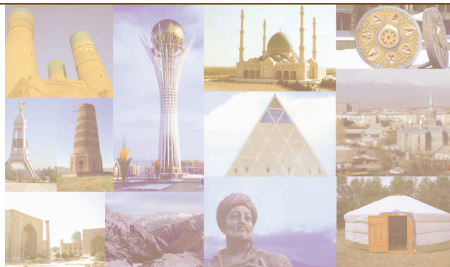


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KYRGYZSTAN

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Highlights

With GDP forecast to fall 5.4% in 2010, the Kyrgyz government plans to cut national budget expenditure, starting with public spending. There was yet another attempt to destabilize the situation in August in north Kyrgyzstan. The authorities promptly took action to restore public order, triggering a positive response from the public, which is a rarity nowadays.

Destroyed buildings and infrastructure in the south are gradually being restored. Construction and reconstruction is taking place amid protests by authorities in southern Kyrgyzstan against the arrival of an OSCE consultative police group.

Internal affairs of the country

The initial outcome of the bloody events in the south of the nation were publicized by the general directorate for the recovery and development of the cities of Osh and Jalal-Abad and the Osh and Jalal-Abad provinces, created by the President of Kyrgyzstan. In the two southern provinces, 1,859 residential houses were destroyed, two-thirds of them in the city of Osh and the Kara-Suu district of Osh Province. About 20,000 people left the city of Osh and Osh province, with ethnic Uzbeks heading for Russian cities such as Moscow, Yekaterinburg, Novosibirsk and Krasnoyarsk. Ethnic Kyrgyzstanis are also attempting to flee from the unstable regions by migrating to the northern provinces.

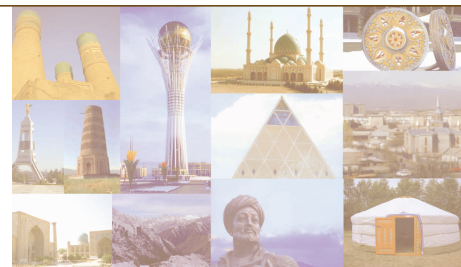
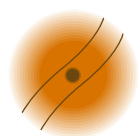
The prosecutor's office has initiated over 3,000 criminal proceedings against participants in the June events. The authorities put the number of victims at 2,814; 314 bodies were found, 58 of which have yet to be identified. The Kyrgyz authorities

have approached the Russian Federation for assistance with forensic identification. The first 35 criminal cases have been filed in court and the first 63 defendants now face criminal proceedings.

Reconstruction work has begun in Jalal-Abad and Osh provinces; in the city of Jalal-Abad the authorities are hiring jobless people and paying them the equivalent of the going average monthly salary in this region. The reconstruction and recovery process is much slower in the city of Osh, which bore the brunt of the June events. These delays are ascribed to conflicts of interest between corrupt local officials, criminal gangs and individuals connected to Afghan drug trafficking, all of whom are pursuing their goals and hindering reconstruction and recovery efforts. Some of them- a group represented by the Osh city mayor- have even resolved to take a public stand against the central authorities.

Provocative public speeches by the mayor of Osh lashing out at the government caused a stir among the population of Kyrgyzstan and local and foreign media, with some local residents applauding the nationalistic rhetoric of their mayor. He was appointed by former president Bakiyev and is believed by some experts to have criminal connections. He was quick to take advantage of the June interethnic clashes to increase his commercial and political assets, resorting to using populist slogans focusing on the protection of ethnic Kyrgyzstanis -this clearly highlights the diametrically opposed stand of the local and central authorities- and speaking of the division of the Kyrgyz people into southerners and northerners in a bid to appeal to the urban poor and domestic migrants, who are, in turn, mainly of Kyrgyz ethnicity. This regional mutiny culminated in a number of rallies being staged in Osh and lasting several days, with up to 3,000 people congregating.

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The rally participants, agitated by rumours that the mayor had been arrested in Bishkek, demanded his immediate release and reinstatement as mayor of Osh. The “people’s hero” himself, having spoken during the rally, claimed that the government had forcibly held him in the capital and offered him various posts which he allegedly rejected. In late August, the stand between the central authorities and the unchecked power-hungry mayor was resolved with a Scotch verdict which resulted in the mayor filing his application for vacation and leaving the country.

