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**ASSESSMENT OF ROLE OF ENTERPRISES IN IMPROVING  
SERVICES AND WELFARE**

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***Abstract***

The paper considers problems, priorities, vectors for the development of small and medium-sized enterprises. Tajikistan belongs to countries with low income where small and medium-sized enterprises of formal and informal economy create over 60% of the gross output of such countries, which is caused by the fact that small and medium-sized business is quite efficient for economic entities. The paper presents the results of the study describing basic provisions of small and medium-sized business alongside with current state and problems of development. A number of factors preventing the development of small and medium-sized enterprises are proposed to ensure sustainable growth and development in short- and long-term perspectives. It considers the criteria of small and medium-sized enterprises. The paper also reveals key features of current development of small and medium-sized business and suggests some key tasks representing a particular importance for the economy. The programs of entrepreneurship support, the most critical of which is the Program of State Support to Entrepreneurship for 2012-2020 have been developed and are successfully functioning in the country.

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**Keywords:** Tajikistan, national development strategy, business services.



## **1. Introduction**

The market segment of mixed economy, which became the focus of the package of measures of the leadership of the Republic of Tajikistan implementing the National Development Strategy until 2030, which as one of its strategic objectives states the expansion of productive employment (National development strategy of the Republic of Tajikistan until 2030, 2017) implies conditions for normal (civilized and socially responsible) work, diversified support and stimulation of private entrepreneurs, mainly the representatives of small and medium-sized enterprises. According to the report of the International Labour Office, small and medium-sized enterprises in the majority of countries worldwide serve the main mechanism for creation of new jobs (Report on Small and medium-sized enterprises and creation of worthy and productive jobs, 2015), which is confirmed by reliable empirical studies. As practice shows, small and medium-sized business successfully solves a variety of problems important for any economy (Firsova, 2009): it allows considerably increasing production, first of all, of consumer goods and services; small and medium-sized enterprises are a prerequisite of increasing the speed of response to changes of the market demand; they expand possibilities for application and use of local sources of raw materials and production wastes; they help to quicker solve the problem of loss-making and unprofitable enterprises by leasing them to small and medium-sized companies; small and medium-sized business contributes to closer relations between the production of goods and services and their consumers; small and medium-sized enterprises create employment opportunities for dismissed employees of large enterprises; they allow involving labor reserves, including young people, into public production.

## **2. Problem Statement**

Tajikistan belongs to countries with low income where small and medium-sized enterprises of formal and informal economy create over 60% of the gross output of such countries, which is caused by the fact that small and medium-sized business is quite efficient for economic entities. Determining economic activities that have the most potential to growth is important for securing economic prosperity of the country.

## **3. Research Questions**

According to the survey, the most perspective industries and types of activity for the development of small and medium-sized business in the Republic of Tajikistan is agriculture, industry (food production, light industry, food industry, agro-processing, processing of medicinal herbs), tourism. Paper aims to prove or to disprove this thesis.

## **4. Purpose of the Study**

In compliance with the conducted study a ranked series of objectives defining the need for development of small and medium-sized enterprises in the Republic of Tajikistan, the following the survey of experts is presented in Table 1.

**Table 01.** Objectives defining the need for development of small and medium-sized enterprises in the republic of tajikistan

n/n	Objectives	Share of experts (%)
1	Growth boost of the national economy	65
2	Creation of new jobs for unemployed and young people	51
3	Closer relations between the production of goods and services and their consumers	41
4	Considerable increase of manufacturing of consumer goods and services	37
5	Increased speed of response to changes of the market demand	29
6	Expansion of opportunities for the use of local sources of raw materials	22
7	Expansion of opportunities for the use of production wastes	4

Data demonstrate the need for domestic economic growth as a priority objective in the development of small and medium-sized enterprises in the country.

Besides, the survey of experts shows that Tajikistan has quite promising directions and types of activity for the development of small and medium-sized enterprises. This is confirmed by data presented in Table 2.

