

BTI 2014 | Kyrgyzstan Country Report

Status Index	1-10	5.61	# 66 of 129	
Political Transformation	1-10	5.80	# 64 of 129	➔
Economic Transformation	1-10	5.43	# 70 of 129	➔
Management Index	1-10	4.67	# 74 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	5.6	HDI	0.622	GDP p.c.	\$	2409.4
Pop. growth ¹	% p.a.	1.2	HDI rank of 187	125	Gini Index		33.4
Life expectancy	years	69.6	UN Education Index	0.721	Poverty ³	%	21.6
Urban population	%	35.5	Gender inequality ²	0.357	Aid per capita	\$	38.9

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Since gaining independence in 1991, Kyrgyzstan has seen the rise of a diverse civil society, opposition political parties, and independent media – institutions that its neighboring states still largely lack. Over the past decade, however, the country has weathered the return of authoritarianism and two violent regime changes, one in March 2005 and another in April 2010, spurred by widespread public discontent with corrupt and repressive rule and organized by elites fighting over political power and economic resources. The bloody clashes in central Bishkek between protestors and police that accompanied the 2010 regime change left 86 protestors dead and roughly 1,000 injured. The interim government that came to power following the ouster of President Kurmanbek Bakiyev approached the task of managing drastic constitutional change with the understanding that Kyrgyz political actors were driven by nepotistic and clientelist links. Therefore, they promulgated a new constitution designed to prevent a single political network from capturing too much power. The new constitution replaced the strongly presidential system with a more parliamentary one. There are five more or less equitably represented political parties in the current parliament, and the ruling coalitions – three so far – have needed at least three of them to form a majority in the 120-member assembly.

Although the new constitution was greeted with skepticism, it has mostly withstood attempts by the president, prime minister and other political forces to dominate the political arena. Although this parliamentary experiment has not immediately led to effective policies or reduced corruption, it has produced an environment of political behavior that avoids the concentration of power in the hands of one political leader or patrimonial network. The floor of the parliament has replaced the back channel as the primary arena for debating economic and political issues.

Kyrgyzstan is also the only Central Asian state so far that has transferred presidential power through competitive elections at least once. In 2011, Almazbek Atambayev defeated 15 other candidates for the presidency, winning 63% of the vote with 60% turnout. International observers reported that the candidate registration process was inclusive and that the campaign was open and

respected fundamental freedoms. His opponents, however, complained that he benefited from his position as the prime minister in the run-up to the elections. Furthermore, according to the pre-election monitoring report by the independent Internews organization, Atambayev's campaign spent as much money as all the other candidates combined, and his name led both in the number of overall mentions and the number of positive mentions in the press. It remains to be seen whether the current system of governance is preventing or merely delaying the reemergence of a one-party system.

A cloud still hangs over Kyrgyz politics as the potential for instability remains a live concern. While some groups have leaned toward moderate politics, others – especially the extra-parliamentary opposition – have followed more activist impulses. During the first two years under the new constitution, parliament had three different ruling coalitions. Two of these coalitions collapsed – in December 2010 and August 2012 – because of disagreements over key government posts. Longstanding and complex issues, such as restoring interethnic equality and human rights, putting the economy on a stable growth track, improving the administration of justice and the rule of law, and making a noticeable dent in corruption, remain for Kyrgyzstan's government to tackle.

History and Characteristics of Transformation

Economically, Kyrgyzstan is one of the poorest countries in the former Soviet space. It lacks the energy wealth enjoyed by its neighbors. But its political development over the past two decades has led to greater democratization and a vibrant civil society. The basis for political competition and civil society was laid in the early 1990s. Kyrgyzstan's first president, Askar Akayev, allowed nongovernmental groups and independent mass media to function without political interference. He also introduced a loosely regulated market economy that produced a group of powerful entrepreneurs who later developed into strong political groups.

However, the political and economic openings of the 1990s were largely squandered in the 2000s. Akayev abandoned his professed desire to grow democracy in Kyrgyzstan, gradually orchestrated a much more dominant presidential system, and ran for a third term as president despite a two-term constitutional limit. After winning a controversial third-term mandate, Akayev's popularity plunged, and he was forced from office in the March 2005 Tulip Revolution by opposition forces alleging fraud in parliamentary elections and large-scale corruption. Opposition leader Kurmanbek Bakiyev was sworn in as president. But Bakiyev quickly became infamous for even greater levels of corruption, authoritarianism, and ineffective economic policies. In 2007, Bakiyev forced the adoption of a new constitution that enabled the president to appoint the government and judges and to secure a large majority for his few-months-old Ak Zhol party in the parliament. Bakiyev also replaced the heads of all security structures and installed family members and close friends in key posts. A series of violent attacks against critical journalists and the assassination of regime opponents silenced civil society activists.

Bakiyev fled Bishkek – and later Kyrgyzstan – after crowds gathered in central Bishkek on 7 April 2010. Mass protests broke out after Bakiyev arrested several opposition leaders. Police loyal to Bakiyev tried to forcibly disperse the crowd, injuring hundreds. The temporary power vacuum that followed the April 2010 regime change led to a series of violent incidents in both the north and south of Kyrgyzstan that were fueled by ethnic, economic and political disparities. The situation spiraled out of control between June 11 and 13, when a scuffle among some youth in Osh escalated into the bloodiest ethnic violence since Kyrgyzstan's independence. The violence ended with over 450 deaths and forced more than 400,000 ethnic Uzbeks to flee their homes, with over 100,000 crossing into Uzbekistan for temporary refuge. Most ethnic Uzbek communities and Uzbek-owned businesses in the Osh area were looted and burned.

Tensions between ethnic Kyrgyz and Uzbeks existed throughout the Soviet and early post-Soviet periods. Yet, they were effectively tamed through carefully balanced political representation of both groups in the Soviet and Akayev eras. When major interethnic violence broke out in Osh, in 1990, it was quickly quelled by Soviet troops. Hundreds of people were killed and thousands injured. The exact figure of casualties remains unknown. But President Bakiyev largely ignored Uzbek grievances, and the post-April political instability allowed long-simmering ethnic tensions to erupt.

The post-2010 government has faced multiple challenges, among which the mending of ethnic problems has proven particularly difficult and politically risky. Timid and slow efforts by the government have failed to generate an inclusive order, and often allowed development in the opposite direction.

