

BTI 2010 | Kyrgyzstan Country Report

Status Index	1-10	4.94	# 81 of 128	
Democracy	1-10	4.35	# 85 of 128	↓
Market Economy	1-10	5.54	# 65 of 128	→
Management Index	1-10	4.17	# 91 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Key Indicators

Population	mn.	5.2	HDI	0.71	GDP p.c.	\$	2006
Pop. growth	% p.a.	0.8	HDI rank of 182	120	Gini Index		32.9
Life expectancy	years	68	UN Education Index	0.92	Poverty ²	%	51.9
Urban population	%	36.1	Gender equality ¹	-	Aid per capita	\$	52.3

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Following the regime change in March 2005, an event also known as the Tulip Revolution, Kyrgyzstan was for two years politically unstable. Opposition parties and civic associations as well as important figures within the administration during this time were able to sway opinion to the benefit of their interests; the result was a perception of Kyrgyzstan as a weakened state and of overall instability. After more than two years, these incessant power struggles under the rubric of constitutional reform were put to relative rest, as President Kurmanbek Bakiyev was able to assert his power and promote a greater perception of stability if not a sense of authority by the end of 2007. However, the robustness of this new stability and its likelihood of persisting were open to doubts in early 2009.

The major state developments in 2008 were a sharp contraction of democracy, an increase in the repressiveness of the state and the persecution of opposition members. The state frequently denied citizens the rights of association and assembly, even in actions of a rather innocuous character. Freedom of expression and of the press came under increasing attack. The quality of elections was seriously compromised, especially in early parliamentary elections of late 2007, leading to the establishment of a puppet Jogorku Kenesh – the parliament of Kyrgyzstan – fully dominated by the president's Ak Jol People's Party. Starting at the very end of 2008 and continuing and growing until the end of the reported period, the opposition has shown renewed and united activity, partly in reaction to governmental persecution and partly in the anticipation of broader public dissatisfaction with the government's economic performance.

The country's economic record during the reporting period was mixed. During 2007, the Kyrgyz economy suffered a number of heavy blows, including price hikes for grain and other food products as well as a banking and liquidity contraction due to the financial crisis in Kazakhstan. Still more important was the energy crisis of 2008, when a precipitous decline in the water level at the Toktogul hydroelectric giant forced across-the-board emergency electricity cut-offs,

including during the winter months. The government was active in proposing development strategies, improving the investment climate and reforming economic administration (including the tax and regulatory system); however, its ability to meet more urgent economic challenges was limited.

History and Characteristics of Transformation

During the country's 15 years of independence since the end of 1991, Kyrgyzstan's post-Soviet history has seen both periods of democratic progress and of authoritarian backlash. The country has embarked on economic reforms that are more comprehensive than those of almost any other post-Soviet country (excepting the Baltic States) but the social gains that should have resulted from such reforms have been painfully slow to materialize.

Soon after the dissolution of the Soviet Union, Kyrgyzstan earned a reputation as a champion of democratization in Central Asia. President Askar Akayev, who rose to the helm of the republic in 1990, attracted international support for his small country and, having spent the greater part of his professional career as a scientist, enjoyed an image of an intellectual-turned-politician who was willing to lead his nation toward a new, democratic era. In fact, the country achieved some remarkable successes in bringing about political transformation. Civil rights, such as freedom of speech and freedom of assembly, were effectively introduced. Freedom of religion and freedom of thought were also guaranteed. Citizens gained new opportunities to express their interests openly and legally, to make their grievances known and to suggest alternatives. Legislative and presidential elections were relatively free and fair.

By the mid-1990s, however, there was a backlash against liberalization, marked by legal changes intended to increase the authority of the president, sideline the opposition and manipulate elections. Parliament was essentially deprived of power, with its responsibilities limited, its legislative rights curtailed and its oversight functions reduced to a minimum. It was excluded from the government-building process. With the persecution of some independent journalists as early as 1997, the freedoms of speech and of the press were gradually restricted. Increasingly, positions of political authority and economic power came under the control of the president's "family," a euphemism for the narrow elite affiliated with Akayev either through kinship or personal loyalty.

Economically, Kyrgyzstan was initially dedicated to reform and quick to embrace the policy prescriptions of international financial institutions. Small and medium-sized businesses were privatized, prices were liberalized, control over the exchange rate was relinquished and the convertibility of the currency was achieved. In 1998, Kyrgyzstan was the first country in Central Asia to join the WTO, a move accompanied by a comprehensive liberalization of foreign trade. International organizations provided key support to the economic transformation process.

Indeed, Kyrgyzstan received the most international aid per capita of all the countries in Central Asia. External sponsorship however did not prevent the country from sliding deeply into economic crisis and then poverty during the first years of its independence. Although the country's GDP grew continually from 1995 to 2004, this growth started from a devastatingly low level of 50% of its 1989 value, leaving the country with an economy that had barely reached 85% of its former volume 15 years after the beginning of economic reforms in 1989.

By the beginning of 2005, social and political dissatisfaction with Akayev's rule had reached a critical level among the country's elites, and opposition groups comprised of many former Akayev allies had re-grouped under the leadership of prominent figures, among them former Prime Minister Kurmanbek Bakiyev. The country was moving toward parliamentary elections and Akayev's own political future hung in limbo; the president's final term in office was supposed to end in fall 2005, and Akayev had not yet given a clear indication of how he envisioned his succession.

