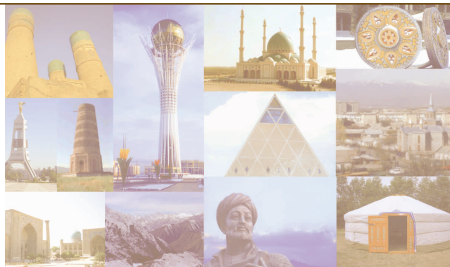


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CASA ASIA



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KYRGYZSTAN

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Bimonthly article

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Highlights

The fight against organized crime was intensified in January and February with the rolling out of a nationwide campaign to restore institutional mechanisms to ensure security in the nation, improve the fighting capacity of law enforcement agencies, and engage local governments and the public in the task to preserve law and order.

Security issues in Kyrgyzstan became a central topic of President Otunbayeva's visit to Brussels where she met with EU and NATO leaders.

The new year was also marked by highly publicized disputes and litigations concerning the nation's largest communications, mining and energy companies.

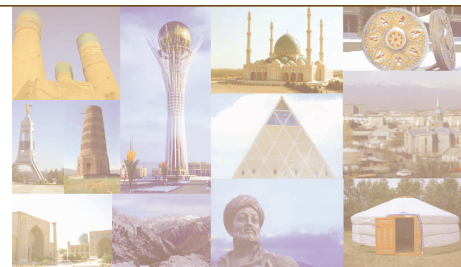
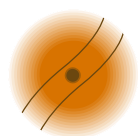
Internal affairs

A spate of resonating crimes took place towards the end of 2010 and in early 2011, among which the murder of police officers and explosions. Overall, more than 35,000 crimes were committed in 2010 of which only 16,693 were solved. A total of 7,000 aggravated felonies took place in 2010, 47.6% more than in 2009. Undoubtedly, such figures reflect the tragic June events in the south of the country and the shootings of Kyrgyz citizens by former president Bakiyev's regime in April 2010. However, a change of power frequently leads to the weakening of the state's ability to ensure law and order and security as observed in Kyrgyzstan back in 2005-2006 when organized crime group leaders were elected to parliament and the country witnessed a wave of contract killings, and the public was forced to demand that authorities take adequate measures to protect the citizenry.

Given the complexity of the situation that emerged in 2010, the authorities drafted a programme to fight crime. On 22 January, at the first meeting of the newly created defence council, the President effectively declared a war on organized crime groups, religious extremism and terrorism. "The crime situation in the nation... is very difficult," said President Otunbayeva. "Representatives of criminal circles have penetrated the authorities in some regions, especially in local government bodies. Today, they have become so strong that they are capable of destabilizing the situation and provoking interethnic clashes." In order to resolve complex objectives in ensuring the state's borders, the numbers of border protection forces were increased since the density of border protection guards per a kilometre of the Kyrgyz border is the lowest in post-Soviet Central Asia, which puts Kyrgyzstan in a vulnerable position in terms of the infiltration of terrorist and extremist groups, especially from the territory of neighbouring Tajikistan.

The ministry of internal affairs (MIA) reinstated the chief directorate for fighting organized crime abolished by the ousted regime, now staffed by experienced and professional MIA officers. The propriety of such a step was already affirmed by the first measures adopted by this restored structural division: in two months of active actions, 80 members of organized crime groups were apprehended and detained, including their leaders. A major staff reshuffling took place within the MIA resulting in the dismissal of three deputy ministers on 21 January. Internal investigations of power abuse by police officers in provincial and district internal affairs departments were initiated, resulting in several officers dismissed from their posts. A public advisory council is also being created with the aim of preventing power abuse by police officers. The

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internal investigations in question also affected the prosecutor's offices. The prosecutor in the town of Mayлуу-Suu was dismissed after residents organized protest rallies against the wave of crime that had just engulfed the small southern town.

Civil organizations actively supported the authorities' efforts to restore law and order, and even submitted a request to Parliament asking for the reinforcement of the legislative framework to fight organized crime.