By the end of 2012, other major challenges included cementing the new constitutional order. The government was maintaining economic stability and achieving positive growth amid a budget shortfall and a shaky investment climate due to political instability, and it was steering a viable foreign policy vis-à-vis all major partners in view of the implications of 2014 planned Western withdrawal from Afghanistan.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Two years after the regime change in April 2010, Kyrgyzstan's national government has been able to reestablish full control over the territory and reclaim monopoly over the use of violence. There is no open neglect or failure to submit to the national government among the police, even if corruption and low-level disobedience can occur. Army and other security institutions are equally under the centralized control of government agencies. Local authorities in parts of southern Kyrgyzstan enjoy informal control over the police, but this influence has been reduced since the presidential elections in 2011.

Kyrgyzstan's society is split along ethnic and linguistic identities. These cleavages correspond to regional and urban/rural divides in the country. Ethnic Uzbeks make up roughly 14% of the population and live predominantly in southern Kyrgyzstan. Virtually all Uzbek-language media outlets were shut down in the wake of ethnic violence in 2010. In 2012, only two – one radio station and one newspaper – were reopened. Both initiatives were implemented mostly thanks to international donor assistance. Kyrgyz is the state language, while Russian has the status of the official language. Some political groups, mostly in the national parliament or in opposition outside the parliament, often use both languages' legal status as an argument for banning or not supporting mass media and education in Uzbek, Tajik and other languages used by minority groups. So far, however, these calls for discrimination have not turned into actual policy.

Kyrgyzstan is a secular state and religious dogmas have no legal order or influence on the political process. That said, politicians, including President Almazbek Atambayev, regularly take part in commemorating major Muslim holidays. One member of parliament from the Ar-Namys (Dignity) Party, Tursunbek Bakir uluu, pushes a greater role for Islam in the political domain. Although he was able to ensure

Question
Score

Monopoly on the
use of force

7

State identity

8

No interference of
religious dogmas

10

that the parliament building has its own prayer room, his other ideas are not supported by other MPs.

Two political regime changes since 2005 have significantly decreased the efficiency of Kyrgyzstan's state institutions. Although taxes are collected throughout the country, Kyrgyzstan's shadow economy is vast. Furthermore, Soviet-inherited infrastructure continues to wear out, with more population left without roads, heating, running water, and access to education and healthcare. Some repair and construction works on roads, schools and hospitals is done, but fall far short of keeping the system up. According to World Bank data, labor migrants' remittances from Russia and Kazakhstan make up roughly a third of Kyrgyzstan's GDP, providing an informal social safety net for a large share of the population.

Basic
administration
5

2 | Political Participation

Kyrgyzstan has made considerable progress in holding competitive elections. Between 2010 and 2012, Kyrgyzstan held three elections (parliamentary, presidential, and local) and one constitutional referendum. International observers praised both presidential and parliamentary elections in 2011 and 2010, respectively. The Organization for Security and Cooperation in Europe (OSCE), however, noted problems with voter registration lists, while the work of the Central Elections Commission (CEC) sometimes lacked transparency. Yet, these shortcomings did not affect the overall outcome, according to election observers.

Free and fair
elections
6

In March and November 2012, Kyrgyzstan held local elections. While elections were competitive throughout the country, the Social Democratic Party of Kyrgyzstan (SDPK) and Respublika, non-ruling party by November 2012, led by a plurality in most areas. Yet, very few places saw a one-party majority, and most assemblies ended up needing coalitions. All interested parties had the opportunity to register and compete, and, in most cases, no party won a majority. But some parties complained that SDPK, especially, and Respublika engaged in voter fraud and had unfair advantages in media coverage.

Although the effective power to govern by democratically elected political representatives has been strengthened slightly, strong veto groups are still able to undermine fundamental elements of democratic procedure. Powerful business elites are able to influence policy decisions, both from within the government and from outside. Despite the lack of hard evidence, the influence of organized crime has been amply commented on by observers and researchers.

Effective power to
govern
5

The parliament enjoys strong leverage over policymaking and government appointments. Although often political and personal interests in the parliament and ministries overshadow formal procedures, there are signs that MPs are learning to

stage meaningful political debates around issues of national concern. President Atambayev, however, has shown inclination to assert more power – especially compared to his predecessor, Roza Otunbayeva – and to promote officials to key posts based on loyalty rather than merit. Thus, in 2012, he promoted loyal Jantoro Satybaldiev prime minister and Asilbek Jeenbekov parliamentary speaker.

Kyrgyzstan shows a more liberal political climate in the north and a less liberal one in the south. In the capital, Bishkek, civil society functions mostly free of political pressure. There are venues for cooperation between civil society organizations, MPs, and government officials. In 2012, NGOs boasted a number of achievements, such as an active role in designing police reform, investigating crimes committed by army and police personnel during Osh violence in 2010, and lobbying the legislature for stricter punishment for kidnapping of women into marriage. Yet, NGOs encounter greater challenges in southern parts of the country, especially in Osh and Jalalabad, where local government often deliberately hampers the activity of foreign-funded organizations. Freedom of assembly, however, is robust nationwide, and sometimes tends to overwhelm the government, as happened with public protests against mining projects across the country.

Association /
assembly rights

7

Similar to civil society, Kyrgyzstan's mass media outlets are more diverse and free of government control in Bishkek compared to provinces, especially in the south. Bishkek residents enjoy access to various print, TV and radio outlets. In 2012, the parliament and general prosecutor's office banned access to the Fergana.ru analytic and news Web site. Kyrgyz authorities also banned the video trailer "Innocence of Muslims" and the film "I am Gay and Muslim," claiming that both violated the feelings of the country's Muslim population. Aside from these restrictions, online content is largely free of government control. Access to mass media still remains more available to urban populations compared to rural areas. Following the shutdown of Uzbek-language mass media outlets in 2012, at least one radio station and several local newspapers in southern parts of the country have begun to publish their content in the Uzbek language.

Freedom of
expression

7

3 | Rule of Law

Despite earlier skepticism, the separation of powers between executive and legislative branches as defined in the new Constitution has survived for over two years. The parliament continues to be a force that counterbalances the president's politics. Partly, this is due to the fact that the legislative branch represents all the most powerful political and business elites in the country. The president has been able to boost his influence since the 2011 elections, but not to the extent of becoming free from parliamentary check. The judicial branch, however, continues to be dependent

Separation of
powers

6

on political forces. Both the president and parliament can influence politicized judges with possibly corrupt backgrounds to take favorable decisions.

Since 2010, Kyrgyzstan has launched ambitious judicial sector and law enforcement reforms. NGOs and experts with various backgrounds were invited by the government to participate in the process. The process, however, has been highly politicized and marred by corruption. The judiciary remains the weakest and most corrupt part of the state. Some judges selected to the Constitutional Chamber of the Supreme Court by a special committee composed of legal experts, MPs and NGO representatives have dubious professional backgrounds and are alleged to be linked to political forces. Judicial processes over crimes during the 2010 ethnic conflict have been seriously problematic. Judicial reform has also not brought any changes to the infamous case of Azimzhan Askarov, an ethnic Uzbek human rights activist who continues to serve a life sentence in prison.