**Table 02.** The most promising industries and types of activity for the development of small business in the republic of Tajikistan

n/n	Industries and types of activity	Share of experts (%)
1	Agriculture	92
2	Industry (food production, light industry, food industry, agro-processing, processing of medicinal herbs)	61
3	Tourism	43
4	Services	37
5	Catering	27
6	Trade industry	20
7	Production of domestic substitutes (goods and services)	16
8	Raw material processing	14
9	Communication (Internet technologies, IT-services)	10
10	Construction	8
11	Energy production	8
12	Fast food	4
13	Transport	4
14	Craftsmanship	2
15	Education	2
16	Technical maintenance	2

## 5. Research Methods

It is known that entrepreneurship represents business where a businessman acts as the main subject of market relations and integrates the factors of production “upon initiative and at risk under full economic responsibility to get the corresponding entrepreneurial income” (Entrepreneurs of St. Petersburg tested the Business navigator portal, 2017). The extensive network of business relations between various enterprises and entrepreneurs creates the structure and mechanisms of the market segment of mixed economy.

The structural and logical model of socially responsible business has been recently justified in economics. In this case the vested interests of entrepreneurs are met at simultaneous positive effect in satisfying the public needs (Smirnov, 2014).

An entrepreneur as a subject of market relations shall have the corresponding abilities, including entrepreneurial spirit, vigor, strong-willed personality, focus on innovations, self-discipline, domesticity, rational risk-taking ability.

## 6. Findings

According to the Law of the Republic of Tajikistan “On State Protection and Support of Entrepreneurship” (On State Protection and Support of Business, 2017), such indicator as active assets per year amounting up to 500 thousand somoni is used as the criterion making individual entrepreneurs and legal entities part of small entrepreneurship. Besides, such subjects do not include entrepreneurs that produce excise goods, deliver primary aluminum, are engaged in banking business and insurance activity, investment management activities, professionally work in securities market.

Legal entities, which annual turnover makes 500 000-15,000,000 somoni, belong to medium-sized entrepreneurs.

The number of registered entrepreneurs increases each year. The number of small and medium-sized enterprises is growing even faster. Table 19 shows the number of entrepreneurs as of January 1, 2015.

In 2016 the new law of the Republic of Tajikistan “On Dehkan (Farm) Business”, according to which “dehkan (farm) business is a business entity, which production, storage, processing and selling of agricultural products are based on personal activity of one person or joint activity of a group of individuals on a land plot and property belonging to them” (On Dekhan (Farm) Business, 2016).

The structure of small enterprises by types of economic activity and a share of each type of economic activity in common values of the indicator is shown in Table 3.

**Table 03.** Structure of small enterprises in the Republic of Tajikistan by types of economic activity and share of each type of economic activity in common values of the indicator (Azimov & Mirzobekov, 2016)

Type of economic activity, %	Share in the common value of small enterprises, %			
	Number of small enterprises	Average number of workers	Sales revenues	Wage and salaries fund
Agriculture, hunting and forestry	1.4	1.3	0.9	0.7
Mining and Quarrying	1.1	1.4	0.6	1.3
Processing industry	12.0	15.2	5.8	11.3
Energy, gas and water supply	0	0	0	0
Construction	10.9	13.6	20.0	29.1
Wholesale and retail, auto and moto service, repair of household goods and personal appliances	37.6	29.7	58.8	22.3
Hotels and restaurants	6.2	8.6	1.6	5.2
Transport, storage facilities and communication	5.9	6.2	3.7	6.0
Financial intermediation	1.3	1.6	2.5	3.5

Real estate operations, leasing and commercial activities	13.9	12.1	4.7	13.7
Education	2.9	2.8	0.4	1.9
Healthcare and social services	3.0	3.8	0.5	2.6
Other public, social and personal services	3.9	3.5	0.5	2.4

The data presented in the table allows identifying types of activity with considerable proportion of small enterprise. The development of the sphere of business services in regions will most likely change this situation.

Besides, many studies highlight the following problems complicating dynamic development of entrepreneurship in the Republic of Tajikistan: profit oriented businesses are characterized by low level of competitiveness; entrepreneurship legal base is insufficiently developed; poor interaction of the state with the subjects of small and medium-sized enterprises; intellectual and innovative potential of entrepreneurship is poorly used; access to information, investment, financial and personnel resources from small and medium-sized enterprises is complicated; small and medium-sized enterprises face difficulties with entering the foreign markets of products and goods; business infrastructure is well worn; coordination of public authorities responsible for the development of small and medium-sized enterprises in the country is poorly developed; bureaucracy at registration of small and medium-sized enterprises is not overcome everywhere; substantial lack of investment resources; insufficient level of legal protection of enterprises.