The war against criminal circles is being waged against a very tricky domestic backdrop. Protests by teachers in three regions of Kyrgyzstan started in December 2010. By January 2011, the protest wave was joined by other categories of low-income public sector personnel: doctors and employees of cultural institutions. The main demands of these employees included increasing salaries, which is quite logical since prices for food and non-alcoholic foodstuffs rose by 27% compared to January 2010. Prices for a staple foodstuff such as flour increased 200% in February alone. Following lengthy debates and the resignation of the finance minister, the government finally agreed to increase national budget expenditures and to raise the salaries of public sector employees. It should nonetheless be noted that even after the increase, base salaries for doctors (before the accrual of supplements for length of service, qualification, etc.) will total a meagre KGS 5,000, ie, \$76.

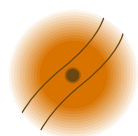
Political forces took advantage of this state of affairs to advance their candidates in the presidential election scheduled for October 2011. Even though the date of the election has yet to be formally announced, the pre-electoral race has started. Twelve of the 24 political parties that took part in last year's elections and failed to obtain seats created a congress of political parties in the run-up to the election and formed a shadow cabinet and alternative parliament. The Ata Jurt party, believed to sympathize with ousted president Bakiyev, declared its intent to

participate in the presidential race while one of its leaders, Kamchibek Tashiyev, notorious for his highly nationalistic statements and revanchist sentiments, claimed that he would win the elections. The leader of the Social Democratic Party and current prime minister Almazbek Atambayev, in a televised interview, gave evasive answers when asked if he would participate in the elections. President Roza Otunbayeva confirmed her promise that she would not participate in the 2011 elections and that she would vacate her post in December 2011.

Foreign and international policy

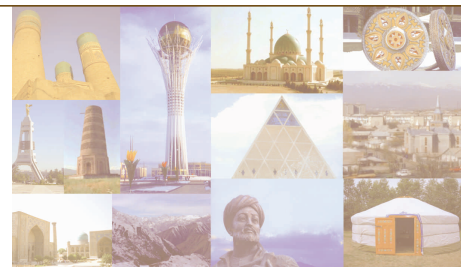
In late February, President Otunbayeva visited Brussels where she held meetings with EU and NATO leaders. She began by visiting NATO headquarters where she held talks with NATO Secretary General Anders Rasmussen. In her speech, the President stressed that Kyrgyzstan counted on the alliance's assistance in "strengthening a free Kyrgyz state" and fighting terrorism and drug trafficking, and hoped that support for reinforcing the nation's borders would be forthcoming. In addition, she expressed gratitude for the financial support of social and economic programs in Kyrgyzstan. In turn, Mr. Rasmussen assured the President that NATO would help Kyrgyzstan in democratic transformations and reforming its security forces amidst heightened terrorism threats, and he expressed willingness to consider sending a group of consultants to Kyrgyzstan. A separate talking point involved the interaction of NATO and Kyrgyzstan as part of the mission to strengthen security in Afghanistan.

Meetings also took place between President Otunbayeva and the President of the European Parliament Jerzy Buzek, the President of the European Council Herman Van Rompuy, and the President of the European Commission Jose Manuel Barroso. EU leaders supported the democratic transformations underway in Kyrgyzstan and drew attention to the importance of resolving interethnic



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controversies and preventing conflicts similar to the June clashes that took place in southern Kyrgyzstan. President Otunbayeva responded by saying that Kyrgyzstan “would strive to meet European criteria in democracy (...), affirming the European direction of its development.”

On returning to Bishkek, President Otunbayeva declared that Kyrgyzstan had to expand cooperation with NATO in terms of strengthening security in the country and the Central Asian region, and enhance its capacity in cooperation with Europe in economics. She thanked the European Union for its promise to allocate 30 million euro to support the Kyrgyz budget.