Independent
judiciary
3

Upon being elected, President Atambayev made the fight against corruption one of his top three or four priorities. In 2012, several MPs and government officials, in greater numbers and involving higher-level persons than in the past, were arrested on charges of corruption, primarily by the specially established Anti-Corruption Service under the Committee for National Security. Many of these arrests have been seen as targeting politicians and figures linked to opposition parties. However, they have not amounted to blatant political score setting, as in the past. Corruption continues to permeate all state institutions, and officeholders are still generally able to avoid prosecution. Furthermore, officials suspected of complicity in serious crimes during the June 2012 ethnic violence in Osh remain free of legal prosecution.

Prosecution of
office abuse
3

Kyrgyzstan's constitution, adopted in 2010, grants equal rights to all citizens regardless of ethnicity, religion, or gender. By constitutional law, ethnic minorities and women should make up at least 30% of the legislative branch. In reality, however, women and especially ethnic minorities are severely underrepresented both on the local and national level. Several NGOs work to promote the rights of minorities. Yet, their activity is mostly confined to Bishkek and, at times, it is hindered by local authorities in Osh.

Civil rights
6

Nevertheless, in 2012, the parliament moved to introduce new mechanisms to ensure protection of civil rights for vulnerable groups. In October, it launched a special Center on the Prevention of Torture, as part of the country's obligation under the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment's optional protocol to establish a national preventive mechanism. In December, the parliament passed a bill that criminalizes bride kidnapping and increased charges to up to 10 years in prison. It remains to be seen whether both initiatives will work to improve the civil rights situation in Kyrgyzstan.

4 | Stability of Democratic Institutions

Kyrgyzstan's current political system is decentralized and grants the parliament unprecedented powers. Contrary to earlier skepticism, the parliament has been able to function with relative stability for two years. However, featuring five relatively evenly represented parties, it has seen persistent inter- and intra-party disputes and the prominence of narrow-interest issues on the agenda. The ruling coalition has changed three times since 2010, each composition centered around the Social Democratic Party (SDPK), a party affiliated with the president. Contrary to constant predictions of its collapse, the parliament is unlikely to disband prior to its normal end of term.

Furthermore, local elections across the whole country in March and November 2012 showed that earlier reforms have strengthened local governments, increasing their independence from the national government and attracting lively competition among parties. That said, SDPK won the most number of pluralities around the country, and its members – along with those of Ata-Meken, the closest ally of SDPK – occupy most key positions in the government.

Judicial reform, problem-plagued and politicized, has yet to produce an independent and capable judiciary. The Constitutional Chamber, put within the Supreme Court under the new constitution, has yet to start functioning.

Kyrgyzstan's constitution establishes democratic institutions and procedures. The president and parliament have demonstrated their commitment to such democratic procedures as the building of new ruling coalitions and the appointments of new ministerial cabinets within the limits of the law. Nevertheless, the president was able to use democratic procedures to secure the appointment of his close ally Jantoro Satybaldiev as prime minister and the loyal Asilbek Jeenbekov as speaker of the parliament. Both politicians were appointed as candidates from SDPK, as per coalition agreement.

In 2012 and going into 2013, various opposition figures and groups not represented in the parliament, often joining together with the parliamentary opposition party Ata-Jurt, were organizing extra-parliamentary political meetings and rallies. Some of their criticisms were accusation of the ruling coalition for corruption and unfair dominance in all sectors. Some of them have also persisted in calling for a return to a presidential system, claiming that the more parliamentary constitution has led to political instability and irresponsibility.

Performance of
democratic
institutions

4

Commitment to
democratic
institutions

7

5 | Political and Social Integration

According to Ministry of Justice data, there are 181 political parties registered in Kyrgyzstan. Five parties are represented in the parliament and several more are represented on the local level. Kyrgyzstan's proportional system has led to consolidation of several smaller parties under the umbrella of bigger political forces. In 2012, the political party Zamandash, which represents the interests of labor migrants, was a rare deviation from the pattern in which parties have tended to concentrate around the political leader who created them. Zamandash won six out of 45 seats in the Bishkek City Council in November 2012 elections.

Party system
4

That said, all parties represented in the parliament have suffered from internal disunity. Both Ata-Jurt and Ar-Namys voted to replace their party leaders in 2012, moves that were largely seen as indicators of intra-party divisions. Some MPs from Ata-Meken and Respublika renounced their party memberships, and even SDPK has occasional internal tensions.

Around 10 parties have been competitive since the 2010 constitution was ratified, nearly all of them showing some clientelistic behavior, and all putting forward ideologically centrist platforms.

Various interest groups are constantly created in Kyrgyzstan, but not all are able to influence the political process. Groups that emerge usually represent the interests of narrow segments of society, or narrow and short-term social interests.

Interest groups
5

Some of the stronger groups have been the owners of right-hand-drive vehicles opposed to banning such vehicles; opponents of gold mining projects organized both locally and in Bishkek, especially where foreign companies are the chief investors; organizations of the victims of April 2010 violence and, separately, of June 2010 violence; and a few groups lobbying on various medical care issues. In a troubling trend, some groups have been very vocal on issues of language, namely, demanding discontinuation of national scholastic aptitude testing in Uzbek; so far their calls have not been heeded.

A group that unites the handicapped and those with limited health-related capabilities turned into a political party, Reforma (previously known as For Life without Barriers), attracting a group of young entrepreneurs and championing an economically right-wing, libertarian ideology. Whether this becomes a success story, or alternatively, a case of hijacking (of the organization of the handicapped), remains to be seen.

In general, the nongovernmental sector has been vibrant, and interest groups have been quick to form on a wide range of issues in reaction to government policies affecting their interests in the negative. However, many more social issues and

interests remain underrepresented or represented only sporadically. Two main categories unable to fully defend interests and issues specific to them have been ethnic minorities and women.

There is a broad support for democratic norms and procedures in Kyrgyzstan. In a 2012 nationwide survey by the International Republican Institute (IRI), roughly 80% of respondents said democracy is necessary in Kyrgyzstan. Furthermore, 57% of respondents said the country is moving in the right direction. Over half the population is somewhat satisfied with the way democracy is developing. Yet, only 19% of respondents have a “high interest” in politics, while half have no interest. This latter response goes contrary to the general observation of political activism in Kyrgyzstan, but it may indicate that a large majority are in fact silent, and activism is only carried out by a small segment.

