

# ***Flourishing retail in the post-soviet sphere? Potentials and constraints of small-scale retail activities in rural Kyrgyzstan***

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## **Introduction**

During the 1990s, international agencies, politicians and various experts regarded the Kyrgyz Republic as a model of democracy and of a liberal economy. The young nation, founded in 1991, was thought likely to become a good example of how a former socialist country could smoothly glide from a command to a market economy (Dabrowski and Antczak, 1995; Pryde, 1995; Abazov, 1999a; Anderson, 1999). This positive assessment was based on the efforts of the Kyrgyz government to strictly follow the ideas of the Washington Consensus, which were being promoted jointly by the World Bank and the International Monetary Fund. The proposed strategy was to follow the neoliberal principles of economic liberalisation and privatisation (Müller, 2001; Christensen and Pomfret, 2007). By embracing a market economy in a ‘shock therapy’ manner, the country was supposed to enter the league of wealthy, democratic, and market-economy driven nations (World Bank, 1993; Abazov, 1999b). However, the reality looked rather different from the theory: According to the latest Human Development Report 2009, Kyrgyzstan’s GDP is only 2006 USD per capita, and the Human Development Index (HDI) ranks Kyrgyzstan in the low 120th place, whilst other former socialist states are ranked at positions such as 82 (Kazakhstan), 71 (Russian Federation) or 36 (Czech Republic) (United Nations Development Programme, 2009). Poverty in Kyrgyzstan is rampant, especially in rural areas (National Human Development Report, 2005). Around 10 percent of the total population now works abroad, mainly in Russia (Elebaeva, 2004; Ruget and Usmanalieva, 2008; Schmidt and Sagynbekova, 2008).

A number of well-researched studies have been published on the political and economic aspects of the transition of the former socialist states (Bova, 1991; Terry, 1993; Bunce, 1999; Anderson et al., 2001; Frye, 2002; Appel, 2004; Gans-Morse, 2004; Blokker, 2005; Lane, 2006; Chen and Sil, 2007; Fish and Choudhry, 2007; Tsygankov, 2007). In-depth research has also been conducted on the transition of Central Asian republics in particular (Herr and Priewe, 1994; Luong, 2004; Ofer and Pomfret, 2004; Pomfret, 2006; Spechler, 2008). In most cases these studies highlight the institutional dimensions of post socialist transition processes. Fewer papers have investigated the actual living conditions of the population (Howell, 1996a,b, 1998; Ackland and Falkingham, 1997; Anderson and Pomfret, 2003; Yurkova, 2004; Shigaeva et al., 2007). We believe more research should be devoted to this local sphere because it is at this level that processes and decisions at the national or international level directly affect people’s livelihoods. Moreover, the ways people have adapted their strategies to maintain their livelihoods reflect the opportunities and risks brought about by transition and globalisation processes. By focusing our research on people’s modified livelihood strategies, we highlight the present-day post-Soviet living reality of households in rural Kyrgyzstan.

A *household*, as the basic unit of our study, comprises a group of people who share a common budget to cover their regular expenses (Ellis, 1998). Each member of this group contributes to the overall livelihood strategy of the household by following a diverse set of employment and income opportunities. *Livelihood* is a key term in our study defined, according to the Department for International Development (1999, p. 1), as “the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is considered to be sustainable when it can cope with and recover from stress and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base”. Subsequently, *livelihood strategies* are a set of activities that people use in order to build, maintain and expand their livelihood system (Carney, 1998, 2002; De Haan and Zoomers, 2003).

In our study we focus on those households which have incorporated small retail business into their livelihood strategies. This occupational group of *merchants* at first glance seems to benefit from the new opportunities brought about by the market economy: In a region faced with high unemployment, widespread poverty, and degraded natural resources, engaging in small retail business has become a popular choice to generate additional income. Thus the aim of our field work was to gain a thorough understanding of the retail sector in rural Kyrgyzstan, as well as to analyze the contribution of trade activities to the overall livelihood strategies of the households we studied.

We tested the assumption that the observed retail activities are a suitable indicator for successful implementation of economic liberalisation processes (Johnson and Loveman, 1995; Puffer and McCarthy, 2001; Luthans and Ibrayeva, 2006). Our study contributes to the literature on post-socialist transition countries by analysis of the diversified livelihood strategies found to be typical for households in these countries (Poujou, 2004; Schmidt, 2006; Sabates-Wheeler, 2007; Shigaeva et al., 2007).

The paper is organised as follows: After introducing the study area and the empirical methods used for conducting the field survey, we briefly describe the villagers’ livelihood system and retail structures during the Soviet era. This is followed by an overview of the turbulent years after the demise of the Soviet Union and the difficulties these changes posed on the local level. In the main section, we focus on the current retail sector in the study area. We conclude with a critical discussion of the contribution of trade to the population’s overall livelihood strategies.