On 5 August, north Kyrgyzstan saw disturbances instigated by speeches of proponents of the businessman Urmat Baryktabasov, currently under investigation. The rally participants started protests simultaneously in two cities; the rally column then proceeded to march from the city of Balykchy towards the capital. The rally participants’ demands triggered bewilderment and indignation among most of the public since the rally participants were not only calling for the criminal investigation to be discontinued but also for Baryktabasov be appointed prime minister.

As the column moved toward Bishkek, it was stopped by military and police forces because some of the protesters were carrying weapons that could put peaceful citizens at risk, or so interior minister Kubatbek Baibolov claimed. The head of the State Service for National Security of the Kyrgyz Republic, when speaking to the media, claimed that the State National Security Service was in possession of documents proving that money had been distributed among the protesters for supporting Baryktabasov. Relatives of ex-president Bakiyev had also allegedly paid cash for arranging disturbances. The organizers of the action were armed with automatic guns and grenades were distributed among the protesters. After the protesters were dispersed and Baryktabasov’s offices in the cities of Bishkek and Balykchy searched, the prosecutor-general brought

criminal proceedings on three counts as per the criminal code of the Kyrgyz Republic: mass disturbances, illegal storage of weaponry, and attempting to forcibly capture power. One should note that Baryktabasov was charged with attempting to forcibly capture power back in 2005 when his supporters stormed government headquarters.

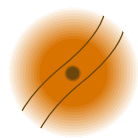
On 10 August, interim president Roza Otunbayeva announced that national parliamentary elections were scheduled for 10 October. By 16 August, pursuant to the laws in force, 57 political parties had informed the central electoral commission that they wished to take part in the upcoming elections. However, only 29 of them have submitted all the necessary paperwork qualifying them to run in the elections.. Throughout the country, 2,289 polling stations will be opened and over 2.7 million voters are expected to participate in the election.

In August, a demand made both in 2005 and 2010 concerning media freedom was finally met. The major national TV and radio channel -now the Public TV and Radio Broadcasting Corporation- stopped reporting directly to the executive branch. A steering board of the Public TV and Radio Broadcasting Corporation has been created, comprising representatives of civil society. The board will now appoint a general director and draft the channel’s policy.

Other steps attesting to the growing power of the country’s civil institutions include the creation of another steering committee to control expenditure of a special fund that has been created to finance reconstruction and recovery efforts in the south.

Foreign and international policy

On 27 July an international donor conference was held in Bishkek, during which the international community expressed their support for the Kyrgyz government’s efforts to salvage the economy and



rebuild social infrastructure. Donors pledged to provide up to \$1.1 billion in funding within the next 30 months, with \$600 million to be transferred by the end of this year. This figure was deemed significant, although deputy prime minister Jantoro Satybaldiyev, in charge of the reconstruction and recovery of residential and commercial infrastructure in the Osh and Jalal-Abad provinces, was quick to point out that these are just the figures donors are claiming they will give.

Most of the proposed donor funding will be earmarked for social targets such as the construction of temporary winter housing and assistance to victims of violence and their families. Funds will also be allocated to the reconstruction and recovery of infrastructure, eg, overhead power lines, power plants, energy generation equipment and repairs of state building to ensure the operation of state services. Meanwhile the Kyrgyz government has promised to adopt strict measures to ensure that these donor funds are used for their proposed targets.

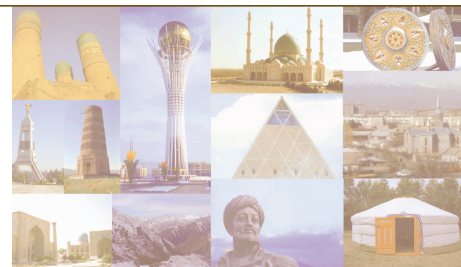
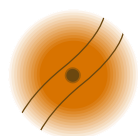
In July and August, a campaign was launched in the largest cities of Kyrgyzstan -including the capital- against the arrival in the south of an OSCE consultative police group consisting of 52 people. Leaflets were handed out in the cities of Jalal-Abad and Osh urging the public to protest against the appearance of police consultants. The organizers of the “Kyrgyzstan against the Entry of Foreign Forces” movement held a press conference in one of the news agencies and promised rallies and the blockade of the Osh city airport and roads by which the police officers were expected to travel. Despite the fact that the police group -as per the arrangement with the Kyrgyz government- is only supposed to act in a monitoring capacity -advising Kyrgyz police and training law enforcement personnel- some Kyrgyz citizens picked up the populist slogans and supported the campaign against OSCE police. The most common conspiracy theory “arguments” disseminated in the Kyrgyz-language media were