Hence, the subjects of the sphere of business services have good scope of work in solving the above problems.

Another obstacle to the development of small and medium-sized enterprises in Tajikistan is underdevelopment of financial sector, which as it is noted in the National Development Strategy-2030, has not been completely formed yet to perform its main function related to financing of the national economy. More specifically this is expressed by the following: the mechanism on mobilization of domestic savings and their transformation to the credits and investments is not fulfilled; the operating financial institutions are characterized by low level of capitalization, the list of services which they provide is not broad and the available services are short-term; banks dominate in the financial sector, securities market is limited, its secondary segment is absent; channel financing the organizations of the real sector of economy are limited and poorly diversified; the level of dollarization of the financial market is high; the level of disposable funds is high in payments between the subjects of economy; the access to external financial resources is limited; the sensitivity of the sector of financial services to the influence of external factors is high (for example, fluctuations of world currency rates); availability of financial services significantly varies within a region; the level of prices for services of this sector is high; the management level of financial organizations is low.

To overcome the current situation in the sphere of financial services the National Development Strategy-2030 sets some priorities referring to the development of domestic potential and competitiveness enhancement of financial organizations, improvement of their infrastructure, creation of more available and diversified channels of long-term financing of the real sector of economy, expansion of the range of financial products and services, development of the human capital in financial organizations, improvement

of the institutional environment of their activity, solution of problems related to the creation of financial mechanisms of environmental management and environmental protection.

The space for development of small and medium-sized enterprises is defined by business environment and investment climate of the country. The National Development Strategy-2030 characterizes this condition by the following features and problems: relative remoteness of the country from large global consumer markets and the main traffic artery used for trade; limitation of domestic market; low level of international trade and economic integration; underdevelopment of production infrastructure; seasonal problems with electrical supply; high bureaucratization of the general government, which creates barriers to the development of entrepreneurship; absence of self-financing institutions (credit unions, mutual insurance associations, etc.); low level of investment infrastructure; disadvantages in specification and protection of property rights, underdevelopment of contract relations; imperfection of the taxation system; underdevelopment of the system of finance and lending services and risk hedging s; inflation and volatility in foreign exchange market; low efficiency of state support and regulation of entrepreneurship at national and regional levels; complexity of export-import procedures; weak coordination of external support projects with the focus on the development of the country and regions.

The priorities in the development of business environment and improvement of investment climate within the National Development Strategy-2030 are connected with advanced actions of entrepreneurs and industries in processing domestic raw materials, development and implementation of investment projects on the basis of advanced technologies, overcoming administrative barriers and development of small business infrastructure, including the creation of the information system for entrepreneurship and business incubators, improvement of property rights, development of the competition, introduction of the ombudsman institute to protect the rights of entrepreneurs, expansion of the sphere of public-private partnership in the leading branches of economy, development of cooperation between the government of the country and partners in development, support and promotion of motivation for productive activity of domestic manufacturers, including exporters.

The programs of entrepreneurship support, the most critical of which is the Program of State Support to Entrepreneurship for 2012-2020 have been developed and are successfully functioning in the country (Program of the state support to business in the Republic of Tajikistan for 2012–2020, 2016).

The first stage of this program completed during the period from 2012 to 2014, which was aimed at the improvement of the country's legislative complex in the sphere of entrepreneurship thus ensuring modernization of production and technological processes, attraction of foreign and domestic capital, improvement of public-private partnership. The second stage of the program has been implemented since 2015.

The sphere of entrepreneurship in the Republic of Tajikistan is also indirectly affected by multiple other state programs.

The country is developing the national support system to small and medium-sized entrepreneurship. Its creation is connected, first of all, with the establishment of the Consulting Council on the improvement of investment climate in 2007. Within its activity the country implemented several reforms related to simplification of state registration procedures for legal entities and individual entrepreneurs, introduction of the authorization system to accrue the rights for construction, reduction of the number of inspections,

improvement of the taxation system, simplification of foreign trade procedures, protection and support of investors and entrepreneurs, laying the groundwork for public-private partnership.

The Republic of Tajikistan has implemented the Single Window system for registration of legal entities and individual entrepreneurs, which considerably reduces terms (from 49 to 5 days), labor input of this procedure, amount of necessary documents for registration.