## **Study area and methodology**

Empirical research was conducted in the village of Arslanbob, located at the north-eastern fringe of the Ferghana Valley in southern Kyrgyzstan (Fig. 1). At the beginning of 2008, the village’s population was 11,112 inhabitants living in 2191 households, almost all of whom were being registered as ethnic Uzbeks<sup>1</sup>. Sunni Islam is predominant and many aspects of life are influenced by the *Shari’a*. The village is

located in the vicinity of unique walnut-fruit forests which have always played an important role for the locals in their livelihoods. During the Soviet era, the vast majority of locals were employed by the local state forest farm (*leskhoz*), which managed and conducted forestry and agricultural activities related to the state-owned forest and agricultural land. In contrast to other *sovkhoses* and *kolkhozes* that were dissolved during the 1990s (Delehanty and Rasmussen, 1995; Bloch and Rasmussen, 1998), most *leskhoz*es in present-day Kyrgyzstan are still operating. They are still responsible for the agricultural and forestry sector, albeit with a greatly reduced workforce.

The *leskhoz* in Arslanbob has also made the majority of its employees redundant. Employment opportunities within the public sector are nowadays very limited in Arslanbob and include jobs in the local administration (*aylökmötü*), schools, kindergartens, and hospitals. The difficult employment situation is reflected by the living standards of the population: In January 2008 around 44 per cent of all local households were registered as very poor, and 6 per cent as being poor<sup>1</sup>. Like other places in Kyrgyzstan, Arslanbob has also suffered from an exodus of young men to work abroad. Their remittances are an important contribution to the overall income of their families back in Kyrgyzstan (European Bank for Reconstruction and Development, 2006; Spechler, 2008).

To analyse the contribution of small retail business towards locals' overall livelihoods various qualitative techniques were used. Field work in the study region was undertaken in 2004 and 2007. Our analysis is mainly based on 28 semi-structured in-depth interviews with shopkeepers in Arslanbob, which were conducted either directly in the shops or during visits to the private homes of the shopkeepers. The sessions varied in length between 30 min and 1 h and were carried out with the assistance of interpreters. To gather more information about local business activities, participant observation was conducted in the village as well as in central market places of the Ferghana Valley. A further 23 semi-structured in-depth interviews were performed with relevant actors such as customers, merchants, and market authorities. Finally, six expert-interviews

<sup>1</sup> Unpublished data from the local government (*aylökmötü*) of the village Arslanbob.



Fig. 1. Kyrgyzstan – location of study area.

with members of the local and regional administration served as a source for official political and socio-economic data for the area.

To validate and extend the oral information given by the interviewees, public archives were also consulted. However, conclusions drawn from these data have to be treated with caution since statistics during the Soviet era were frequently manipulated to formally fulfil five-year plans (Osokina, 2002). Even today, the validity of official economic figures has to be questioned. For example, the latest [National Human Development Report of Kyrgyzstan \(2005, p. 73\)](#) quotes an official unemployment level of 2.8 per cent and estimates the general unemployment level to stand at 8.5 per cent. Both numbers are highly questionable because their calculation is based on the assumption that everyone who is not officially registered as unemployed must be a fulltime farmer. While this may hold true during the times of year with intense agricultural activity, we witnessed widespread unemployment and underemployment among the population during other seasons. Thus, when the oral and archival information turned out to be mutually inconsistent, oral statements were weighted more.

#### Retail system and livelihood strategies during Soviet times

When locals were asked about their living conditions during the Soviet era, most recalled them as being associated with a general feeling of security. Our interview partners specifically mentioned aspects such as guaranteed fulltime employment, free medical care and free education. The regular monthly payment of wages was among the most frequently cited benefits. Furthermore, our interviewees remembered how the government used to promote higher education even in remote parts of the country. Young students from peripheral regions had the chance to study at universities of the Kyrgyz SSR or that of other Soviet Republics.

The state-run retail system maintained a constant supply of staple food and convenience goods even in remote areas of the Soviet Union. The system was centrally organised and operated through the national retail cooperative (Nove, 1980). In 1989 the local branch

of the retail cooperative (*Sel'skoe Potrebitel'noe Obshchestvo*) operated seven outlets in the village of Arslanbob. Product prices were rather low: the government heavily subsidised goods and services in order to keep living expenses for the population at a minimum.

