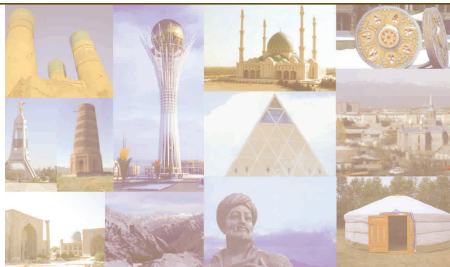


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KYRGYZSTAN

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Bimonthly article

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Highlights

In January, Kyrgyzstan saw the start of yet another anti-corruption campaign in a string of many since the country's independence. All previous presidents had announced eliminating corruption as one of their priorities, yet none came even close to succeeding. To demonstrate his commitment to this cause, the incumbent President Atambayev created a specialized unit to fight corruption within the State national security committee. It remains unclear whether the efforts of the newly created service will be sufficient to resolve such a complex and comprehensive problem.

Prime minister Babanov's government publicized the "100 days of reform" as its first programme of action, with priorities ranging from safety, competitive economy and the ever-traditional enhancement of efficiency of public governance.

Internal affairs

On 30 January, the defence council approved the new state strategy to fight corruption. Addressing a meeting of the defence council, President Atambayev acknowledged that corruption in Kyrgyzstan had reached astronomical levels, having become a "method of public governance" and that it was no coincidence that Kyrgyzstan and its neighbours in the region consistently ranked at the lowest levels of the corruption perception index.

The President said that earlier programmes to eliminate corruption had not met their targets mainly because the country's supreme leadership, the heads of its ministries and agencies and their families and close relatives were party to corrupt schemes and had been obstructing the implementation of prior

programmes. None of the state bodies with a mandate to fight corruption escaped the President's public scolding. Corruption reached hitherto unknown heights during former President Bakiyev's term in government, during which time law enforcement agencies and the political establishment were practically working hand-in-hand with criminal circles.

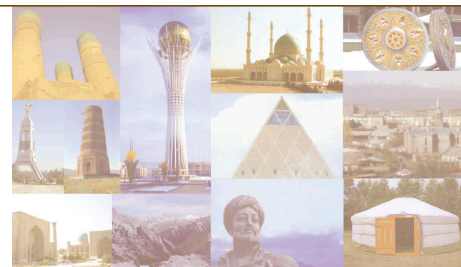
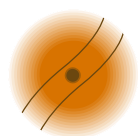
President Atambayev said that Kyrgyzstan's current leadership possessed the political will to eradicate corruption and that neither high posts nor prior merits would distract it from this target. "I would like to take this opportunity to warn all leaders, all members of government, members of parliament, judges, prosecutors and other civil servants that corrupt officials will be given no mercy. A thief must be in jail!" thundered the President.

By virtue of this new campaign, corruption-cleansing activities would initially be headed by law enforcement and judiciary bodies that would be required to investigate corruption cases and bring them to court where justice would be meted out on the guilty. The prosecutor general's office and the financial police will play an important role in the drive to mitigate corruption, both bodies having sparked a barrage of criticism for failing to perform their immediate duties. Both the President and parliament criticized the judiciary system and its "proverbially" corrupt nature and practices.

Once the anti-corruption strategy has been adopted, Jogorku Kenesh (Parliament) is expected to publish a draft law "On Countering Corruption" and a package of amendments to the criminal code and the criminal and procedural code of the Kyrgyz Republic.

The anti-corruption campaign yielded results as early

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as the day following the defence council meeting at which the heads of the state bodies called on to combat corruption and the head of the newly created counter-corruption service of the state national security committee were unambiguously threatened with dismissals if no results were forthcoming. By 31 January, the interior ministry had revealed corrupt schemes in Severelektro OJSC, the largest state-owned energy distribution company in Kyrgyzstan. The State national security committee also identified corrupt mechanisms in the state-owned National Electrical Networks and arrested the deputy director of this company. The accounting chamber submitted to the State national security committee materials on white-collar offences perpetrated by the senior management of Vostokelektro OJSC. The discovery of corrupt schemes was not limited to the energy sector. Judges of the Toktogul and Nookat district courts, believed to have received cash bribes, were also taken into custody.