the Western/American conspiracy against the Kyrgyz Republic, the separation of the southern provinces from the rest of the nation and the creation of a second Kosovo there, the overall incompatibility of Western and local mindsets, and the high cost of the OSCE police officers’ stay in the country. Attempts by several independent analysts to provide a balanced position on this issue were received with hostility on the part of the “patriots,” who claimed that the arrival of international police officers in the post-conflict area would only exacerbate the interethnic situation in the south. The interim president Roza Otunbayeva was also criticized for meeting high-level OSCE representatives and supporting the presence of police consultants in the cities of Osh and Jalal-Abad.

On 11 August, protesters organized simultaneous rallies in the cities of Bishkek and Osh protesting at the arrival of the police consultants, attracting about 200 people. Disturbances were further fuelled by certain provisional government members who spoke out against the entry of the police officers thus demonstrating the lack of unity that prevails within provisional government ranks. This stand also denotes a desire to exploit the row concerning the OSCE police consultants and use it as a trump for the upcoming October parliamentary elections.

A belated attempt to make the public aware that the Kyrgyz government had in fact approached the OSCE with this request on 14 June in the throes of the bloody public disturbances in the south when emergency assistance was needed met with little sympathy.

On 20 August, an informal summit of heads of the member states of the Collective Security Treaty Organization (CSTO) was held in Yerevan, during which the stabilization of the situation in Kyrgyzstan became one of the main talking points. Due to the disturbances in the Kyrgyz Republic, the organization members discussed the need for changing CSTO methods and principles to ensure swifter and more



effective action in territories of Member States in situations like those unleashed in the cities of Osh and Jalal-Abad in June.

Economy and business enterprise

The ministry of economic regulation and the finance ministry published their forecasts for economic growth trends in Kyrgyzstan in 2010. Economic growth is forecast to fall 5.4%, which is the worst result in the past decade. The primary causes of this negative GDP growth are the destruction or partial suspension of enterprises' operations, especially in the south of the nation, the closure of borders for Kyrgyz exports by Kazakhstan and Uzbekistan, the closure of businesses and the stoppage of capital outflows, unregulated proprietary rights, conservation of the nation's largest commercial bank and the leakage of significant amounts of cash outside the country.

In July 2010, Kyrgyz foreign debt reached 8,519,000,000 soms, its highest level since independence.

The state has determined that 40% of the enterprises that have been nationalized since April will be auctioned off. All the enterprises that were less than 100% state-owned will be sold in open auctions. The state will retain sole ownership of energy companies and the Manas international airport terminals.

In August, there was a sharp rise in the price of flour, bread and bakery products. According to various independent experts and the anti-monopoly regulation authorities, this price hike was caused not by objective factors but by collusion among the five largest flour milling companies. "Our country faces a tough situation. The government is developing an anti-crisis plan and the flour mills are operating against the interests of our people," ran the verdict of the anti-monopoly agency. The government lowered import duties in an attempt to

lower staple food prices and increase the quantity of flour imported into the nation.

On 20 July, interim president Roza Otunbayeva signed a decree relative to the initiative to enhance the transparency of the national fuel and energy complex. This initiative includes the creation of a steering committee comprising representatives of civic society. It calls for the regular notification of the public in relation with the industry's expenditures and revenues, cash flows, use of target deposit accounts, the introduction of a procedure for transparency in determining pricing methodologies and energy pricing, the development of information systems to monitor the operations of the fuel and energy complex companies, and the introduction of open and competitive auctions for energy imports and exports. It is on the basis of this initiative that the energy ministry has already held the first open auctions for the export of Kyrgyz energy in the history of independent Kyrgyzstan.

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