In comparison to city dwellers, people in rural areas such as Arslanbob also enjoyed additional benefits: with the beginning of the patrimonial era under Brezhnev they were allowed to privately cultivate and market garden crops (Lerman, 2001). Such gardening plots were usually located close to the residential houses and were mainly cultivated with potatoes, sunflowers, vegetables and various fruits. Any surplus was sold at *kolkhoz* markets (Whitman, 1956; Stadelbauer, 1987, 1991). This state-tolerated subsistence sector also comprised animal husbandry which was especially in Kyrgyzstan very important for people's economic survival (Giese, 1973, 1983; Schmeljow, 1990; Green and Vokes, 1997). In the *leskhoze* villages of southern Kyrgyzstan, households were permitted to own one cow, one horse and up to five sheep. Fodder for livestock could be obtained through the local forest authorities, who assigned licenses to collect hay from specific plots of the *leskhoze's* land. Below we describe the experience of one, Shamir, which were typical in the economic and supply situation that prevailed in rural Soviet Kyrgyzstan:

In 1978 Shamir started working as a shop assistant in one of the retail outlets in Arslanbob and received a monthly salary of 68 Soviet rubles (SUR). Since any activity related to trading was for ideological reasons regarded as less reputable (Armstrong, 1983), his salary was that of a low income group. Nevertheless, owing to the subsidised prices, Shamir said he was comfortable with his salary: "*We never ran out of money, 30 or 40 rubles a month was all we needed to live a good life.*" In 1981 he was promoted to the procurement manager at another store and earned slightly more. Compared to today's situation he recalls the Soviet times as being the happiest years in his life: "*The government catered for everyone. Everybody got everything he needed. Back then there were no worries and nobody was complaining about life.*" Although this is just the opinion of one individual, Shamir's statements are similar to those given by other interviewees and reflect a widespread nostalgia for the Soviet era (Howell, 1998). People in the former Soviet Union became accustomed to and dependent on the government benefits. Many took them for granted and thus were not well equipped to cope with challenges of the transition process in the early 1990s (Luthans and Ibrayeva, 2006).

#### Collapse of the state retail structures

The demise of the Soviet Union was followed by the declaration of an independent Kyrgyz Republic in 1991. The young state committed itself to promoting democracy and a free market economy (Anderson et al., 2001; Lerman, 2001). The subsequent economic and political restructuring brought about a fundamental disruption of established structures and habits, resulting in a general uncertainty about how to ensure a livelihood (Anderson and Pomfret, 2003). The restructuring and privatisation of former state or collective enterprises and farms released a large workforce, which, with a few exceptions (Kasymov and Nikonova, 2006), the hastily created private sector could not reemploy at the same rate as it was dismissed (Kausch et al., 1994; Kaser, 1997). Unemployment increased enormously and living standards quickly deteriorated. To make things worse, the soaring poverty rate coincided with ever more poorly operating public health care (Shishkin, 1999; Balabanova and McKee, 2004).

For the people of rural Kyrgyzstan, the collapse of the state-run retail system was among the first visible effects of the demise of the USSR. The seven state-run stores operating in Arslanbob now received their supplies irregularly. In 1993 the central warehouse of the retail cooperative in the nearby city of Jalalabad shut down for good, resulting in the closure of five of the seven stores in Arslanbob. The two remaining stores were taken over by former employees and from then on managed independently. However, since the state-run supply system had not yet been replaced by adequate free market structures, these two shops could offer only basic foodstuffs such as flour, rice, sugar, tea and onions. 'Luxury' goods such as sweets and toys completely disappeared from the shelves.

A gradually liberalised pricing system coincided with the end of the state-run supply system. After 1994 the subsidy system was completely dissolved and prices from then on were subject to the powers of the free market (Howell, 1998). Soaring inflation eased off only towards the second half of the 1990s (European Bank for Reconstruction and Development, 2001) and added to a decline in living standards. The history of Ibrahim, another interviewee from Arslanbob, illustrates the implications of falling real wages:

In 1985 Ibrahim, a teacher at the local high school, received a monthly salary of 120 Soviet rubles (SUR). He was still a teacher in 2004 but his salary of 600 Kyrgyzstani som (KGS) ( 15 USD) was below the official Kyrgyz poverty level of 625 KGS (UNDP, 2002). Fig. 2 depicts the changes in purchasing power Ibrahim suffered, showing how much Ibrahim could buy with his salary from a basket of basic goods in 1985 and in 2004. Based upon this compilation, he lost around 85 per cent of the purchasing power he had in 1985.

To cope with these and other challenges arising from the post-Soviet transition processes in rural Kyrgyzstan, households had to adjust their livelihood strategies to meet the new conditions.