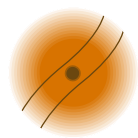
The importation of radioactive coal from Kazakhstan was one of the most blatant cases to come to light as a result of the anti-corruption campaign. It emerged that supplies of “dirty coal” involved the customs service of the Kyrgyz Republic, the prime minister and members of parliament who signed a government resolution that allowed the coal purchase deal to go through. Coal was imported from Kazakhstan with radiation levels that were way over the legal limit, having been purchased with state budget funds and subsequently supplied to orphanages, boarding schools, nursing homes and shelters for the disabled. During the ensuing public outcry, civil activists accused the energy and industry minister of corruption along with his second-in-command, the deputy minister of healthcare, the governor and lieutenant governor of Chui province, directors of state companies and high-placed officials at the defence ministry. This contrasted starkly with the findings of the prosecutor general’s office that had originally launched a criminal investigation into

the importation of radioactive coal, only identifying two radiology doctors as culprits and claiming that their negligence had paved the way for the importation of “dirty coal” into the country. This case and the detention of several heads of state companies brings to mind the numerous Soviet and post-Soviet token campaigns to fight corruption that inevitably resulted in the punishment of individual perpetrators, without having the slightest impact on systemic corruption and its organizers and drivers in the upper echelons of power.

Foreign and international policy

The military bases of foreign countries were once again in the spotlight of the media, politicians, public organizations and experts.

A group of civil activists who call themselves the “New Forces of Kyrgyzstan” and “Asyr” started assembling in front of the U.S. Embassy in late January demanding the closure of the international anti-terrorism coalition’s airbase at Manas international airport. The protesters carried signs demanding that military personnel be withdrawn and the Manas transit centre shut down. Allegations against NATO air forces fighting in Afghanistan and quartered at Manas were voiced even earlier and mainly amounted to demands for an end to in-flight fuel jettisoning practices on the grounds that it inflicted irreparable damage to the region’s environment. Other concerns voiced by members of public organizations included the exacerbation of relations between the United States and Iran and the possibility of missile attacks from the Iranian side against American military targets in the region including the Manas transit centre located in the immediate vicinity of Bishkek, Kyrgyzstan’s capital. Having failed to spark any reaction from American diplomats, the civil activists then pledged to start indefinite rallies once spring arrived. They are demanding the early closure of the U.S. airbase, the current lease agreement for which expires in



December 2014. Activists set a one-month deadline for the government and parliament to identify the procedure for denouncing the agreement and threatened to launch more street rallies if their demands are not met.

Public scrutiny of a foreign military base would not be surprising were it not for the fact that Russian military objects in Kyrgyzstan, which outnumber American targets five to one, not only fail to trigger public discontent but also any noticeable attention on the part of so-called “citizens groups,” highlighting what is clearly a very selective approach to countering foreign military presence in the country. And while this political activism on the part of the public is to some extent inconveniencing the Kyrgyz government, Kyrgyz businesses, which have spent the last several years trying to secure lucrative multi-million contracts to supply goods and services to the Manas transit centre, can actually obtain dividends from the public pressure being exerted. The US Defence Logistics Agency announced its willingness to discuss terms of procuring goods and services from Kyrgyz producers and suppliers.

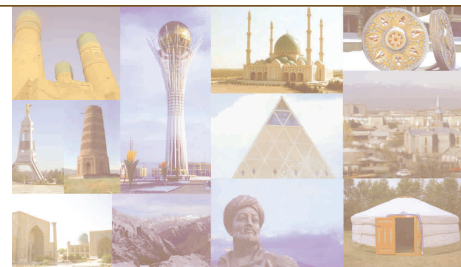
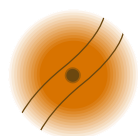
The Russian defence ministry extinguished \$15,466,000 of its debt for the use of Kyrgyz territory and communications by Russian military sites. The funds finally wired by the Russian side were accumulated as a result of five Russian military bases and stations using the deployment areas over a four-year period. By comparison, the lease of the Kyrgyz territory by one NATO military base costs American taxpayers a whopping \$60 million a year.

Overall, Kyrgyzstan houses five Russian military sites including the 999th airbase in the town of Kant, whose main objective is to control the airspace of the former Soviet republics of Central Asia and perform airstrikes as needed; the 954th test base for anti-submarine weaponry in the town of Karakol engaged in the development and testing of serially

produced torpedoes; the 338th communications node in the town of Kara-Balta performing radio communication with Russian military ships and submarines and implementing radio-technical surveillance and radio-electronic countermeasures; automated seismic station N1 in the village of Ichke-Suu of the Issyk-Kul Province for controlling the testing and application of nuclear weapons at any point of the globe; and the radio-seismic laboratory in the town of Mailuu-Suu performing similar functions.

The extinguishment of the Russian debt resulted from the discussions conducted during President Atambayev’s visit to Moscow on 23-24 February. During his visit, the Kyrgyz President met with Russia’s President Dmitry Medvedev, His Holiness Cyril Patriarch of Moscow and all Russia, and the chairman of the Council of Russian Muftis Ravil Gaynutdin. He also visited the State Governance University where he had studied and participated in the unveiling of the Manas Monument in Moscow. The main topics of his official visit to Russia, which he travels to far more than any other country, included the implementation of earlier agreements between Kyrgyzstan and Russia in the area of economic, military and technical cooperation.