The ruling elite's bold manipulation of the February 2005 parliamentary vote, followed by March run-off votes in many districts, led to a putative victory of a large pro-regime majority, particularly members of the presidential Alga (Forward) Kyrgyzstan party. Such blatant manipulation sparked protests among the population and among opposition forces, which were inspired by recent events in Ukraine and Georgia. Within days, localized conflicts between the supporters of defeated opposition candidates and local authorities in a number of provincial towns culminated in a major political crisis. Protests spread throughout the country, including in the capital, and prompted Akayev to flee on 24 March 2005. He resigned from office soon thereafter. The opposition leader Bakiyev was quickly installed as acting president. An alliance with former Vice President Felix Kulov, another popular opposition figure, secured Bakiyev a handy victory in the early presidential elections of July 2005. The unlikely alliance between the southerner Bakiyev and the northerner Kulov remained intact until the end of 2006, and helped keep the government in office in the face of citizen and opposition protests. But increasingly politics became dominated by growing tensions over constitutional amendments designed to strengthen the role of parliament and curb the president's extensive powers. Heated controversy over policy issues, such as debt relief under the international HIPC initiative, aggravated the matter.

In 2006 and 2007, Bakiyev's rule repeatedly came under fire in the form of protests that took place against the background of an unstable economy. Kyrgyzstan in that period saw three prime ministers and enacted constitutional changes three times. In the fall of 2007, Bakiyev orchestrated a reversal of two previous versions of the constitution by the Constitutional Court on procedural grounds, put forward a third version and called for a referendum on the new version, succeeding in having it popularly adopted. He then dismissed the parliament and called for new elections, as per the new constitution. The president's few months-old Ak Jol People's Party, closely reminiscent of Akayev's Alga Kyrgyzstan party, was through a flawed election able to secure over 70% of parliamentary seats; two other moderately critical parties were given token representation, and the more radical opposition party, the Ata Meken Socialist Party, was denied seats on questionable grounds. As a result, the Bakiyev government has maintained a

firm grip on power since then and has increasingly grown repressive. At the end of the reporting period Kyrgyzstan has experienced a raised level of activity from a united opposition, a corresponding repression by the state and a considerable governmental makeover by Bakiyev. Whether the tenuous political stability persists against mounting challenges by the opposition, and how the impending economic crisis, especially in the energy sector, is dealt with, are issues that remain to be seen.

Transformation Status

I. Democracy

1 | Stateness

The overt and effective use of force is mostly successfully claimed by the official government in Kyrgyzstan. There are no known guerrillas or insurgent groups, nor threats of secession by groups within the country, to challenge this state monopoly. In the early days of the present regime under President Kurmanbek Bakiyev (2005-2006), organized criminal groups openly disregarded the authority of state police and attempted to conduct justice on their own terms. Public protests have also challenged the state's authority. However, such activities were few; some major organized criminal groups were broken up and a number of key criminal figures were murdered (allegedly in gang fights). The last major protest that posed any serious threat, that was led by the deposed Prime Minister Felix Kulov, was dispersed by police force in April 2007. Since then, the state has significantly tightened its effective monopoly on the use of force.

Monopoly on the use of force

All citizens are formally, as well as for the most part practically, guaranteed equal membership in the nation-state. A few principal, although so far not consequential, clauses of exclusion exist, such as the ethnically oriented preamble of the constitution, and the Kyrgyz language fluency requirement for presidential candidates, which is also a hurdle for many ethnic Kyrgyz who are not fluent in the language. Examples of interethnic tensions have been reported, occasionally occurring in localized ethnically motivated fights between youth. However, there is no systematic state policy that excludes citizens on the basis of ethnicity, religion or gender. According to the latest Election Code, applied to the 2007 parliamentary elections, women, ethnic minorities as well as young people are required to be represented in the candidate lists of competing political parties. In relevant articles of the constitution and in all other laws, non-discrimination is a stated and mostly abided principle of the state.

State identity

According to the current constitution and in practice, Kyrgyzstan is a secular state. The exclusion of religious groups or figures from having overt political influence is strictly enforced, to the point of being overly prohibitive, as in the example of the

No interference of religious dogmas

new law on religion and religious institutions, adopted in January 2009, which makes establishing new religious organizations more difficult. Citizens are generally not intensely religious but are diverse in their proclaimed confessions, making state secularism follow somewhat naturally.

Kyrgyzstan maintains a differentiated, multilevel system of administration, from large to small: national, oblast, rayon, and village self-governing units (ayil okmotu). Under the regime of Askar Akayev, administrative reforms aimed at the decentralization and empowerment of local government had set up some 470 ayil okmotu, representing the most immediate administrative structures in localities. In 2007, in a bold sweep the government introduced a two-tier budget structure, between national groups and ayil okmotu, making local government a consequential player in the fiscal structure of the country; in the three-tier budget of 2008, the importance of ayil okmotu remained high. However, there is discrepancy in the quality and effectiveness of administrative offices, especially in the rural or remote areas of the country. Many are underfunded, subverted by informal patronage networks, undermined by the incompetence of public servants and can be riddled with corruption.

Basic
administration

2 | Political Participation

The constitution of 2007 defines the president, the parliament and the municipal and local representative bodies as electable by direct popular vote. The early presidential election in July 2005 was praised by various observers as an improvement upon the preceding election, and offered a promising new start. However, the merits of that election were lost upon the early parliamentary elections of December 2007. After a rushed referendum that adopted a new constitution in October, the president disbanded the parliament and called for elections of a new parliament according to the rules of a new Electoral Code. In the rapid vote along party lists, the president's Ak Jol People's Party achieved a massive victory in a process marred by legal violations and barriers for the opposition parties. The most important opposition party, Ata Meken (Fatherland), on questionable grounds was not granted any seats, even though the party won the second-largest amount of votes, while the Communist Party of Kyrgyzstan, which had clearly not passed the regional voting thresholds, was granted seats along with the Social Democratic Party, which placed third in the election. To this day the detailed results of the vote have not been published, despite persistent demands by public groups. The local government elections, including the elections of the Bishkek city council, were held in October 2008. Barring the Bishkek city council elections, these local elections were remarkably uncontested, with only one candidate running for a local government position in many places. While featuring less severe violations compared to the parliamentary elections, these elections too were far from being free and fair, especially in Bishkek.