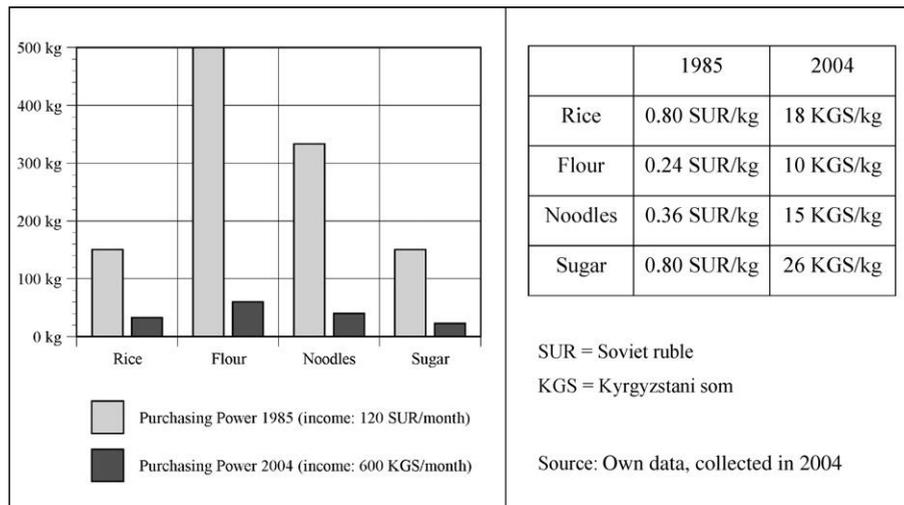


Fig. 2. Change in purchasing power of a teacher with the same job between 1985 and 2004 in rural Kyrgyzstan.

### Emergence of new retailers in rural Kyrgyzstan

Prior to the demise of the Soviet Union, knowledge about business management was minimal. Consequently, the first traders to start a private retail business followed a strategy of trial and error. For some 'farmers-turned-merchants' the opening of a new shop soon ended in economic disaster and the closure of the business. However, people constantly learned from their mistakes and since the turn of the millennium shops seem to have been operating on a more constant basis. On average, each shop registered during our field survey had been operating for four years. The shop with the longest continuous life-span was opened in 1992.

The lack of financial resources for starting own businesses has been and still is a general problem in rural Kyrgyzstan. Although microfinance institutions have been emerging in Kyrgyzstan since the mid 1990s (FAO, 2006) no financial assistance had been available to the people in the study area up until the time of field survey. Re-examination in 2009 revealed that this situation has not changed since. Anyway, as will be shown in the course of this paper, the success of a trader does not so much depend on the initial financial assistance but rather on the level of purchasing power of his customers. However, judging from the high number of shop failures during the early years we do believe that micro-credit institutions might actually have prevented some traders from economic failure since loan officers usually assist the entrepreneurs in writing business plans (Manasov, 2006).

In the absence of any financial assistance anyone willing to enter the retail business has to pre-finance the initial trading stock from his or her own savings. Without exception, shop keepers own all the real estate infrastructure of the shops including the land, building and inventory. Most shops are small huts located on the edge of the shopkeepers' private property, and some are even part of the owner's home. Small shops can be found dotted all over the village whereas larger ones are located in the central bazaar area. In most cases, the shop owner is also the head of a household and works as a fulltime, freelance sales clerk who serves the customers throughout the year from morning till evening.

There are no wholesalers who regularly visit the village. Thus obtaining supplies is the sole responsibility of the shop owner. Each merchant spends on average one day a week purchasing new supplies from the central markets in the Ferghana Valley. During his or her absence, other family members take over the duties behind the counter. During harvest periods many shops are run by 8–14 year old children, because all the other able-bodied household members would be working in the fields outside the village. It is unusual to employ a non family member for shop duties. The stores are open all year round, seven days a week, and might only close for a few days during labour-intensive agricultural peak periods or on special social occasions such as marriages or funerals. The range of the goods on offer ranges from locally produced food (potatoes, carrots, or sunflower oil), land imported staple food (flour, rice, sugar, seasonal fruits and vegetables), to imported convenience goods (soap, clothing, and cigarettes).

Since barter trade is common in rural Kyrgyzstan, shop owners do not travel empty-handed to the central markets when purchasing new supplies for their shops. During the harvest season the Arslanbob merchants take along large amounts of locally collected walnuts, apples and morels, or locally produced potatoes, honey, butter and *kurut* (dried curd–cheese balls). These products are bartered or sold to distributors in markets in the Ferghana Valley, who then either sell them to end consumers or to distributors who export some goods like walnuts and *kurut* to Turkey or morels even to Japan.