In an interesting twist, the February 2012 IRI survey showed that a large majority of respondents considered Russia to be the best partner in supporting the democratic development of Kyrgyzstan, whereas the United States was viewed by a majority as a negative factor in Kyrgyzstan’s democratic development. These curiosities are certainly in part due to problematic question design, and may not reflect the respondents’ understanding of democracy.

Over the past two years, Kyrgyzstan’s civil society has been growing in diversity. Both traditional forms of civil society and foreign-funded NGOs have been able to function mostly unobstructed since 2010. For instance, MPs working on women’s rights issues have collaborated closely with rural women’s associations. Yet, self-organized groups, such as courts of elders and community leaders, often fall prey to the influence of local political leaders seeking reelection. Overall, according to the IRI poll, 42% of respondents think their political participation in government decision-making is important, and a third of them think it is somewhat important. About half the population is ready to participate in citizen-government dialogue by means of meetings and assemblies. NGOs, on the other hand, still largely depend on foreign grants, with the NGO sector at times resembling a marketplace for donor funding and not for ideas. This grant-dependency of many NGOs, especially with respect to Western funding, has become a popular rebuke against them among the population, and NGOs known to be largely funded by Western grants are viewed with distrust. Local funds available for NGOs are often targeted at organizing one-time projects or public events, such as organizing charity or advocacy campaigns.

Approval of
democracy

7

Social capital

5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
4

Kyrgyzstan's two regime changes since 2005 have slowed down the pace of economic development. The country ranks 126th in the world according to Human Development Index, with a Gini index of 36.2 in 2009, the latest data available. This puts the country in the relatively mid-range group of countries with a notable but not critical rate of inequality. The percentage of the population living below \$2 per day reached 21.7%, suggesting a slow tendency toward improvement over recent years. As in other former Soviet states, the literacy rate remains high – over 99% for both males and females – but some alternative surveys of secondary education found the country performing rather poorly. The number of women enrolled in tertiary education has been falling over the past two decades.

A number of factors have contributed to the decline of general social development indicators among people who are economically disadvantaged. Those include the need to compromise education for earning a living, the need for a large part of the population to have family members go abroad for work, and the need to pay both formal and informal fees in almost all spheres of social services.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	4690.0	4794.4	6197.8	6473.2
GDP growth	%	2.9	-0.5	6.0	-0.9
Inflation (CPI)	%	6.9	8.0	16.5	2.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	4.0	9.1	11.2	-
Export growth	%	-1.1	-11.7	15.7	-
Import growth	%	-19.4	-6.9	14.9	-
Current account balance	\$ M	-93.9	-312.4	-483.6	-1430.5

Economic indicators		2009	2010	2011	2012
Public debt	% of GDP	58.0	60.3	50.1	48.9
External debt	\$ M	4119.0	4114.5	5485.9	-
Total debt service	\$ M	269.2	557.3	410.4	-
Cash surplus or deficit	% of GDP	-1.3	-4.8	-4.8	-
Tax revenue	% of GDP	15.0	15.0	16.1	-
Government consumption	% of GDP	18.4	18.1	18.2	-
Public expnd. on edu.	% of GDP	6.2	5.8	-	-
Public expnd. on health	% of GDP	3.8	3.7	3.9	-
R&D expenditure	% of GDP	0.16	-	-	-
Military expenditure	% of GDP	3.5	4.2	3.7	-

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Following the 2010 regime change, Kyrgyzstan made fresh attempts to improve market-based competition. First Vice Prime Minister Joomart Otorbayev pledged to improve the institutional framework for market competition by easing regulations and decreasing the size of the shadow economy. As widely recognized, the shadow economy in Kyrgyzstan remains significant, even though it has tended toward reduction.

Market competition has continued to be affected by the political situation and politicized interests. A particularly difficult sector has been the mining industry, where investments remained fragile and/or difficult to attract due to the volatility of guarantees. Some difficulties were also caused by external sources, such as quarantines by neighboring governments for certain Kyrgyzstani products. Some important advantages remain, such as full currency convertibility, almost nonexistent price regulation by the government, and relatively easy product and factor mobility in and out of the country.

Kyrgyzstan's State Antimonopoly Agency regularly updates mechanisms that regulate and break up monopolies in the energy, transportation, food, agricultural and construction sectors. These mechanisms commonly include revision of tariffs for services provided by state agencies, local governments, organizations and institutions. Throughout 2012, the agency has been particularly active in regulating

Market-based
competition
5

Anti-monopoly
policy
6

price-setting for fuel, flour, coal and cement. The agency has also become a target for criticism for its regulation of the advertising market. Several MPs have alleged that the agency is imposing unnecessary state controls over the production and distribution of advertising business. The agency, in turn, stated it is open for public suggestions.

As a WTO member since 1998, Kyrgyzstan retains liberal foreign trade policy. Thanks to Kyrgyzstan's early WTO membership, compared to its neighbors, the country has become a regional transit hub for goods from China and Russia. Since 1998, Kyrgyzstan foreign trade volume has increased 330%. WTO membership helped Kyrgyzstan fend off some negative repercussions of Belarus-Russia-Kazakhstan Customs Union, which tends to maintain higher trade tariffs. In this reporting period, Kyrgyzstan was in the process of discussions to join the customs union, which has been a divisive issue among entrepreneurs in the country.

Liberalization of
foreign trade
9

Kyrgyzstan's banking system has seen several noteworthy changes over the past few years. In 2011, the National Bank strengthened bank supervision mechanisms by adopting international standards of risk management in commercial banks. Furthermore, deposit protection services were introduced. The total loan portfolio of banks is steadily increasing, while interest rates continue to decline. Finally, a micro-credit system has grown since the mid-2000s. The share of nonperforming loans, and especially among micro-credit companies that make up the bulk of domestic lending, remains very low.

Banking system
6

Along with these developments, however, the cost of credit and lending risks remains high. Several banks remain subjects of post-2010 disputes, including the assets of Asia Universal Bank, alleged to have serviced laundering activities of the previous political regime.

8 | Currency and Price Stability

Kyrgyzstan maintains free exchange-rate policies and exchange rates remain stable. Some relatively noticeable fluctuations in exchange rates are mostly driven by fluctuations on the global currency market, and, less importantly, by seasonal factors such as the more active inbound tourism in summer months. The government has an anti-inflation policy in place that mostly uses price-setting mechanisms. National Bank's data indicate that inflation reached 9% in 2012. According to expert estimates, however, the real inflation rate was at 15% – 20% for 2012. In 2011, according to the World Bank, inflation reached 16.5%. Kyrgyzstan's import-driven economy is dependent on regional economies, especially those of Russia, Kazakhstan and China.