Free and fair
elections

The effective political power in Kyrgyzstan is concentrated primarily in the presidency, and President Kurmanbek Bakiyev's election was regarded as mostly free and fair. There are no unelected or shadow groups that wield veto power in competition with the president, as clans and certain business lobbying groups are seen as complementary, or actually extensions of effective presidential power. However, the concentration of power in one elected office corresponds to minimal power in parliament. After the 2007 elections, parliament has become a mere rubberstamp to the president's initiative.

Effective power to govern

The two years following the regime change in March 2005 were characterized by of the clash of highly mobilized, although loosely united, opposition groups and a weak governing regime. From April 2007 through the end of that year, the Bakiyev administration gradually got the political life of the country under control. That control through the end of 2008 translated into considerable limitations on the rights of expression, assembly and association, although these restrictions were not yet a flat-out denial of those rights. The actions of groups critical of the regime are especially restricted in provincial centers, where local administrators unscrupulously curtail them.

Association / assembly rights

The rights of freedom of expression, vindicated following the Tulip Revolution, have been undermined in the last few years, in a manner similar to the curtailing of citizens' freedom of assembly. One indication of the extent of these controls is the recurring talks in official and legislative circles about introducing a special law to control the content of Web-based information. At the end of 2008, the Radio Liberty Kyrgyz radio programs on FM and television programs broadcast on national TV were prohibited. Journalists' protections have been weak as well; the most prominent example of curtailed press freedoms and increasing security issues being the open murder case since October 2007 of an outspoken young journalist, Alisher Saipov.

Freedom of expression

3 | Rule of Law

In the latest version of Kyrgyzstan's constitution, adopted October 2007, there is a fundamental provision for the separation of powers among the legislature, the executive and the judiciary. However, above all of these branches stands the president, as "the symbol of unity, and guarantor of the constitution." In practice, all power has become concentrated in the president's office. Even though the formation of the cabinet is tied to the dominant party in the parliament, many cabinet members have been reshuffled by the president within a year of the cabinet being assembled.

Separation of powers

Independence of the judiciary has been one of the most pronounced goals of the new administration and of constitutional reforms. The new constitution introduces a National Council for Justice, which plays a role in appointing judges and keeping

Independent judiciary

them accountable. Constitutionally defined term limits for judges have been introduced to make judges independent with regard to their job security. However, the actual independence of the judiciary has not been achieved. Provisions for judges' job security was soon undermined when the chairman of the Supreme Court, Kurmanbek Osmonov, was sacked based on a complaint letter by a group of lower-level judges without much further investigation. Ultimately, as former Foreign Minister Muratbek Imanaliyev has said, between the power of law and the power of a telephone call from above, it is the latter that dominates.

Rampant levels of corruption have remained part of Kyrgyzstan's political system, despite early declarations by the Bakiyev administration to fight it. While occasionally an obscure public servant may be sacked over the abuse of office, no legal prosecution of any high-level figure is known. Within the period of this report, frequent criminal charges have been brought against former officials; however, instead of being genuine, such cases are mostly characterized as the political persecution of ex-officials for joining the opposition. The expectations of major prosecutions against those in the Akayev regime were disappointed. One prominent case where no conclusive prosecution has been carried out is the case of a police shooting during a public protest, where six people were killed, in March 2002. At that time, Kurmanbek Bakiyev was the prime minister, and reportedly, a thorough investigation would potentially find him responsible for the event as well. Less dramatic political corruption is widespread. Kyrgyzstan's rating in the Corruption Perception Index of Transparency International has slipped below 2.0 in 2008, a lower score when compared to previous years.

Prosecution of
office abuse

The protection of citizens' rights is guaranteed in principle and generally protected in practice, especially to the extent that the protections do not involve political rights. Non-discrimination with regard to gender, ethnic or religious identity is generally observed. However, due to corruption, low perceptions of efficacy and a culture of leniency as well as a weakness of state capacity, violations take place. A noted and frequent violation has been the kidnapping of young women into forced marriage. While awareness has been raised in various studies and campaigns in recent years, this problem, defined as crime by law, has persisted mostly in rural areas. Guarantees of due process and equality before the law are violated mostly because of corruption or for political reasons.

Civil rights

4 | Stability of Democratic Institutions

The unstable yet promising first few years of the Bakiyev administration yielded to more stable but undemocratic developments in late 2007 and 2008. After a surprise constitutional revision and the consequent holding of early and severely flawed parliamentary elections, power has been concentrated again in the office of the president. The fact that 79% of parliamentary seats are held by the president's party

Performance of
democratic
institutions

has rendered the parliament a redundant rubberstamp. The president has exercised his power to sack and re-appoint many of the ministers within a year of their appointment, continuing the atmosphere of “revolving doors” that permeated the Akayev regime. Still, all the institutions of a democratic government as provided by the constitution have performed their prescribed functions in principle.

Kyrgyzstan is a democratic state as defined by its constitution, and a formal commitment to democracy is reiterated in political rhetoric. However, a genuine commitment to democratic institutions and procedures has been weak across the board, as the endless attempts to exercise veto power by numerous groups, except the military, after March 2005 attest. Within the last year, President Bakiyev as the singular most powerful actor did not hesitate to compromise democracy for the sake of strengthening his position. The rhetoric of “putting economy first, and politics aside” has meant the derailment of democratic rule.

Commitment to democratic institutions

5 | Political and Social Integration

Numerous political parties have been registered in Kyrgyzstan, totaling more than 100 at its peak. Before the early parliamentary elections in 2007, a number of smaller parties united to create larger ones, especially in the case of the president’s Ak Jol People’s Party. The viability of such a grand union is questionable, and intraparty disagreements within Ak Jol – possibly indicative of intraregime competition – were observed on several occasions. Overall, the party system has been highly unstable and not rooted in society while not highly polarized, either. While a few medium-sized, more stable parties have formed, the general pattern has been personality-centered parties with shallow ideological underpinnings, promising a repetitive list of ideas to a volatile and apathetic electorate.