In 2004, 28 shops were operating in Arslanbob. Of these 22 were classified as small and six as large shops. On average, small shops offer around 30 different goods with an overall value of 15,000 KGS (around 375 USD), while large shops on average offer a product range of up to 80 different goods, worth 120,000 KGS (around 3000 USD). We highlight the difference between the two shop categories, because the size of the shop correlates with the importance of the retail activities for the overall livelihood strategies of a household. Two different interviewees serve to exemplify the two shop categories: Shakir, 42 years old, first worked as farmer after the collapse of the USSR and generated an additional income by periodically being hired as a wage labourer. In 2002 an exceptionally good harvest of walnuts and potatoes enabled him to some surplus money. Since he had seen other people in his village opening up small retail businesses in the past, he decided to follow their examples. He built a small wooden hut on the edge of his land and purchased some start-up trading stock. His shop is located about 2 km away from the

village centre and is open from 7 a.m. till 9 p.m., seven days a week. Shakir offers 38 different products in his shop, and holds stock with a total value of around 5000 KGS.

Hashim, 36 years old, worked as construction worker after graduating from high school and later joined the business of his father, who was operating the only flour mill in the village. They used to buy grain from the central market in a nearby town, and after grinding sold the flour to two large shops which were run by their relatives. In 2000 Hashim decided to open up his own shop. The mill business had earned him enough money to pay for the construction of a big retail shop in the village centre as well as for a large amount of trading stock. He has 76 different products on offer, which are worth 100,000 KGS. His shop opens daily from 8 a.m. to 8 p.m.

Table 1 compares a selection of goods from Shakir's and Hashim's stores. While the base stock of both stores is quite similar, there are still some significant differences. First, Hashim's large shop offers higher quantities of individual items (matches, salts or melons). Second, he also offers other goods besides just daily necessities, such as electric water kettles, TV-sets or cosmetic products like hair spray. Third, Hashim provides more choice so that customers can choose between several brands for the same product, three different brands of tooth paste. Shakir would like to offer such a product range as well, but his limited financial means do not allow him to purchase them.

Table 1  
Selection of goods from two different shops in the village of Arslanbob (Kyrgyzstan).

Item	Unit	Stock (Small Store)	Stock (Large Store)
<b>Household goods</b>			
Matches	Packs	8	25
Cigarette Lighters	Pieces	–	22
Light bulbs	Pieces	–	25
Razor blades	Packs	15	120
Tooth paste	Packs	3	9
Hair spray	Cans	–	10
Combs	Pieces	–	3
Shoe polish	Cans	–	6
Socks	Pairs	–	12
Scarfs	Pieces	–	3
Water kettles	Pieces	–	3
Radios	Pieces	2	6
TV-sets	Pieces	–	4
Cigarettes	Packs	6	60
Batteries large	Pieces	120	60
Batteries small	Pieces	–	40
<b>Imported food</b>			
Rice	Kg	80	420
Salt	Kg	2	120
Iodized salt	Kg	–	9
Biscuits	Kg	7	22
Potato chips	Packs	–	2
Chewing gum	Packs	–	60
Hard Candy	Kg	4	12
Chocolate bars	Pieces	16	80
Lemonade	Bottles	30	40
<b>Local food</b>			
Honeydew melon	Pieces	15	35
Water melon	Pieces	6	50
Carrots	Kg	8	18
Potatoes	Kg	8	18
Sugar	Kg	3	20

Source: Own data, collected in 2007.

### Integrating trade into livelihood strategies

The revenue from the retail activities contributes to a household's overall livelihood strategy. Fig. 3 shows the various elements in the potential livelihood portfolio of a household in rural Kyrgyzstan. The subsistence sector and domestic work directly contribute to the survival of a household by delivering basic goods and services. Various income sources, such as revenues from commercial farming, nut and fruit collection, trade, tourism, wage labour, and remittances, contribute to

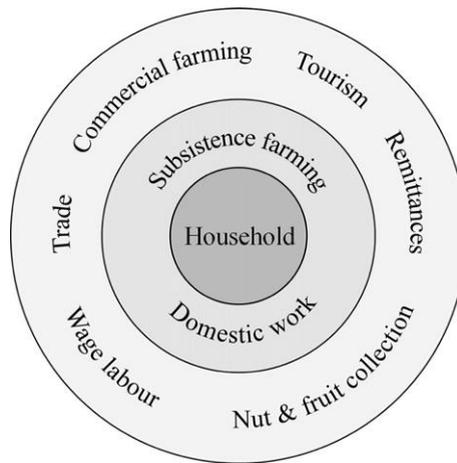


Fig. 3. A household's potential livelihood portfolio in rural Kyrgyzstan.

a varying degree to a household's income portfolio. Activities of the inner circle are immediate contributors to the household's basic survival, while the activities in the outer circle are used to cover expenditures on goods and services needed to ensure a quality of life with more than just the bare minimum.