Anti-inflation /
forex policy
7

The government's fiscal and debt policies are generally oriented toward maintaining macroeconomic stability. The International Monetary Fund estimates that with the

Macro-stability
8

current debt payment rate at 2.8% of the state budget, the external debt does not pose a threat to macroeconomic stability in the foreseeable future. In 2012, Kyrgyzstan's external debt made up \$2.8 billion, roughly 50% of GDP. Although the debt continued to grow over the past two decades, its ratio to GDP has fallen, thanks to Kyrgyzstan's economic growth since the mid-2000s. Following the 2010 regime change, Kyrgyzstan began to implement a number of large-scale infrastructure projects, suggesting that external credits and loans are not all allocated towards consumption.

On the other hand, a significant budget deficit has remained a concern and led to some budget sequestration in 2012 and onwards. The government's practice of collecting advance taxes (for the next year) from some major taxpayers, such as the Kumtor gold mining company, presents some risk to stability.

9 | Private Property

Kyrgyzstan has an elaborate legal framework for the protection of property rights. However, according to the Central Asia Free Market Institute (CAFMI), the risk to private property of seizure by state authorities remains high. The government is allowed to nationalize private property for national security and public order purposes.

The lack of an impartial judiciary, however, makes it difficult to ensure that acquisition and use of property are enforced under the rule of law. Since 2010, the government nationalized roughly 40 sites, among them industrial facilities, energy and telecommunication sites, as well as hotels and land plots in the Issyk-Kul Lake resort area. Nearly all of this nationalized property allegedly had been illegally privatized and belonged to members of the ousted regime in 2010.

Generally, acquisition, registration, and transfer of property is relatively easy and fast. According to World Bank's Doing Business ranking, it takes five days and four procedures to register a property in Kyrgyzstan, putting it among the least complicated countries surveyed.

According to official government data, private companies make up roughly 40% of the economy, whereas the World Bank estimates that the private sector share reaches 75%, which appears to be more accurate. The government's economic development strategy for the period of 2013 – 2017 acknowledges the lack of an efficient regulatory framework for private companies. The strategy aims at improving the legislative base for fair competition and simplifying procedures for opening and running new private enterprises. According to the World Bank's Doing Business 2013 report, it takes 10 days to register a new business and the procedure is fairly simple.

Property rights
5

Private enterprise
8

Having gone through several stages of privatization of state properties, Kyrgyzstan is not currently in a process of significant privatization. Some transactions involving sale of licenses for mineral exploration have been public, scrutinized, and generally conducted through open tender competitions.

10 | Welfare Regime

The government provides social safety nets to a variety of vulnerable groups, including monthly benefits to impoverished, disabled and senior citizens. Overall, 12% of the population receives some type of support from the state. However, given the level of poverty in the country, safety nets do not cover all risks for all strata of the population, and the amounts of state support are typically well below the minimum needs.

Social safety nets
5

Poverty reduction programs by external donors, as well labor migrants' remittances, have been far more important sources of safety nets for the vulnerable population. Remittances have indeed been a poorly accounted chunk of the country's economy, estimated at around 30% of GDP, and mitigating poverty and unemployment.

Equal opportunity in access to education continues to be guaranteed by law to all citizens regardless of gender or ethnic and religious background. Women and ethnic minorities, however, are severely underrepresented in public office and other state employment. Constitutional law requires that at least 30% of the parliament and local councils are made up of women and ethnic minorities. While that quota has helped advance some women and minorities into legislative positions, the number is still lower than constitutionally required. Following the ethnic conflict of 2010, equal opportunity for Uzbek and other ethnic minorities has been politicized, with some groups demanding the abandonment of Uzbek-language high-school graduation tests (necessary for applying to universities).

Equal opportunity
5

11 | Economic Performance

Kyrgyzstan's economy showed a modest recovery following political upheaval in 2010. In 2011, GDP grew 5.7%, making up \$5.9 billion. Likewise, per capita GDP reached \$2,400. Modest economic growth was, however, accompanied by high inflation rates (16.5%). The official unemployment rate in 2010 reached 8.6%, but the real numbers are likely to be much higher, as a large share of unemployment is mitigated by labor migration to Russia and other countries. Foreign investment in 2011 was up slightly from previous years, reaching 11.7% of GDP. Public debt in 2011 was over 52% of GDP, slightly down from the year before. Kyrgyzstan's cash deficit as a percentage of GDP was 4.8% in 2011, up from previous years, while tax revenues remained at roughly 15% of GDP for the same year. Gross capital formation

Output strength
5

makes up 25.3% of GDP. The current account balance for 2011 was -0.4, and that figure would likely be much lower if not for Kumtor gold production, a major share of Kyrgyzstan's exports. Kumtor has been under growing and politicized pressure on several grounds, and its year-to-year output of gold is relatively unstable.

12 | Sustainability

Kyrgyzstan ranks 101st in the Environmental Performance Index, significantly down from previous years. Some longstanding problems, such as management of radioactive tail dumps in several places, remain generally neglected, and environmental issues in general remain at the margin of government policies. Most of the visible efforts regarding environmental regulations are concentrated around the Kumtor Gold Company. These efforts are likely to be motivated by political and populist agendas, intended to demonstrate that the government is keeping the company's Canadian investors in check. Another prominent case in 2011 – 2012 was the importing of allegedly radioactive coal for the Bishkek central heating station from Kazakhstan, which seemed to be more of a political score-settling than an environmental case. According to Osmonbek Artykbayev, head of state inspection on environmental and technical safety, Kyrgyzstan has an elaborate set of environmental regulations, but local governments have been ignoring them. Most NGO work in this area is sustained by international donors.

Promotion of a culture of environmentally responsible business and consumption is not happening or happening very weakly. Energy conservation, waste management, and reuse and recycling are themes of nongovernmental activities but remain only at the level of talks on the part of the government.

In 2010, Kyrgyzstan spent 5.8% of GDP on education, slightly lower than in previous years. Likewise, spending on R&D fell to 0.16% from 0.2% of GDP. Teaching of the natural sciences has been especially problematic. Literacy rates are still above 99%, but this indicator must be viewed carefully; the number of uneducated and possibly illiterate citizens has been increasing among youth in rural areas, due to the employment of children in bazaars and in the home, and to the inadequate capacity of rural schools to provide teaching in all required disciplines. Free education up to ninth grade is guaranteed constitutionally, and free education in higher education institutions is partially available, although it is becoming increasingly tuition based. Widespread corruption in secondary schools and especially universities undermines the quality of education. Private education is allowed, and such institutions are growing in number at all levels – elementary, secondary and tertiary. However, most of the private universities focus on the humanities, business administration, and social sciences, and do not provide engineering, natural science and other technical and exact specializations.