Party system

The development of networks of interest groups with the potential to effectively represent various social interests has been largely unsuccessful. The most effective groups have been among business associations, civic groups and human rights groups. One successful example among isolated cases of more traditional interest groups was a group of citizens who owned cars with the steering wheel located on the right-side (cars imported mostly from Japan) who were victorious in their forceful opposition to banning such vehicles from Kyrgyzstan’s roads. Most non-political concerns, however, such as the environment, health care, education and poverty have not been represented by effective interest groups.

Interest groups

While abstract, free-standing consent to democratic norms among citizens is generally high, actual commitment and preference for these norms has been moderate and gradually eroding. In the aftermath of the turbulent protests of 2005 and 2006, public support for greater “strong-hand” authoritarianism has grown, while the meaning of democracy has become equivalent to anarchic street politics.

Consent to democratic norms

While more recent surveys are not available for the reported period, a 2006 nationwide survey by the Institute for Public Policy has found only some 45% of respondents endorsing the democratic distribution of powers in the political system. Some earlier surveys reported similar results.

The nature of associational life in Kyrgyzstan is of two kinds: traditional kinship-centered associations and the more recent civic non-governmental associations. Traditional association has often been cited as one of the major centers for citizens in coping with poverty and other difficulties of the post-Soviet era. However, such social capital is uneven and tends to be small; and with the gradual transformation of society toward a more market-focused bent, such ties have tended to erode. Modern civic associations have played a significant, but similarly uneven, role in the country. Many of them have been heavily dependent on grant funds from international donor organizations. Some more exemplary civic organizations have worked more as advocates or leaders for communities, rather than as inclusive associations of those communities. The unevenness in both kinds of associational life is due to significant social atomization and a lack of trust.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Following a severe drop in most socioeconomic indicators following the country's independence, Kyrgyzstan has experienced a slow recovery. The people hit hardest by the economic decline of the 1990s, the rural populations in the provinces, have adjusted to some extent to the new conditions by learning to rely on themselves, developing household subsistence economies and in many cases sending family members to Russia, Kazakhstan or Bishkek to send remittances home. In the UNDP's 2008 Human Development Index, Kyrgyzstan was placed 122nd out of 178 among countries with medium human development. In two other indices of the UNDP data, GEM and GDI, which focus on gender equality in business opportunity and quality of life, Kyrgyzstan's standing is very favorable. The measure of income inequality is very mild, with a Gini coefficient of 30.3, which is slightly better than that of the Netherlands and slightly worse than that of Belarus, for example.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	2211.5	2459.9	2833.3	3744.6
Growth of GDP	%	7.0	-0.2	3.1	8.2
Inflation (CPI)	%	4.1	4.4	5.6	10.2
Unemployment	%	8.5	8.1	8.3	8.2
Foreign direct investment	% of GDP	7.9	1.7	6.4	5.6
Export growth	%	12.8	-6.8	-1.4	25.3
Import growth	%	16.3	12.7	36.5	30.6
Current account balance	\$ mn.	28.9	-35.4	-282.1	-228.3
Public debt	\$ mn.	1742.4	1664.8	1824.7	1895.5
External debt	\$ mn.	2111.1	2027.3	2346.3	2401.1
Total debt service	% of GNI	7.6	5.4	3.5	5.1
Cash surplus or deficit	% of GDP	-	-	-0.7	-1.5
Tax Revenue	% of GDP	-	-	14.2	16.6
Government consumption	% of GDP	18.2	18.7	18.0	17.8
Public expnd. on edu.	% of GDP	4.6	4.9	5.6	5.3
Public expnd. on health	% of GDP	2.3	2.4	2.8	-
R&D expenditure	% of GDP	0.2	0.2	0.2	0.3
Military expenditure	% of GDP	2.8	3.1	3.2	3.1

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Free market competition is the country's main economic philosophy, in principle and mostly in practice. A recent introduction of a low, flat 10% profit tax was greeted with enthusiasm, and business reforms, especially aimed at curbing the interference of controlling agencies and simplifying the process of business registration, have been under way and yielding moderate positive results. Programs of sweeping capital legalization and amnesties for the declaration of previously undeclared property have been introduced. The main problem that hinders healthy

Market-based
competition

market competition is corruption in its many forms. The size of the informal economy has been estimated at some 50% of GDP, and its reduction has been only modest. Another recent disappointment was a long-anticipated new tax code, which, among other problems, introduced higher registration and patent fees on small businesses.

With a generally small economy and the recent introduction of a market system, the level of controls on monopolies has been relatively effective. Every year, the state anti-monopoly agency reviews and publishes a list of natural or allowed monopolies, such as companies in transportation, national infrastructure and major industrial producers, that have come to dominate specific spheres of the economy. Such monopolies are regulated by price-setting and/or obligatory guarantees of coverage for certain groups of consumers. Several sectors with state monopolies, such as electricity, gas and telecommunications, have been put forward for privatization, which has yet to be enacted. A still wider range of monopolistic and often inefficient services, either fully or partially state-run, remain in the hands of regional units, where monopoly controls are similar to national controls. The major problem in these and other state monopolies has been general inefficiency and mismanagement, rather than monopolistic pricing issues.

Anti-monopoly
policy

Kyrgyzstan's foreign trade policy remains very liberal. With its membership in the WTO since 1998 (it is still the only member country from Central Asia) Kyrgyzstan has maintained an open trade policy with low or internationally prescribed tariffs, and enacts only occasional import controls on quality grounds, such as the recent case with grain imports from China on suspicion of chemical contamination. In the Heritage Foundation's indices of economic freedom over the past two years, Kyrgyzstan was rated among the freest or as the most free of the former Soviet republics, excluding the Baltic States. A latent indication of liberal trade policy has been the country's serious trade balance deficit, with the ratio of imports to exports at about 2.5-to-1 in 2008, in an economy where the total volume of trade is 114% of GDP, according to World Bank 2007 data.