According to Elwert (1983), the main purpose of *domestic work* is the "production and maintenance" of people in a household. This includes giving birth to children and then raising these new household members, as well as activities that guarantee the physical and mental well-being of household members. The main duties are preparing food, doing the laundry, carrying out small maintenance repairs around the house and cultivating garden crops. Transitions between domestic work and work in the *subsistence sector* are smooth as subsistence activities also include producing basic food through arable farming or animal husbandry. Further contributions towards the subsistence sector include gathering fruits and mushrooms in the forests and doing daily chores, such as collecting firewood.

If households were only to rely on the domestic work and the subsistence sector, they would be susceptible to external disturbances such as sickness of a household member, crop failure or animal pests. To minimize the effects of such disturbances, people further diversify their income, which is represented by the outer circle of additional income sources. As in many other parts of the world (Rindfuss et al., 2004), many households in rural Kyrgyzstan are simultaneously engaged in subsistence and market cultivation, which means the borderlines between the activities of the inner and outer circle are usually not very clear.

One such hybrid activity is animal husbandry. Almost all households in our study area keep one to three cows, five to ten sheep and some poultry. In moments of economic hardship caused by the illness or death of a family member, or a bad harvest, livestock can quickly be converted into cash money. Another hybrid activity is market-oriented agriculture. Most households (88 per cent) in Arslanbob rent farmland (max. area of plots is 0.4 ha) from the local forest authorities on which they cultivate sunflowers, maize, potatoes or animal fodder. The produce is partly sold and partly destined for direct household consumption. Furthermore, almost all households in Arslanbob try to generate an extra income by collecting walnuts and wild apples in the forests. Nearly all these products are sold and only a small portion consumed by the local population itself. Incomes from animal husbandry, market-oriented agriculture, and the collection of forest products are, however, subject to high seasonal and yearly fluctuations: livestock is best sold only in fall when the animals weigh most, harvest yields may vary from year to year and market prices also undergo constant fluctuations.

Thus, households need other off-farm sources of income from which they can add to their income portfolio. Employment in government agencies is a seasonally independent income source, but it is also much limited and in most cases not sufficient to cover a household's expenses, as was outlined above (Fig. 2). The attractive surroundings of Arslanbob make it a popular destination for tourists. Numerous households participate in "homestay" programs, renting out rooms to the increasing number of domestic and foreign tourists (Kirchmayer and Schmidt, 2005). Another important source of income in recent years has been labour migration. Many young people from villages in Kyrgyzstan leave their homes to take up seasonal work abroad, preferably in Russia or Kazakhstan. During their absence, their remittances serve as an important contribution to the overall household income (Schmidt and Sagynbekova, 2008). However, money from tourism and migrant workers again only yields a seasonal flow of money.

To overcome the omnipresent seasonal variations within their income portfolios, some people have turned to commercial activities. A shop operating throughout the year generates a small but steady income to cover everyday expenditure, thus gradually improving living standards. Small retail businesses are particularly popular because only few skills and little initial investments are required. In the words of a shopkeeper, income from trade is "easy money". However, some potential problems related to the retail business do remain and will be discussed in detail in the following section.

To sum up, people in rural areas in present-day Kyrgyzstan diversify their income sources for three reasons: First, to ensure basic survival, second, to minimize the risks in case one or more income sources fail; and third, to gradually raise their standard of living. These goals can only be achieved through a combination of different income sources. While each income source per se would not be sufficient to guarantee a household's livelihood, a flexible combination does. This strategy is typical for households where living conditions are precarious, which holds true for the vast majority of households in developing countries (Ellis, 1998; Batterbury, 2001), as well as for most households in post-Soviet Kyrgyzstan.

## Seasonal variations in trade activities

The retail trade is defined as off-farm employment, but is nevertheless closely interlinked with annual yields from agriculture and forestry so that merchants are still prone to 'on-farm-related' risks. Unfavourable weather conditions or infestation by pests may lead to low agricultural and forestry outputs, which severely diminish the household's income – and subsequently reduce people's purchasing power. As a consequence of this strong correlation with seasonal agricultural activities, shopkeepers report the months after the harvest (September–November) to be the time of the highest turnover as farm revenues periodically increase people's purchasing power. They purchase large amounts of food supplies for the winter, but also want to spend their money not only on the goods they need for everyday life. Shop owners respond to this altered demand by extending their trading stock towards additional types of candies as well as a range of different stereos and TV-sets. After most of the farm revenues have been spent during 'harvest shopping', monthly turnover rates at the shops drop to their lowest levels in March and April, thus making the retail business a rather unprofitable activity during this time.