Environmental
policy
3

Education policy /
R&D
4

Transformation Management

I. Level of Difficulty

Structural constraints on governance range from widespread poverty and declining infrastructure to the country's landlocked location in a difficult region. Up to 800,000 of Kyrgyzstan's 5 million people reside in Russia and Kazakhstan as labor migrants. Kyrgyzstan is dependent on fuel and natural gas supplies from Russia, Kazakhstan and Uzbekistan. Despite its rich water resources, Kyrgyzstan has been unable to capitalize on its hydropower potential due to system wear, corrupt and weak political leadership, and the unwillingness of downstream Uzbekistan to negotiate mutually beneficial contracts.

Structural
constraints

7

A major special difficulty has been the aftermath of the events of 2010, from forceful change of government to ethnic violence. The country has yet to recover from the resulting negative economic and political effects.

There are traditional forms of civil society in Kyrgyzstan that have been revived since the collapse of the Soviet regime. Some traditional forms of civic society, among them aksakal courts, composed of village or community elders, tend to be male-dominated. But in other traditional venues, women have also been an active force, including in the local mobilization capacity to make claims against the government and for various local needs. Since the 1990s, Kyrgyzstan has also seen the rise of foreign-funded NGOs. Over time, NGOs have found areas and venues for cooperation with MPs and government officials. The vast majority of NGOs still largely depend on foreign grants. Furthermore, most NGOs' activity is concentrated in Bishkek. Mass media regularly incorporate civil society voices into coverage of political events in the country. Over time, various forms of civil society activism have become a stable element in public discussion and decision-making.

Civil society
traditions

6

The memory of the June 2010 ethnic violence in southern Kyrgyzstan is still fresh. The four-day strife took the lives of 470 people by official count, predominantly ethnic Uzbeks, and injured over 2,000 others. Most of the suspects arrested so far have been ethnic Uzbeks, despite the fact that most of the victims were also Uzbeks. Human rights activists have uncovered several cases of ethnic Uzbek inmates who were tortured to death. Although life has returned to normal and some businesses

Conflict intensity

6

owned by ethnic Uzbeks are opening in southern Kyrgyzstan, cases of daily ethnic violence are still widespread.

The government has played a marginal role in interethnic reconciliation, leaving the burden of such efforts to international donor organizations and local NGOs. A national program for interethnic peace and citizen identity was being drafted throughout the period of the current report.

Other sources of conflict are the regional division between north and south, which has been a constant feature of Kyrgyzstan's politics without leading to violence, and growing social tension over recently surging religious groups, which have remained peaceful and have not advocated violence so far. Not least, the rather fragmented political elite, organized into mostly personality-driven parties, represents another conflict- and dispute-prone area, with popular protest activities being almost a routine.

II. Management Performance

14 | Steering Capability

In early 2012, the government set an ambitious economic work plan titled “100 Days,” with the goal of decreasing the size of the shadow economy, boosting small and medium businesses, and optimizing the public service sector by cutting expenditure and eliminating duplication. The plan, however, was generally assessed to have been unfulfilled, and, by early fall, the prime minister and the ruling coalition changed.

Some priorities set by the sacked cabinet were ignored or reversed by the new cabinet, one potential major reversal being – for a second time in recent years – a return from two-tier budgeting back to three-tier budgeting. According to members of the Ministry of Finance's Public Advisory Council, lack of skills and vision among government officials is the main reason policy planning and implementation fails. The other key factor is the frequent change in leadership, from prime minister to ministers and their deputies: The average ministerial tenure is less than two years. Budget planning and policy priority setting lack transparency and accountability.

Most policy decisions in the government are aimed at benefiting short-term political and personal interests, as opposed to long-term improvement. When policy plans fail in Kyrgyzstan, no one is held accountable for inefficient budget spending. Within the two years leading up to 2012, some priorities – set in 2011 by a newly elected president who was prime minister until then – were the fight against corruption, the

Question
Score

Prioritization
4

launch of major hydro-energy construction projects, and the streamlining and expansion of the mining industry. While all these directions remain priorities in government discourse, action on them has been uneven and at times counterproductive.

The Kyrgyz government fails to implement most of its policies primarily due to competing political interests inside the parliament and government. With five political parties represented in the parliament, most government officials represent patronage interests of their respective parties. As a result, public officials tend to cater to political party leaders, as opposed to the broad spectrum of political forces. Another reason for frequent failure at implementation is the habit of setting unrealistically high, populist goals. A third factor is the government's poor capacity to articulate its policies and plans clearly and persuasively to the public. A prolonged stalemate in the mining sector, where the Kumtor Gold Company continued to be in trouble for several alleged problems, and almost none of several other mining projects was able to get off the ground, is an example of all the above factors hindering policy implementation.

All that said, the current political system, although far from ideal, is more conducive to greater transparency of policy decisions – and hence, conducive to greater accountability – than was the system under the prior regime.

Following two political regime changes, Kyrgyzstan's major political forces in 2010 came up with a new constitution that presumes the country's political actors are driven by patrimonial links and therefore seeks to regulate them to the end that no one political network captures too much power. In introducing this significantly different governmental system, there has been some degree of policy learning capacity observed. However, very often it has been too weak and uneven. Thus, some innovation has been observed in redesigning the property registration system, in eliminating some forms of regular inspection or regulation, and in introducing centralized and computerized system of government purchases. But, in each case, the results were marred by corruption, with pushback from those who lost in the reforms, and eventually some reversals. Thus, the condition of multiparty coalition-based government, where different parties compete for influence in various sectors, seems to contribute both to openness to learning, because of the diverse and relatively democratic nature of the government, and to quick loss of such learning, due to the instability of such a multiparty government. To achieve stable and robust learning capacity, Kyrgyzstan requires a more stable party system and a more stable and accountable government.

Implementation
4

Policy learning
5

15 | Resource Efficiency

Political decision-making has become more transparent since the 2010 regime change. Yet the Ministry of Finance's Public Advisory Council (PAC), an independent body comprised of nongovernmental experts, argues that the budget planning process still lacks an overall strategy, and that most decisions are ad hoc. Kyrgyzstan's budget deficit is projected to be even higher in 2013 than in 2012. The government raises some funds through privatization, issuing government securities, and higher taxes. However, the bulk of the funds used to cover the deficit comes from external donors; the World Bank and the Asian Development Bank have pledged \$50 million to Kyrgyzstan in 2013. According to the Ministry of Finance, the budget deficit will not affect payment wages, benefits, contributions to the social fund, the cost of medicine, or food. President Atambayev's administration has made fresh attempts to decrease the size of the shadow economy, but these efforts have not been successful.