In 2013 the Foundation of Support to Entrepreneurship was created in Tajikistan. Its main objective – to ensure easy-term loans to SME subjects engaged in production activity. The amount of money of this foundation by 2020 is supposed to be raised to 1 billion somoni.

The country managed to create economic, legal and organizational conditions for public-private partnership. The law “On Public-Private Partnership” was adopted in 2012 (Official site of the National Association of Small and Medium Business of the Republic of Tajikistan, 2017). The Council for Public-Private Partnership and the Center for Public-Private Partnership Projects are established and the authorized government agency of public-private partnership is approved.

The new Tax Code of the Republic of Tajikistan, which has come into force since January 1, 2013, considerably reduced the list of taxes, tax declarations, tax reports, and the total number of tax payments. This tax reform will reduce the share of tax expenditures from profit to 25% in 2017. This level is considered favorable for efficient business activity. Although in 2016, according to the World Economic Forum ranking, Tajikistan was one of three countries of the world with the highest tax rates (level of taxes was 81.8%).

The electronic system of tax declarations and reports is functioning in the country. The permanent working group at the Ministry of Finance of the Republic of Tajikistan regularly tries to make the current legislation, first of all Tax and Customs Codes, in compliance with international standards.

The reforms lead to Tajikistan constantly working its way up in the World Bank ranking in “Doing Business” and in recent years it has been several times included in the list of top ten reforming countries.

At the regional level regional councils for improvement of investment and entrepreneurial climate are created (Gorno-Badakhshan Autonomous Region, Khatlon Region, Sughd region, Khatlon Region, Istaravshan, Isfara, Pandzhakent and in some other regions).

The variety of public and non-profit organizations, which activity is focused on the protection of interests of entrepreneurs, is formed in the country. The major of them include the following: National Association of Small and Medium-Sized Enterprises of the Republic of Tajikistan (<http://www.namsb.tj/>), Union of Entrepreneurs and Exporters of Tajikistan (<http://spet.tj/>), National Association of Business Women of Tajikistan (<http://nabwt.tj/>).

The mission of the National Association of Small and Medium-Sized Enterprises of the Republic of Tajikistan is as follows: a) to ensure the development of members and entrepreneurs, who could use their abilities and opportunities to achieve economic wellbeing of the country; b) to protect the interests of entrepreneurs; c) to strengthen their social responsibility. The strategic objective of the National Association of Small and Medium-Sized Enterprises of the Republic of Tajikistan is formulated as “active assistance to entrepreneurs (first of all to members of the Association) in receiving profit with its subsequent use not only for personal, but also for public benefits, as well as to satisfy the needs for safety, communication, self-realization and spiritual development” (On Public-private Partnership, 2016).

The main task of the Union of Entrepreneurs and Exporters of Tajikistan is to unite the efforts of business representatives towards the development of effective and sustainable market economy, to consolidate the efforts of entrepreneurs and exporters of Tajikistan towards the improvement of business environment, improvement of the status of Tajik business thus observing the balance of interests of society, power and business (Official site of the Union of Businessmen and Exporters of Tajikistan, 2017).

The mission of the National Association of Business Women of Tajikistan is to expand the economic rights and opportunities of women in the labor market, to assist in ensuring access of women to resources, education, in developing their market skills (Official site of the National Association of Business Women of Tajikistan, 2017).

It is important to emphasize that these organizations also render business services, namely consulting, business and professional trainings, lobbying of rights and interests of entrepreneurs.

In spite the development of business, including small and mediusized enterprises, in Tajikistan, there is still many problems and difficulties in its formation and development. It shall be noted that the territorial distribution of small, medium-sized and large enterprises across the subjects of the country is quite different (see Table 4).

**Table 04.** Ratio of the number of small, medium-sized and large enterprises in regions of the republic of tajikistan (Yusupdzhonov, 2013)

	Number of small enterprises	Number of medium-sized and large enterprises	Ratio of the number of medium-sized and large enterprises to the number of small enterprises, %
Republic of Tajikistan	23670	4924	20
Gorno-Badakhshan Autonomous Region	978	154	16
Khatlon Region	7229	1537	21
Sughd region	5200	1840	35
Dushanbe	6054	697	10
Region of Republican Subordination	4209	706	17

In some regions of the Republic of Tajikistan there are almost no small enterprises. For example, in Nurabadsky, Tavildarinsky and Tadzhibabadsky regions the number of small enterprises during 2009-2011 was less than 50; during the same period there were less than 100 in Temurmalikskom, Shurabadsk and the Region of Nosiri Hisrav.