While the seasonal variability in purchasing power may be unpleasant for the merchants, the way they grant loans, which at first glance seems altruistic, makes the situation even more risky. In rural areas of Kyrgyzstan many customers do not pay for their purchases immediately in cash but ask shopkeepers for credit instead. Therefore, the cyclical pattern of agricultural activities is not only reflected in a shop's overall turnover, as mentioned above, but also in the turnover of outstanding debts. Several factors contribute to this cyclical debt pattern (Fig. 4). Shopkeepers give most credit to their customers between February and June. At this time of the year their customers' food supplies from the previous year's harvest have mostly been consumed and farm revenues spent. Since their livestock is still too meager to be sold with reasonable profit, they prefer to ask for credits rather than sell their livestock at low prices. At the same time farmers need to spend the little money they have on ploughing and sowing activities, on purchasing seeds and fertilizer, or hiring machinery and extra workers. Furthermore, it is in May that the *leskhoz*es require payment for the annual lease of rented farmland and forest plots. With the advent of summer, less credit is requested. In July households obtain the first revenue from selling their garden crops and dairy products. The labour intensive agricultural season also means work for some household members as day-labourers in other people's fields. Summer is also the peak season for tourism so that income may come from renting out rooms or taxi driving. As a consequence, the increasing availability of income during the summer enables most households to pay for any further purchases in cash and also to pay-off part of their debts.

Debts to shopkeepers are usually paid off rapidly during the main harvest season as people obtain income from sunflowers, potatoes and above all walnuts. But, as Fig. 4 implies, most shopkeepers do not manage to have their debts entirely repaid. Officially there is a deadline for paying back debts, but "people keep telling me 'two weeks' and then it's 'two months' and suddenly it's two years since I gave them credit," says one shopkeeper. It is not the custom for creditors to sanction their debtors, since, according to *Shari'a* law, Muslim traders are not allowed to claim any interest on credit they give. However, in the tightly knit community where the creditor and debtor live, there is the option of publicly discrediting longstanding debtors. Elwert (1987) calls this the "exertion of social control by assigning public disgrace." In Arslanbob, some shopkeepers exert such *public disgrace* by putting up signs in their shops which publicly list the names of all their debtors and the sums owed. If the harvest is bad, it can be even more difficult for shopkeepers to have credits repaid. If their customers cannot pay off their debts towards the end of the year, they need to start pre-financing their trading stock from their own limited budget.

Despite these risks, it is in no way irrational or altruistic for shopkeepers to give credit to hardly creditworthy customers. Indeed, it is usually a profitable measure for the creditor. Customers, who obtain credit mainly in springtime or early summer, commit themselves to pay off their loans with barter products, mainly walnuts. The shopkeeper and customer note down the borrowed sum and set a fixed exchange rate, e.g. 1 kg of walnuts might repay a debt of 15 KGS (0.38 USD). This exchange rate is then compulsory for both. However, during years with an average walnut yield the exchange rate usually favours the shopkeeper and proves disadvantageous for the customer. At the time of harvest the market price for walnuts is usually significantly higher than the agreed exchange rate (w25 KGS/kg or more). Then the shopkeeper and creditor can obtain a high profit by selling the nuts at the current market prices, and thus circumvents the principle of *Shari'a* law that bans interest. However, if a shopkeeper's customers cannot clear their debts because of a bad harvest or for other reasons, the shop owners might soon reach the limits of their liquidity and be unable to keep their shelves stocked with goods. Outstanding debts affect small shops more than large ones as becomes obvious from the data shown in Table 2. As indicated by the account balance, outstanding debts in large stores (lines 1–4) account for not more than 60 per cent of the value of the overall trading stock, while outstanding debts in small stores (lines 5–9) occasionally even exceed the value of the overall trading stock by more than 50 per cent.

Large general stores, thus, can cope with a much higher debt burden than small ones. The latter are dependent on having credits paid back in autumn to keep their businesses running. In 2003 a bad harvest from the previous year resulted in the closure of four small shops because debts were not paid off and the shopkeepers could not handle the running costs of the

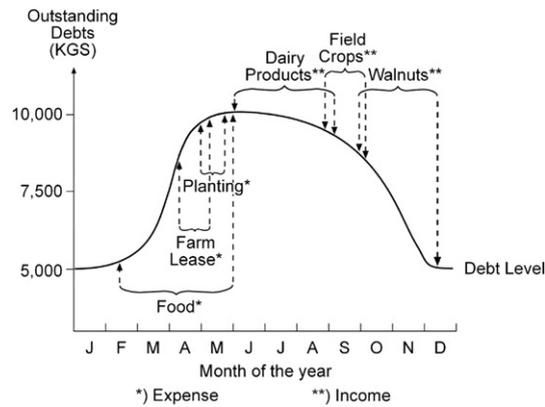


Fig. 4. Cyclical pattern for the outstanding debts of retailers in rural Kyrgyzstan.