On returning to Bishkek however, President Atambayev told the Kyrgyz media that several Russian ministers, including the defence minister, were trying to arrange a massive information attack on Kyrgyzstan thus questioning the strategic partnership between the two countries. In addition, the Kyrgyz President said that the Russian airbase in the town of Kant was not complying with some agreements, notably an agreement to transfer four aircraft to Kyrgyzstan to train Kyrgyz pilots. Moreover, in his interview with Channel Five (a Kyrgyz television channel) and the CIS television and radio channel, the President claimed that the security services of neighbouring CIS countries had funded destructive and nationalist political forces



during the previous elections in Kyrgyzstan. “We do not work against the authorities in Kazakhstan or Russia,” said Atambayev, “and they should treat us in the same manner.”

Economy and business enterprise

In February, the Kyrgyz government presented to the donor, business and expert community a programme of short-term measures entitled “Stability and Decent Life”, instantly dubbed “the 100 Days Programme”.

The programme makes provisions for the budget deficit to be decreased to 5% of GDP and overall expenses associated with the upkeep of the state bureaucracy reduced, a move estimated to save the Treasury KGS 1 billion. Finally, the transition to two-tier programme budgeting will finally take place, this idea having been under discussion since 2003. This transition should increase the revenues of local governments. In addition, the government intends to implement the project “Affordable Loans to Farmers” and provide preferential treatment to companies in state-subsidized regions.

The government intends to use all additional revenues in the budget to raise social benefits and programmes, in other words, direct state investments will not be increased thanks to budget injections. Priority in the investment policy will be given to foreign financial institutions and Kyrgyz assets in Centerra Gold Inc, which operates the largest gold mining deposit in Kyrgyzstan – Kumtor. The mining sector, along with the agri-industrial complex, energy security, transportation infrastructure, communications and information technologies, has become the priority of prime minister Babanov’s short-term economic policy.

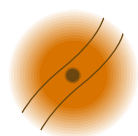
The reaction of international organizations to these short-term measures was largely muted for a variety of reasons including the negative assessment of the

investment climate in the Kyrgyz Republic that precludes opportunities for attracting direct private investment, a high level of corruption in the system of public governance that endangers the implementation of national and sectoral programmes, and frequent changes in the structure of the government, all of which hinders and bogs down the implementation programmes.

Independent experts assessed the Kyrgyz government’s plans to enhance productivity of agriculture as direct evidence of the failure of land reforms implemented in Kyrgyzstan with the immediate involvement of international financial institutions. These experts cast doubt on the government’s capacity to achieve positive results with the current structure of farms and the dearth of agronomy, mechanization, irrigation and marketing infrastructure in rural areas. Among the programme’s strengths, these experts singled out the strengthening of control over state bodies that had the right to inspect and reduce the number of commercial entities, the introduction of indicators for assessing the quality of performance of public governance bodies and local governments, and the redistribution of revenues from the national budget at regional level.

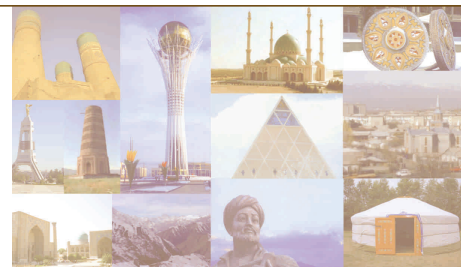
The economy ministry and the anti-monopoly policy of the Kyrgyz Republic published forecasts of the per-capita GDP growth for 2012, expected to total 14,6%, which in monetary terms will bring this indicator to \$1,300. According to the same projections, the minimum monthly salary in Kyrgyzstan will grow 10% totalling KGS 4,172 or \$90.

There is an increasingly realistic chance that Kyrgyzstan will join the Customs Union (CU) of Russia, Kazakhstan and Belarus since the Kyrgyz application for CU accession was accepted for consideration by the CU Executive Body. Speaking to domestic producers on this subject, President



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Atambayev stated that the Kyrgyz Republic intended to ask the Customs Union for a delay in payments and preferential treatment for Kyrgyz with respect to certain goods. Regarding Kyrgyzstan's goods turnover with other countries of the Customs Union, according to statistics of the Customs Service of the Kyrgyz Republic, over the past year, goods turnover with Russia, Kazakhstan and Belarus increased by 26% and reached \$2,48 billion. The share of CU countries in the Kyrgyz Republic's total goods turnover totalled 40%.

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