, could be integrated into marketing and research or trade intermediary services. Management consulting could be - at least partly - integrated into all other strategic services.