The Kyrgyz government’s foreign policy is aimed at solving economic problems, hence the visit by the prime minister to the capitals of Kyrgyzstan’s two primary CIS economic partners, Russia and Kazakhstan. At the meeting with Vladimir Putin in Moscow, prime minister Atambayev came to an agreement concerning the abolishment of duties on Russian petroleum products, resulting in a decrease in gasoline prices. He unfortunately failed to reduce food prices in Kyrgyzstan.

At meetings in Astana with Kazakhstan’s President Nursultan Nazarbayev and prime minister Karim Masimov, Mr. Atambayev discussed a set of issues related to Kazakh investments in the Kyrgyz economy, imports of Kyrgyz electrical energy and the matter of state borders. In particular, agreements were reached to create a Kyrgyz-Kazakh investment fund and draft an intergovernmental agreement on investment guarantees. Kazakhstan committed itself to accepting one billion kilowatt-hours of the Kyrgyz electrical energy under terms of advance payment, ensuring the flow of water from the Toktogul Water Reservoir and continuing the parallel operation of its energy systems under the unified energy system of Central Asia. It should be noted that Kazakhstan-like Uzbekistan- had earlier repeatedly declared its

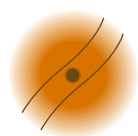
cessation from the Unified Energy System, which would have become a difficult problem for Kyrgyzstan and Tajikistan who both lack their own autonomous electrical systems.

Progress was also made with respect to the contentious border issue. In April 2010, both Kazakhstan and Uzbekistan unilaterally closed their borders with Kyrgyzstan, and despite numerous petitions by the Kyrgyz government, they have yet to resume a full-fledged mode of operation for their cross-border checkpoints. During Atambayev’s February visit to Astana, an agreement was reached to resume the operation of another 5 checkpoints on the Kyrgyz-Kazakh border to facilitate the simplified procedure for border crossing by citizens of both nations. However, this arrangement does not apply to goods and cargo. Additionally, Kazakhstan promised to lift the ban on the exportation of petroleum products from Kazakhstan to Kyrgyzstan.

Some ludicrous situations and events worth mentioning include an odd decision by the Kyrgyz parliament made prior to the presidential election assigning one of the nameless tops of the Kyrgyz mountain range the geographic label “Vladimir Putin Peak.” Those who instigated this decision ingeniously hope to receive support from the omnipotent Russian prime minister.

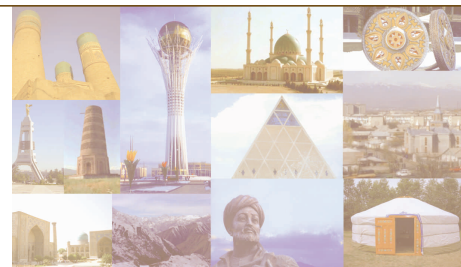
Economy and business enterprise

January and February 2011 became a period of resonating scandals concerning the country’s largest cellular network operator, MegaCom, the suspension of licenses issued for mining development and the dismissal of energy company executives. These actions were partially triggered by the resistance of businesses and certain Kyrgyz government officials to efforts aimed at establishing a due legal procedure, and partially by the lobby activities of various business groups pursuing opposite interests.



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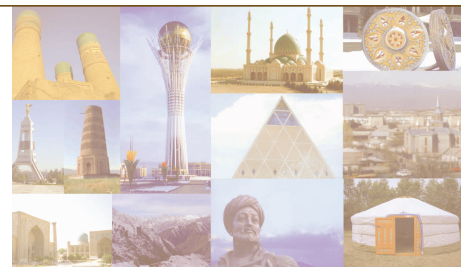
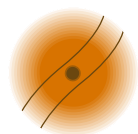
On 26 January, the financial police launched a criminal case linked with the management of the Kyrgyz-Russian company MegaCom in which an external administration was introduced as early as April 2010, with 49% of stocks nationalized and 51% -as per the ruling of the Prosecutor General's office- transferred to the ministry of state property. According to the fund for management of state property, the case was initiated because it had become necessary to stop the leak of the company's cash, this being the result of corruption scams to the tune of \$10 million. The media reported that the company's management had transferred cash to an offshore company called Montgomery Limited, affiliated with the ousted president's son, Maxim. After criminal cases were launched against the company's general director and his first deputy based on Articles 118 and 122 of the Criminal Code ("Illegal Enterprise" and "Tax Evasion"), the Kyrgyz banks that worked with MegaCom froze its accounts, while the general director and his deputy were suspended and a new management brought into the company.