Liberalization of
foreign trade

Kyrgyzstan's banking system has seen significant growth in recent years, with increased overall lending, the development of mortgage portfolios and the establishment of links to external financial sources, either through foreign capital participation, acquisitions by foreign banks or foreign banks entering the Kyrgyz market. However, lending risks remain high, and correspondingly real and lending interest rates are also high. Supervision by the National Bank has been steadily improving and minimum capital requirements are enforced. The capital market remains small and undeveloped, although vibrant trading in primary and secondary stocks is conducted regularly. Another relatively successful area has been in microcredit lending, with Kyrgyzstan often cited as an example of success in this area compared to other countries in the region.

Banking system

8 | Currency and Price Stability

Kyrgyzstan's currency and pricing policy has been dictated by stability objectives on a macro level, as advised by international lending institutions. A free-floating exchange rate has been in place, and rates have been stable. The rate of inflation was high in past few years in connection with external economic fluctuations, especially with the price of grain, and reached 20% in 2008, according to the National Statistical Committee. Generally, the small size and strong dependence of the Kyrgyz economy on external markets, especially those of Russia and Kazakhstan, make it vulnerable to inflationary fluctuations in those countries. The National Bank has been relatively free in determining and maintaining monetary policy.

Anti-inflation /
forex policy

The high level of external debt, over 80% of GDP, remains a potential future risk against the background of high inflation rates. Early in 2007, the government decided against collaborating with the HIPC debt relief initiative because of popular protests. The country's relatively liberal fiscal policy, with its recently lowered tax rates, also opened Kyrgyzstan's macroeconomic stability to the risk of lower revenue. Another concern is the tendency of the government to embrace populist policies, such as salary increases, subsidies and tax breaks. The possible event of a drastic drop in the volume of remittances sent home by labor migrants, which is estimated to correspond to a quarter or more of national GDP, is also a potential concern. However, in the reported period, stability has been maintained through increased government revenue through taxes, mainly by reducing the effects of the informal economy and solidifying other revenue-gathering efforts, as well as to positive trends in the global price of gold, which is a significant component of the Kyrgyz GDP.

Macrostability

9 | Private Property

Protection of property rights was weakened following the 2005 regime change, with instances of looting and ownership disputes over several major companies. In 2007-2008 this situation improved; however, under economic and populist pressures, talk of nationalizing certain strategic enterprises, including the Kumtor Gold Company and several recently privatized manufacturing companies, has cropped up. Violation of international copyright laws is widespread. On the other hand, in the last few years, the government has declared sweeping amnesties for citizens who declare previously undeclared property, in an effort to reduce the effects of the informal economy. Constitutional and other legal provisions for the protection of property rights, including land holdings for citizens, are in place.

Property rights

Kyrgyzstan has enacted a sweeping privatization process since the mid-1990s. Today, major economic sectors under national ownership are in energy, electricity and telecommunications, yet these too were recently put forward for privatization. Privatization procedures have been not uniform, and have often been affected by corruption and insider deals. Yet the process of opening and running a private enterprise has improved, with a reported average of 15 days required to start a business, according to a Heritage Foundation/Wall Street Journal report. Private enterprises comprise over 75% of the country's GDP, and general economic thinking has recognized the primacy of the private sector. However, changing regulations, irregular and often illegal raids of private enterprises by controlling agencies and frequent fluctuations in tax laws have hampered the healthy functioning of enterprises. Recent government efforts have specifically targeted burdens of taxes and controls; however, positive results have been few.

Private enterprise

10 | Welfare Regime

In a jealously defended clause of the constitution, Kyrgyzstan is defined as a socially oriented state with mandatory welfare state provisions for the vulnerable in society. There is a range of social safety nets provided to various target groups, such as maternity leave, elderly care and veteran benefits. The Bakiyev administration reintroduced a school lunch program for primary school children. However, all of these provisions are token and unable to realistically meet the greater needs of the country. A reduction in poverty levels has been slowly advancing with the support of external financial donors, yet on its own the government is unable to sustain programs to reduce poverty.

Social safety nets

Equal opportunity in accessing various social services and to professional advancement is generally guaranteed all citizens. Gender equality is rated high in recent relevant World Bank development indicators; ethnic and religious groups are also generally guaranteed equality. There is still a degree of discrimination, such as at the highest levels of public service, where women or ethnic and religious minorities have fewer chances of advancement. Equal access to education is generally guaranteed, but can be hampered by corruption.

Equal opportunity

11 | Economic Performance

GDP growth in 2005, as a result of the country's political crisis, fell below 0%, yet in the following years grew on average by approximately 6% to 8% annually. However, high inflation rates have jeopardized growth effects and threatened macro-stability. The Strong output was observed in the construction sector in 2007, but due to a banking and financial crisis in Kazakhstan, the main source of construction investment, 2008 saw a notable drop. In 2007 and 2008, GDP per

Output strength

capita grew by about 9%; however, consumer price indices grew by about 20% and in 2008, the minimal consumption budget grew by 27.7%, according to National Statistical Committee data. At the end of 2008, the IMF agreed to provide a \$100 million loan to the government to cope with the exogenous economic shocks, from the rise in imported goods' prices and the general effects of the global financial crisis. Thus, while total GDP and per capita GDP growth have been reasonably high, economic crises and high inflation rates have rendered Kyrgyzstan's overall economic performance volatile.

12 | Sustainability

Environmental awareness and concerns for long-term environmental sustainability have not been adopted as priorities for the country. The level of water in the Toktogul reservoir, the major source of irrigation water and hydroelectric power in Central Asia, has dropped to critical lows following a series of dry seasons and in general unsustainable management. The buildup of industrial and radioactive waste is a looming threat, but the government is not able to cope with this challenge without external support. The Ministry of Agriculture and Farming reported recently that the growth of sheep and livestock has risen to the levels seen during Soviet times, which is a serious burden on the sustainability of grazing lands and the preservation of wilderness in the mountains. Thus, economic growth has placed ecological issues as a secondary concern in practice, even though in principle environmental hazards are taken into account during economic planning. These challenges are coupled with the even larger concerns of global warming, an increasingly drier climate and melting glaciers.