Efficient use of
assets

4

Frequent replacement of key officials and public servants, frequent reorganization of ministries and agencies, the wholesale rehiring of employees for a reorganized state service targeting economic crimes, ongoing reorganization of various departments in the ministry of internal affairs, and other similar conditions all constitute evidence of inefficient use of human and organizational resources. An example of inefficient and problematic use of financial resources, in addition to the above, was the extended negotiation among various groups concerning the use of a \$100 million loan from Turkey. The government did not work out in advance a clear plan for using the loan, and allowed it to become a case of "dividing the pie" among several ruling parties, several ministries, a mayor's office, and individual key figures.

The adoption of the new constitution in 2010 meant that new procedures were needed for collaboration among the ministerial cabinet, the presidential administration, and the parliament. For example, it had to be clarified who would take final responsibility for shaping foreign policy. For the most part, any constitutional ambiguities about power sharing were decided in favor of stronger presidential powers, returning to a more centralized form of governance. In most cases, patronage networks and inefficient bureaucracy still overshadow political decision-making. The competing interests and perspectives of various parties, including divergences among three members of the ruling coalition, have often led to a lack or weakness of policy coordination among different ministers and agencies.

Policy
coordination

5

Nevertheless, over the past two years, the parliament has shown that it is able to stage meaningful political debates around issues of national concern. Their differences, and the necessity for several parties – which are, in part, patronage networks – to work together, has also elicited some capacity for coordination over time. The relative strengthening of the president and presidential administration has also contributed to

better coordination among various branches. Several PACs have been actively monitoring the work of some government agencies, but their members complain that state officials rarely take outside recommendations seriously.

In 2012, President Atambayev announced a new anticorruption campaign. He pledged that no individual would be immune from prosecution on charges of corruption, including members of his own Social Democratic Party. The president also pledged to rid law-enforcement agencies and the judicial sector of corruption. Yet, some of the subsequent arrests on corruption charges were controversial, as they were mostly members of opposition parties. In fewer cases, such arrests involved members of ruling coalition partners, and lower-level officials of the ruling party. In general, by end of 2012, it was possible to notice a somewhat greater awareness and concern among various services about being caught for corruption. The newly established Anti-Corruption Service (within the State Committee for National Security), albeit with a poorly defined legal mandate and jurisdiction, was turning into a feared agency. Still, with rampant corruption in all spheres of life, it was hard to expect any noticeable dent in the problem.

Anti-corruption
policy
3

16 | Consensus-Building

The major political actors agree on the importance of fair political competition. Kyrgyzstan's new constitution, which allows various political forces to compete in free elections and stage debates inside parliament, is mainly the result of an informal pact among multiple political figures who captured power in March 2005 and again in April 2010.

Consensus on goals
7

This consensus among the key political players does not directly contribute to state-building and good governance, but the highly competitive parliamentary and competitive presidential elections in 2010 and 2011, respectively, allowed these players to continue their political struggle as legitimate actors. Even if the ruling coalition membership has changed three times over two years, the new political system has outlived skeptics' earlier predictions that rivalries among major political forces would lead to early elections. There are some groups who call for a return to a more presidential system of government, without denying the necessity of democracy; those groups, and such calls, are not represented within the parliament.

All the key political forces agree on the importance of a market economy, although most of them hold on to some degree of state regulation, and almost no major group advocates purer, more libertarian forms of market economy.

Although the current constitution lays out grounds for fair political competition, and the five parties that were able to win 2011 parliamentary elections often reaffirm democratic values in their rhetoric, they do not seem to be interested in genuine

Anti-democratic
actors
5

democratic transformation. There are several MPs who regularly speak out in defense of democratic principles, but the parliament at large has shown that it is able to adopt statutes that restrict freedom of speech or other measures that may curtail democratic freedoms.

Nevertheless, under the current system of governance, it seems to be more challenging for one political leader or party to emerge as a single authoritarian force, and all parties recognize that winning through elections is their best option – even if winning elections still continues to involve manipulation and other undemocratic tactics. Political parties have resorted to old methods of collecting crowds in central Bishkek and Osh to challenge the government’s decisions, but with little success. During the period after the April 2010 regime change, and until the end of 2012, mass protest as an informal veto power lost its previous appeal. This phenomenon of citizen protest, road-blocking, and other disruptive political action, is itself contradictory, exemplifying “people power,” on the one hand, yet also representing disregard for legitimate and legal procedures. In their rhetoric, both President Otunbayeva and President Atambayev have stressed the importance of democracy and Kyrgyzstan’s commitment to democratization.

Kyrgyzstan elicits somewhat different trends and political climates in Bishkek, on the one hand, and the provinces, on the other. Bishkek is politically more liberal and has a high concentration of NGOs and media outlets, while the provinces, especially those in the south, feature local governments pursuing nationalistic and cleavage-driven policies that discriminate against ethnic and other minorities. The central government has done little to address the issue of interethnic discrimination. Instead, parliament members and some public officials have either encouraged or taken part in discussion of ways to reduce the use of minority languages in the educational system and mass media. Several instances of very blatantly nationalistic and/or regionalist rhetoric by some politicians drew little to no response from the political leadership.

Furthermore, the gap between urban and rural areas continues to widen, just as the geographic boundaries of city and periphery are getting diluted, with most job opportunities concentrated in bazaar sectors in Bishkek and Osh. The differences are vivid, and contact between the contrasting strata is immediate, making it very easy for tensions to flare. Due to internal migration, over 1 million people, approximately 20% of the national population, reside in the capital city.

Kyrgyzstan’s civil society continues to be actively involved in the country’s political life, while political leadership does not generally obstruct the work of civil society actors. In the past two years, NGOs have played a key role in the oversight of local elections. Kyrgyz NGOs registered several noteworthy achievements in 2012, including a report on the Osh violence, police reforms and improvements made to women’s rights. Some of these achievements were the result of local NGOs’

Cleavage /
conflict
management
5

Civil society
participation
7

collaboration with donor organizations. Others were initiated through support provided by local companies and individual entrepreneurs. Several associations of entrepreneurs have also become active and constructive contributors on reform and policy critique. Yet, for the most part, civil society organizations are active in Bishkek. Local authorities in Osh and Jalalabad are notorious for obstructing the work of NGOs. Overall, the relationship between state institutions and civil society is still characterized by significant distrust and mutual accusation, and needs to mature and grow stronger.