Table 2  
Value of trading stock and outstanding debts of shops in Arslanbob village (Kyrgyzstan).

Shop	Value of trading stock (in KGS)	Outstanding debts (in KGS)	Balance (in KGS)	Proportion of debts to trading stock
1	120,000	70,000	þ50,000	58.3%
2	80,000	18,000	þ62,000	22.5%
3	70,000	23,000	þ47,000	32.9%
4	18,000	7000	þ11,000	38.9%
5	10,000	6000	þ4000	60.0%
6	10,000	18,000	–8000	180.0%
7	7000	8000	–1000	114.3%
8	6000	9000	–3000	150.0%
9	5000	6000	–1000	120.0%

KGS ¼ Kyrgyzstani som.

Source: Own data, collected in 2007.

shop anymore. Large shops are not usually immediately threatened by a single bad harvest since their stock is large enough for them to keep going for a longer time. This relationship with the unpredictable harvest is one reason why most traders dare not to rely solely on their trading activities for their livelihood and instead try to further diversify their sources of income. Another reason besides potential profit why a shopkeeper may give seemingly risky credits has to do with the relationship between debtors and creditors. This has to be understood against the background of the social framework that both parties are embedded in (Kuehnast and Dudwick, 2004; Sanghera et al., 2006; Sanghera and Ilyasov, 2008). Most customers, in particular those of small shops, are friends and relatives of the shop owner. For both, the customer and the shop owner, shopping also includes building and maintaining social ties. Shakir, the owner of a small shop, tells us the advantages of his customers being close friends and relatives: “They do not mind if my shop is closed one day or if I do not have a certain product in stock which they are looking for. They still keep coming back to me.”

On the other hand, a shopkeeper cannot simply reject a customer, e.g. a long-term debtor, who proves to be economically bad for his business. The shopkeepers have a moral duty to give credit to any member of their social network. Evers (1994) calls this conflict the “trader’s dilemma”: The trader simultaneously has to comply with moral as well as economic rules. As a consequence of this moral duty, giving credit occasionally leads to the closure of small shops, for example, if outstanding debts cannot be paid off due to a bad harvest. In such cases, shopkeepers cannot pay for the running costs anymore and have to close their business. However, the positive effects of the trader’s dilemma, a social “safety net” (Sabates-Wheeler, 2007), often outweigh the negative ones because shopkeepers can rely on the support of their social network to help them through such times of economic hardship. Relatives, friends and neighbours help a new business in its initial phase as well as when it is up and running by being faithful customers.

## Conclusion

The diversification of income sources is a typical and necessary strategy for households in rural areas of present-day Kyrgyzstan. This strategy is a response to the destabilized social and economic living conditions which followed the demise of the USSR. Today the most important income sources for households in rural Kyrgyzstan are crop farming, animal husbandry and the collection of forest products. Resources permitting, this basic portfolio of income sources is further expanded: manpower may be utilized via labour migration, horses and vehicles may be offered for tourism ventures and surplus money may be invested in trading stocks for starting up small-scale retail activities. Each income source is susceptible to external risks and, taken by itself, would not be able to fully secure a household’s livelihood; through the diversification of income sources the households thus try to minimize their risks and maximize their security.

According to our findings, the main purpose for retail activities in rural Kyrgyzstan is to compensate a household for deficiencies in other income sectors. Hence, the small-scale retail activities should not be mistaken as indicating people accept the ‘blessings’ of the free market economy. Given the absence of economic alternatives and given the abundance of labour force, the retail activities simply resemble yet another income source – and as such are subject to external risks: the level of purchasing power of customers in rural

Kyrgyzstan is closely related to the yield of the annual harvest and for the most part of the period following the demise of the USSR the economic performance of retail activities has in fact been tightly correlating to the performance of the agrarian sector.

However, recently the overall economic situation in rural Kyrgyzstan has gradually been improving (Spector, 2008). In the study area this development is reflected by a rise in customers' demand for consumer goods like TV-sets and stereos. Yet neither the size of available farmland has increased, nor has there been any significant agricultural intensification; the recent economic development is rather driven by a cash inflow originating from family members working abroad. In fact, these remittances have become the dominant economic driving force behind many aspects of economic activities in rural Kyrgyzstan (Schmidt and Sagynbekova, 2008). On the one hand this leads to a decoupling of the retail sector from the agricultural context but, on the other hand, it makes the retail sector highly dependent on remittances and thus susceptible to supra-regional or even global developments. For example, the world-wide economic crisis of 2009 caused a considerable drop in remittances (UNDP, 2009), leading to a decline in purchasing power in the villages of rural Kyrgyzstan. Once again the

households engaged in small-scale retail activities are now forced to rely on their remaining income sources to secure their livelihoods.

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