Environmental
policy

Public expenditure on education has remained between 3% and 4% of GDP, close to 20% of the government's budget, while public expenditure on research and development is less than 1% of GDP. Underfunding, especially in research and development, which is still not fully a priority area, is the most serious problem. While school enrollment, especially primary school enrollment, is at fairly high level according to various reports, the country's economic difficulties have strained investment by the state and by families on education and R&D. However, private, independent institutions are generally free in their operations; with the exception of irregular impediments such as corruption or an inflexible bureaucracy, private institutions have been growing.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

There are a range of complicating factors of a structural character for improving governance and the economy in Kyrgyzstan. This country is land-locked and mountainous, with a geopolitical neighborhood best described as difficult. Kyrgyzstan was already one of the poorest countries in the former Soviet Union, and economically continues to be one of the most challenged. Its natural climate, with frequent dry seasons, floods and earthquakes, can severely constrain the capacity of the government, adding unexpected strains on the economy and the country's infrastructure. In recent years, a major road to connect the north and south of the country has been completed; however, in general Kyrgyzstan's road network is undeveloped and its railway system is extremely limited. One potential constraint is the possible return of Kyrgyz labor migrants en masse from Russia and Kazakhstan, a number currently estimated at more than one-tenth of the population, following economic contractions and more stringent controls in those countries. Such an event would explode the country's already high unemployment rate. Kyrgyzstan has a relatively well-educated citizenry, a near-universal literacy rate and relatively acceptable resources for health care.

Structural
constraints

Older societal traditions are deep-rooted and have their basis in kinship structures, while newer, civic associations are still not deeply rooted. The older traditions, while critical in coping with local problems such as poverty and mental health, are limited, often parochial and can be exclusive. The newer civic relations have been relatively successful in mobilizing public accountability mechanisms, garnering political participation, furthering gender and interethnic equality and tolerance and helping in conflict prevention and resolution. However, successes are limited, highly uneven and generally dependent on external funding. General sociopolitical participation levels fluctuate widely, from extreme apathy and atomism to excessive participation as seen during the political turmoil of 2005 and 2006. Levels of social trust, and especially trust in public institutions, are low, making any reform that requires public participation difficult.

Civil society
traditions

Since mid-2007, the high degree of political conflict has lessened; however, as of the end of 2008, political opposition has started to unite and mobilize on a wave of public distress over the current economic difficulties. The government, for its part,

Conflict intensity

has intensified its aggressive suppression of opposition and criticism. This situation poses the possibility for a re-emergence of more contentious political activity. Ethnic conflict on large scale is not considered a high possibility, although interethnic tensions exist, especially in the southern regions, where Kyrgyz and Uzbeks live in dense neighborhoods. Religious radicalism, which has developed mostly underground, is a potential source of violent conflict; however, the possibility of such conflict has been overstated. The more serious and socially embedded problem is the north-south divide among the Kyrgyz. Yet rather than grounds for violent conflict, this divide can be seen a long-term barrier to social cohesion.

II. Management Performance

14 | Steering Capability

The government of Kyrgyzstan has more or less consistently reiterated its development priorities for short- and long-term planning, among them: fighting corruption, maintaining a stable economic growth rate, providing for socially oriented, equitable economic development and improving the quality of life. While equitable, socially responsible economic development has been a cornerstone of government planning, less pronounced are political development goals, or what is revealed is potentially undemocratic. Thus, in the latest national address from President Kurmanbek Bakiyev, the national goals of development seemed to overshadow the principles of individual rights and liberty. Constitutional development, while heeded pro forma, has been sacrificed to expediency and contradicted in pursuit of the consolidation of power. While strategic development objectives have been consistently reiterated in socioeconomic development plans, their realization and progress has not been consistently checked, and what is emphasized tends to fluctuate with the expediency of the moment. The new tax code, in discussions for several years and touted to enact serious positive change, has been found on many levels inadequate just after its adoption, and amendments are now being introduced.

Prioritization

With the recent consolidation of power in the office of the president, the government's ability to implement reforms has improved. In 2005-2006, the lack of political cohesion and instability in the distribution of power was severely detrimental to the executive's ability to forge reforms, more so than the similarly confrontational years in the early 1990s. Having gained a cooperative parliament in

Implementation

addition to a weakened and often side-tracked opposition, which tended to be purely confrontational and not constructive, the government's position has strengthened. However, the power balance has tilted to the opposite extreme. Lacking constructive criticism or input or even ignoring when advice is given, the president can force through reforms without due discussion or assessment. Democratic reforms in particular suffer the most from such power politics, as witnessed in the adoption of the new constitution and election of a new parliament. In implementing economic or administrative reforms, a further important problem is a lack of accountability mechanisms, in addition to general bureaucratic incompetence and corruption. The rate of successful economic reforms has not been impressive; however, such assessment may not be conclusive, as the current government has only been in power for the last year and a half.

In January 2009, President Kurmanbek Bakiyev addressed the nation with a brief outline of what he referred to as the presidential course of reforms. In his speech, he stressed innovation, the need to attract young and innovative new leaders and to reform the administrative system of the country, guided by an "ideology of reasonable balance," as the cornerstones of a new reform push. Just prior to that, he had sacked a number of key figures in the cabinet and in his own administration, appointing new and younger figures to replace some, but not all, of them. Whether these actions are genuine moves toward innovation are to be seen; previous experience speaks to the contrary. In this and in previous similar new beginnings, Bakiyev has rarely admitted to having erred or being misdirected; in addition, several such actions were soon reversed in further routine or political bargains. Still, the persistent interest in education and innovation, the introduction of new leaders, and in formulating innovative development strategies are to be noted, while discounting actual implementation.