Almost three years after ethnic violence in southern Kyrgyzstan, the government is doing little to address injustice and initiate a process of reconciliation. On this politically highly sensitive and electorally precarious subject, the national government has chosen to be either silent, wishful or complacent, with a variety of counterproductive consequences. One of the gravest challenges Kyrgyzstan's government faces is arresting and prosecuting all perpetrators of the Osh violence. Most of the suspects arrested so far have been ethnic Uzbeks, despite the fact that most of the victims were also Uzbeks. In 2011, lawmakers were adamant about the findings of the international Kyrgyzstan Inquiry Commission report because it blamed political officials for failing to prevent Osh casualties. Foreign-funded NGOs and donor organizations are the only actors actively promoting reconciliation efforts in the country's south. At least one radio station, Yntymak, began to broadcast news in Uzbek, mostly thanks to USAID-backed efforts to expand media coverage in the Uzbek language.

Reconciliation
4

17 | International Cooperation

Surrounded by Russia and China, while also hosting a U.S. airbase, Kyrgyzstan's political leadership has faced a challenge of maintaining a balanced view towards international collaboration. President Atambayev has shown greater inclination towards cooperation with Russia, mostly because of Kyrgyzstan's economic dependence on its northern neighbor. He pledged to shut down the U.S. Transit Center at Manas International Airport in Bishkek in 2014 after the U.S. and NATO forces' withdrawal from Afghanistan. The president has also been collaborating with Chinese investors to fund infrastructure projects in Kyrgyzstan.

Effective use of
support
7

Like his predecessors, Atambayev has been open to international assistance projects, but lacks a long-term development strategy. A posture detrimental to the trust of international partners has been the current government's frequent plea with all major donors to write off the country's debt to them. Turkey wrote off what was owed to it, and Russia signed a scheme of phased write-off as well. Also, the case of haphazard allocation of a \$100 loan from Turkey indicated a lack of longer-term vision and responsible use of support. In the longer and wider perspective, these kinds of behavior are likely to damage Kyrgyzstan's trustworthiness. Still, in contrast to his

predecessors, however, Atambayev has sought to maintain friendly relations with all international partners.

Kyrgyzstan's credibility as an international partner suffered considerably during Bakiyev's reign, and the current president has drawn a contrast with his own behavior. The ex-president was infamous for manipulating rival interests surrounding the U.S. Manas Transit Center and Russia's \$2 billion credit. He first declared that he would expel the U.S. center, only to change his mind two months later. Atambayev has underscored his intention to be a more consistent partner, and the Manas base closure, should it take place as scheduled in mid-2014, will be the test case. He has made it clear that, although partnership with the United States and the European Union is in the national interest, Russia is the country's chief political and economic ally. To note, Atambayev started out his term striking a noticeably independent posture in foreign policy, with some criticism aimed at Russia, along with close courting of China, Turkey and several other partners. Though a more pro-Russian orientation soon emerged, a fair degree of cooperative tone with the other partners has also been maintained.

Credibility

6

President Atambayev has generally maintained cooperative relations with neighboring countries, and Kyrgyzstan is a member of both the Russia-led Collective Security Treaty Organization and the China-led Shanghai Cooperation Organization. This collaboration has at times been rocky, particularly following Kazakhstan's unilateral shutdown of the border with Kyrgyzstan following the April 2010 regime change. The blockade lasted for months, hurting businesses and restricting travel. Furthermore, clashes between border guards from Uzbekistan and Kyrgyzstan are frequent and usually lead to the closure of crossing points on that frontier. Another significant point of contention has been Kyrgyzstan's several major hydropower construction projects, which have drawn open opposition from Uzbekistan and Kazakhstan from the beginning. Kyrgyz leadership has argued its case to neighboring countries mostly in a non-confrontational tone and has invited both Uzbekistan and Kazakhstan to become partners in those construction projects. Kazakhstan's position was said to have eased and become more positive.

Regional
cooperation

7

Strategic Outlook

Kyrgyzstan faces four major challenges in the coming years. First, the country needs to capitalize on the existing decentralized political system and improve governance practices. Elected officials must resolve to reduce corruption and to improve the professionalism of public officials. The judicial and law-enforcement sectors, in particular, are in dire need of reform. The government and the parliament must learn effective ways of collaborating with NGOs and the citizenry at large. With that, both MPs and government officials must implement policies that benefit the nation at large, as opposed to only their immediate constituencies. The international community could work with the government and civil society groups to build avenues for effective collaboration.

Second, Kyrgyzstan's political leaders must strive to improve the country's economic performance by improving the investment climate and reducing the size of the shadow economy. External funds must be channeled toward improving the country's fiscal system and development prospects, not financing public sector consumption needs. Foreign aid and loans must be spent more transparently and more strategically. Both government and international experts agree that Kyrgyzstan's mining sector could attract a great deal of foreign investment. But corruption, the unpredictable political environment, and state weakness in dealing with the unconstructive opposition of local communities to mining projects have all deterred foreign investment and other efforts to grow Kyrgyzstan's economy.

Third, Kyrgyzstan must pursue a careful and balanced foreign policy that does not antagonize or play off its key partners, such as Russia, Uzbekistan, Kazakhstan and China, but also manages to maintain and further develop cooperation with countries like United States, the European Union and Turkey. On the eve of 2014, which promises changes in regional political and security dynamics after the planned Western withdrawal from Afghanistan, Kyrgyzstan will do well to cooperate actively and constructively within multilateral initiatives and institutions.

Finally, the president and the parliament must make every effort to restore interethnic peace in southern Kyrgyzstan. In this regard, all relevant activities must be pursued in earnest, including prosecution of all perpetrators of the June 2010 violence, regardless of their ethnic origins or political status. Ethnic Uzbeks and other minority groups must be better represented on both the local and national government levels. Ethnic minorities should also be able to preserve their native language and identity.

Overall, Kyrgyzstan's stability will largely depend on whether the president, prime minister, and MPs will be able to design viable economic policies. Specifically, if the government fails to deal with the energy and food security issues affecting the majority of the population, it will face new mass protests, both spontaneous rallies and those organized by the opposition. Kyrgyzstan will also be tested as to whether its current decentralized political system can foster good governance and whether the current leadership is able to advance the law-enforcement reforms that began

following the 2010 regime change. In the best-case scenario, the 2015 parliamentary elections will produce more consolidated political alliances that will function as cohesive political entities, presidential power will continue to be checked, and the current president will relinquish the office in 2017, as expected.