The suspended managers of this Kyrgyz-Russian company addressed the President, prime minister and speaker of parliament with an open letter calling the situation a corporate raid conducted in the interests of individual high-placed officials. The MegaCom conflict even involved a Russian side in the form of members of Russia's Duma (the lower house of the Russian parliament) who, during their official visit to Kyrgyzstan, arranged a press conference in which they claimed that the situation with MegaCom was adversely affecting Kyrgyz-Russian relations. The Russians claim that Kyrgyzstan's first deputy prime minister, Omurbek Babanov, was behind the scenes of the MegaCom situation and they have demanded the immediate launch by Kyrgyz MPs of an inquiry into the circumstances surrounding this case. Kyrgyz legislators bristled at this unambiguous pressure from their Russian counterparts, but they did create a temporary commission that instructed the

government to transfer 100% of the MegaCom stocks to a newly created legal entity of which the state is sole proprietor. The conflict escalated after the Prosecutor General's office issued a ruling in March terminating the criminal case against the suspended Russian management of MegaCom.

In early February, the ministry of natural resources suspended the issue of licenses for new mining development sites and repealed the contest for the development of three gold ore mining deposits. There is some justification for the ministry's actions since many companies that had earlier secured the title to develop prospective deposits failed to proceed with actual mining and extraction, mainly stopping their operations after they had drafted their technical and economic feasibility studies. It should be noted that the aim of issuing these licenses is never met simply because the Kyrgyz economy never receives the promised investments, the state budget never sees tax revenues, jobs are never created and services are never purchased from the adjacent-sector providers. The actions of the natural resources ministry nonetheless triggered criticism from extractive companies which had joined forces to form the Industrial Mining Guild, which claimed that by adopting such ill-conceived measures in the first place, the ministry had effectively paralyzed the entire industry of the nation's economy and one that is a heavy contributor to the nation's GDP. The Guild also mentioned the name of the first deputy prime minister, who will soon hold the dubious distinction of being the most talked-about member of the Kyrgyz government.

Measures to combat corruption in the energy sector are starting to yield results. National Electrical Networks of Kyrgyzstan (NESK), for example, is the nation's largest power company and a natural monopoly. After posting a KGS 760 million net loss at the end of 2009, it was able to generate net income of KGS 533.7 million in just 9 months in 2010.



Considering that no significant financial or engineering changes capable of impacting the company's profitability were observed over the reporting period, one can only guess at the cause of this turnaround. Even more surprising was the claim by the general director of Electrical Stations, OJSC, to the effect that the cost of domestic energy had fallen by 25 tyins (1 KGS (som) consists of 100 tyins), thus totalling just 43 tyins today. No objective causes for such a reduction in energy costs could be found. This was doubtless a result of the audit conducted in the energy companies.

The newly appointed energy minister publicly spoke about lack of control in the Kyrgyz energy sector where egregious cases of unaccountability of energy companies' management are left unpunished. Nobody was held liable for the spill of water from the Toktogul Water Reservoir, the improper explosion during the construction of the dam of the Kambarata Hydro Power Station 2, the destruction of the first power unit of Kambarata 2 launched as recently as in 2010, or the disappearance of KGS 1.2 billion in the course of the construction of the dam itself.

On 19 February, the board of the ministry of energy suggested that the NESK board of directors should dismiss the heads of several power transmitting and power distribution companies -including the director of NESK- from their duties. Investigations of power company operations will be conducted by the state service for national security and the financial police.

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