Policy learning

15 | Resource Efficiency

Overall, the government's use of available resources may be rated as moderately efficient but not uniform. Kyrgyzstan's budget deficit for government operations has remained at a manageable level in recent years; authorized expenses for government personnel are not high; and auditing is conducted regularly by the accounting chamber, which is not lenient toward unauthorized or unexplained expenditures. However, the level of external debt is high, and debt-servicing expenditures are expected to grow within the next 2-3 years. The size of the informal economy has been a major challenge, but the Bakiyev administration has made it a priority to lessen its effects by proposing amnesties and legalization campaigns. Human resources is a problem area, as many Soviet-era bureaucrats are rotated between various posts, while the introduction of new cadres has been slow, except in recent developments. Much of the effects of public policy have been

Efficient use of assets

concentrated in the capital Bishkek, while recent decentralization reforms, with the impetus of giving greater fiscal independence to local self-government, has yet to prove efficient. Lastly, the economic hardships of post-Soviet years has pushed thousands of teachers, doctors and other professionals with a higher education into pursuing employment in the bazaars (commerce), in freelance labor, or, more recently, in migrating to Russia, where schools and hospitals lack an educated workforce. This situation largely persists to date.

Much of the problem in the implementation of reform policies is an issue of coordination. Despite reform efforts, government bureaucracy remains inefficient, plagued by conflicts of interest, corruption, the duplication of duties and ineffective communication across agencies. Even with power centralized with the presidency, and policy formation and execution under the control of the president's administration, the chain of responsibility is often unclear. However, the situation has improved over previous years, when there were serious problems of coordination and communication across the legislative, the executive, the cabinet and the administration; and between the center of the country and its regions. The president has now gained ultimate commanding authority. Bakiyev's most recent speech set achieving a more efficient and functional state apparatus as a priority; the success of which will have to be seen.

Policy
coordination

Kyrgyzstan is among the most corrupt countries in international ratings, and the fight against this problem has been recognized as a major priority. Some of the formal mechanisms of accountability, such as public spending audits, open and competitive hiring practices, an annual income declaration by state employees and the transparency of tenders for public works are all conducted with various degrees of thoroughness and genuineness. However, deeply rooted corruption has evaded such measures, and the trend of the last few years has been an increase rather than a reduction in corruption. Occasional revealed or alleged cases of corruption have been limited to low-level provincial functionaries; no high-level official has been prosecuted or convicted on corruption charges.

Anti-corruption
policy

16 | Consensus-Building

At an abstract level, a broad consensus exists among all political actors on building a constitutional democracy. However, in practice and in the details, there is little effective consensus, with the dominant presidential circle interpreting and implementing this goal to its own preferences, and often subordinating democracy to economic or other strategic concerns when needed. Opposition forces, whose platforms are mainly based on democratic slogans, have often revealed an only superficial adherence to genuine democratic practices. Thus, the commitment to democracy is shallow, and consensus over this commitment is only in principle and overall abstract. A much greater consensus, although not in full, exists over

Consensus on goals

responsible market reforms. The whole of society, with both government supporters and the opposition, agrees on the need for equitable, socially oriented and yet urgent economic growth for the country. The need to attract foreign investment, focus on the service sector and maintain macroeconomic stability is not disputed. There are disagreements on details, such as the country's reliance on mining, the feasibility of large hydroelectric projects and on international borrowing and debt management.

There are no overt veto players in Kyrgyz politics who are opposed to democracy. As in the past, the greatest danger to Kyrgyz democracy comes from those in power who have gained their positions formally or through democratic procedures. Thus, President Kurmanbek Bakiyev and his team, in exact proportion to his consolidation of power vis-à-vis the opposition, have exerted undemocratic, repressive power on the people. The cumulative effect of a contentious opposition since 2005 has, albeit unintentionally, contributed to the further weakening of the appeal of democracy. In their actions, the opposition itself has shown a readiness to ignore constitutional procedures or the rule of law, permanently seeking the replacement of the president or presenting ultimatums, resenting compromise or any constructive dialogue, all in the name of democracy.

Anti-democratic
veto actors

The most potent, broad-based cleavage has been the north-south division between the Kyrgyz titular majority. Other instances of political conflict have used this division in the pursuit of public mobilization, as was the case with opposition activity led by former Prime Minister Felix Kulov in the spring of 2007. In reaction, President Bakiyev, a southerner, extended one of his most reconciliatory gestures by appointing another member of the opposition, Almazbek Atambayev, as prime minister and allowing him to form a cabinet. Yet toward the start of 2008, the Bakiyev administration adopted an approach of persecution or pressure against the opposition, rather than reconciliation. The government has consistently sought to defuse the national north-south cleavage by the equitable representation of each region in power positions and by openly condemning such divisions, among other gestures. It is important to note that President Bakiyev enjoys strong political support from the southern part of the country, precisely because of this underlying division. This deep-seated apprehension is likely to remain, even if below the surface, as long as economic hardships persist.

Cleavage /
conflict
management

The opportunity for participation in political and social decision-making has been granted to civic actors formally on many occasions. These actors or groups include several constitutional reform councils, the president's investment council, the ministry foreign policy advisory council, the newly established public chamber before the president and various policy discussion roundtables, among others. How much the actual input of civic actors affects the ultimate decisions of government, however, is generally unclear, yet it is believed that their influence is mostly limited. On the one hand, such councils are not granted effective binding authority;

Civil society
participation

on the other hand, councils are often designed so as to make productive discussion impossible. Additionally, the level of competence among civic leaders in contributing effective or reasonable policy advice is not high either.