Based on the country's priorities, besides strengthening of the legislation in the field of investments and international trade, implementation of international standards of product quality and safety, improvement of attraction and use of external support, further development of business environment and improvement of investment climate in the country requires modernization of the Information Management System of external assistance, strengthening of activities of the Foundation of Support to Entrepreneurship and improvement of the potential of the competent authority on the attraction of investments.

The development of entrepreneurship in the country shall gain fresh impetus. For this purpose there is a need to intensify the development and implementation of programs, concepts and strategies aimed at



the development of entrepreneurship taking into account gender, investment and export, to improve the taxation system thus seeking to simplify tax administration and reduce tax burden of businessmen, to create sectoral clusters, the system of specialized funds and infrastructure organizations in this sphere, to create conditions for the development of small enterprises on the use of local raw materials and complex processing of products in rural areas and mountainous regions. The concept of sustainable development of the country requires mechanisms of state financial and economic support of business considering environmental requirements, environmental insurance, taxes, loans, subsidies, duties, etc.

There is a need to develop the mechanisms to encourage direct foreign investments, to create the system of administrative assistance to medium-sized and large investment projects of the private sector following the principle of “a single window”, to activate the improvement of investment activities both at republican and regional levels. A full-fledged stock market shall be created in the country. The legal base ensuring the expansion of ecological business and growth of environmental investments shall gain further development.

As noted above, the country places high emphasis on the use of public-private partnership (PPP). To expand the sphere of its application there is a need to improve the activity of the Council for Public-Private Partnership and the Center for Public-Private Partnership Projects. The field of use of program and target methods and a regulatory framework in the field of PPP shall cover a wider range of issues, mechanisms and tools to assess the PPP projects. PPP shall be more actively implemented in the sector of business services.

Thus, the state support and regulation of small and medium-sized entrepreneurship is a necessary and inevitable process increasing the rates of economic growth, improving the structure and quality of the gross national product. The leadership of the republic take the same steps in this direction as other countries with developing economy.

## **7. Conclusion**

Our proposals on the development of small and medium-sized entrepreneurship and improvement of business services in the Republic of Tajikistan are as follows:

For more successful implementation of strategic national objectives of the Republic of Tajikistan (including, the field of small and medium-sized entrepreneurship), the country shall elaborate and develop the National Business Platform of the Republic of Tajikistan as a complex business service considering the specifics of the country. It shall be addressed to the main social groups, be developed based on the public contract between the state, the business community, the civil society and labor, to express the consolidated position of the nation concerning the improvement of business and institutional environment, conditions for civilized and socially responsible business in the country.

To increase the number of small and medium-sized enterprises in the country there is a need to ensure their incubation. However, it shall be noted that business incubation cannot be considered within a single organization (business incubator). A variety of organizations, enterprises, institutions, certain individuals are always involved in the process of incubation. Therefore, business incubations initially imply the network of multiple elements involved in this process. Hence, to activate the process of business incubation in the country there is a need to create the network model of this process taking into account

current trends of organizational design related to establishment and development of network, virtual, intellectual and academic organizations.

Genuinely functioning network of business incubation shall include all institutions and organizations able to influence the development of small and medium-sized business in a particular region. The center of such network and network communication are established in the course of the network development based on specific conditions of the region. There can be several levels of such networks – republican, regional, area-wise if we refer to administrative-territorial division of the Republic of Tajikistan. There may also be the possibility of involving various types of communication: virtual, traditional, visiting.

The leadership of the Republic of Tajikistan realizes the insufficient level of small and medium-sized entrepreneurship, as well as critical problems of this sphere. In this respect it is constantly increasing its efforts to create the adequate institutional environment and improve the business climate in the country. These efforts shall also be made concerning the development of the sphere of business services since in the majority of business services are still at initial stages of their development.

Thus, it is possible to conclude that the Republic of Tajikistan is characterized by insufficient level of small and medium-sized enterprises accompanied by real critical problems of this sphere. In this respect, the leadership of Tajikistan is constantly increasing its efforts to create the adequate institutional environment and improve the business climate in the country.

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