The public perception of injustice with regard to both the Soviet past and the recent Akayev regime is muted, isolated or non-existent. Some particular episodes are recognized and moral justice is sought, as with the Stalinist purges and the still earlier Czarist national purges. The general attitude to the period of Soviet rule includes widespread positive feelings. The injustices of the Akayev regime, including the 2002 Aksy shootings and several other episodes, have not been conclusively reconciled nor do they stand as a high priority on the public agenda. Isolated cases, however, such as the rehabilitation of Felix Kulov, have been addressed. As the Bakiyev regime revealed its true nature, both its initial incapacity and its more recent repressiveness, many started to regard the previous regime with greater approval. Moreover, most of the political elite today are the same people that served under former President Askar Akayev.

Reconciliation

17 | International Cooperation

Kyrgyzstan's methods of cooperation with international and foreign donors were mostly set by the Akayev administration, and have continued unchanged under the new regime. The country's economy is highly dependent on various kinds of international assistance, and such assistance has been often used without a long-term view but rather to address short-term needs. Cooperation with the IMF over macroeconomic issues has been cited as relatively successful, and with the World Bank in reducing poverty as more moderately successful. Following opposition from the public, the government was not able to consider joining the HIPC initiative, which might have assisted the country in managing its external debt as well as in promoting wide-ranging reforms. Kyrgyzstan hosts two foreign military bases, one led by the United States and one by Russia. While the Russian base is hosted as an act of partnership and political appeasement, the U.S. base has turned into a tool in political leverage, and the government is seeking more rent to secure its future. The fate of the U.S. military base, resented by Russia from its founding, was on the table at the end of the reporting period. The capacity to channel available international support into long-term beneficial projects and reforms is uneven, although slowly developing.

Effective use of support

Kyrgyzstan's credibility as an international partner has suffered from the effects of corruption, policy inconsistency and recent political instability. But the country has enjoyed early trust by international donor agencies as it was seen as an open, liberalizing market, and on these grounds has received support for its major economic reforms. Foreign direct investment, as well as other international private investment, has been less forthcoming. One of recent goals of the government has

Credibility

been to improve the country's credit rating and its attractiveness for investors. Regulation, tax policies, infrastructure and transparency are some of the areas where improvement has been sought. The most recent Heritage Foundation ratings over economic and trade freedoms put Kyrgyzstan slightly or considerably higher than the world average, except in two highly important criteria: corruption and property rights.

As a small country with a struggling economy that is situated in a complicated geopolitical arena, Kyrgyzstan has had many reasons to seek strong international cooperation and friendly relations with other countries. Under Bakiyev's government just as under Akayev's government, the country has been one of the most enthusiastic participants of CIS multilateral cooperation schemes. It is also a member of the Shanghai Cooperation Organization (SCO), with Russia and China leading, and the country proudly hosted a summit of the SCO in August 2007. However, Kyrgyzstan faces a number of pressing concerns. The country's most difficult relations are with its neighbor, Uzbekistan. There are also issues with irrigation water sourced from Kyrgyzstan, gas supply concerns from Uzbekistan, the existence of Uzbek enclaves within Kyrgyzstan, as well as the un-delimited border between the two countries. These strained relations were vividly demonstrated when a Russian promise of major investment toward Kyrgyz hydroelectric projects became a bone of contention between it and Uzbekistan, the latter wanting to forestall such a project. With Kazakhstan, China and Tajikistan, as well as with Russia, Kyrgyzstan maintains mostly friendly relations and remains a major trading partner. While relations with the West, and especially the United States, are somewhat dictated by Kyrgyzstan's relations with Russia, its cooperation either directly or within international organizations with the West is active and involves mostly development aid. Kyrgyzstan has recently been reluctant to cooperate with democracy-promoting actions, expressing more interest in economic assistance and development.

Regional
cooperation

Strategic Outlook

In 2005, after a popular change of government and the relatively democratic election of a president with broad support, the opportunities for genuine political transformation in Kyrgyzstan toward greater democratic participation looked promising. Following an initial difficult period, the economic situation, jumpstarted by a construction boom and then supported by an expanding service sector, seemed to be on a positive trend. After three years of ups and downs, the positive trends are at the start of 2009 in jeopardy, the country's democratic transformation especially so.

The near-term prospects for the economy are gloomy. An international crisis means less available financial backing for Kyrgyz banks, reducing their lending capacity. The country's energy market faces worsening forecasts for hydroelectric output and considerably more expensive gas from Uzbekistan. The average citizen's income today is far outpaced by inflation. The country's migrant worker population, which mainly resides in Russia and whose total annual remittances were more than one-fifth of the country's GDP, might have to return home en masse due to a worsening of the economy abroad. All of these issues, in light of a worldwide economic crisis, show that Kyrgyzstan will require serious economic genius and a much more stable political environment to work through this period of hardship.

As the economic fortunes of the country contract, both the government and the opposition seem to be poised for greater antagonism in the political sphere, based on their record in recent months. However, neither is likely to gain from these actions, and the general welfare of the population can only worsen under such aggravation. Both a politically more profitable and economically wiser approach would be for the two sides to seek a constructive agreement on terms of cooperation and competition. President Kurmanbek Bakiyev declared as a policy priority to attract an innovative new generation of leaders, and appointed one of the former opposition leaders, a young businessman named Omurbek Babanov, as the first vice prime minister. From this beginning, it is a realistic next step to invite the opposition to discuss compromise and constructive competition. For the opposition, whose chances of success through a strategy of antagonism and ultimatums are slim, it would be equally realistic and rational to accept such an invitation. Such a framework would ease some tension in an already tense society, allow for a more workable and business-friendly environment, bode well for the formulation of more broadly supported policies and raise Kyrgyzstan's credibility as a stable and liberal economy to the outside world.

The international community can help in promoting such a scenario, although its leverage is limited. The donor and lending community must provide its support on the basis of the government's genuine demonstration of democratic policies and through the creation of an environment of compromise and healthy political competition. Groups that promote democracy need to stress the importance of pursuing constructive criticism and dialogue within the norms of

constitutionalism and the rule of law, in cooperation with the opposition and leading civic actors, in addition to demanding corresponding policies from the government. Any beginnings by either side toward such cooperative playing field must be noted and encouraged.