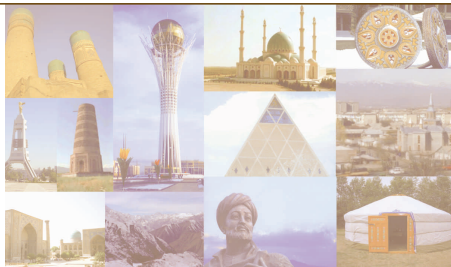


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KYRGYZSTAN

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Highlights

The July presidential elections were characterized by gross violations of the law and resulted in a reform of the public administration. President Bakiev's power grew even stronger and his youngest son Maxim was given a top job.

Another event that sparked great controversy in Parliament and in society was the approval of a package of legislative amendments paving the way for the privatization of Kambar Ata, the largest hydroelectric power plant under construction in the country.

Internal affairs

The reform of the public administration has been a regular media discussion topic since the beginning of the year. Many reforms have taken place in this sphere in recent years, without any tangible results. However, given the constant suppression of political and civil liberties in the country and increased harassment of opposition parties, NGOs and mass media, especially after the last presidential elections, perception of the significance of the upcoming reform of the public administration has started to change. Unfortunately, pessimistic predictions have proved to be accurate in that the September-October 2009 reform is aimed at further concentrating power in the hands of the president and further weakening the Council of Ministers.

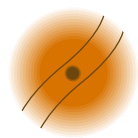
The first details of the upcoming change were revealed during the speech delivered by the President on 1 September at the opening session of the fall trimester of Parliament. On 20 October, the President gave more details during a special session of the Council of Ministers, upon which he proceeded

to sack the Council of Ministers. On 21 October, Ak Jol, the pro-president party in Parliament, nominated Mr. Daniyar Usenov for the premiership. There was little doubt that Mr. Usenov would eventually be approved as Ak Jol has almost 80% of votes in Parliament. On 22 October, Parliament approved the new structure of the executive branch and on 6 November, the new Council of Ministers was sworn in.

The need for reform was explained by the poor performance of the executive, its tardiness and redundancy: its inability to "promptly respond to crises and rapidly changing environment". The result of these changes is that the number of vice prime ministers has increased, the number of ministries remains the same, whereas the number of state agencies has been reduced by four. Five committees were replaced by six state services and two foundations. Of the 15 members of the new Council of Ministers, including the prime minister, twelve were members of the previous cabinet. The Ministry of Foreign Affairs, State Committee for National Security, the Financial Police Service, the Patent Service and the Religious Affairs Agency have been placed under the direct authority of the President, in addition to the newly created State Registration Service and State Staffing Service.

The organizations under the President have been entrusted with greatly expanded functions and scopes of authority and are now known as the Institute of the President of the Kyrgyz Republic. The Institute replaces the Administration of the President and consists of 5 bodies: the Office of the President, the Secretariat of the President, the Central Agency for Development, Investment and Innovation, the State Presidential Advisor for Defence, Security and Order, and the State Minister for Foreign Affairs. Also under

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the auspices of the new Institute are several consultative/coordination bodies: the Presidential Assembly and the Development Council. Another consultative body was proposed (its regulations are being finalized at the moment) - the Kurultai of Concordance, responsible for ensuring consensus between stakeholders in decision-making.

The new Central Agency for Development, Investment and Innovation will be responsible for developing strategy for structural reforms of the economy, coordinating local and regional development, attracting investment, overall coordination and preparation of the development budget, developing national infrastructure projects and business environment improvement. The Agency took over the Development Foundation, which was responsible for administering \$300 million. The head of the new agency was appointed on 29 October 2009: he is Maxim Bakiev, son of President Kurmanbek Bakiev.

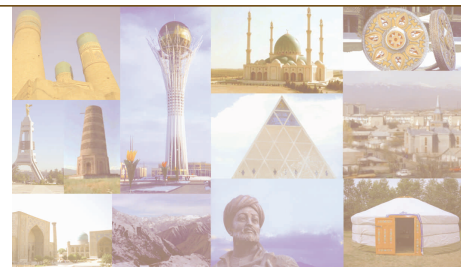
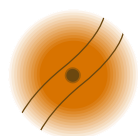
The United People's Movement (united opposition whose ranks thinned significantly as a result of a series of criminal investigations of opposition leaders during the election campaign) issued its assessment of the reform. The opposition believes that the reforms have removed certain key ministries from the cabinet, significantly weakening its authority. The Ministry of Economic Development and Trade was transformed into a Ministry for Regulation of the Economy, inheriting only a small fraction of its previous mandate and essentially becoming a simple regulator. The United People's Movement believes that Bakiev "concentrates power in his hands". A number of Russian-Kyrgyz and English-language electronic and printed media agree with this assessment. Mr. Tekebaev, chairman of the Ata Meken Party, was officially warned by the Bishkek prosecutor for his critical article "Reforms from Akaev to Bakiev. The President privatizes power." The prosecutor's warning states that the article damages the President's honour, dignity and reputation.

Following the example of the executive branch, Parliament decided to reform its structure, reducing the number of committees from 12 to 9, which should reduce the staff of Parliament. Not one of the new committees is headed by a member of the Social Democratic Party of Kyrgyzstan (SDPC), the opposition party which suffered significantly after the 23 July elections. The SDPC Leader Bakytbek Beshimov fled Kyrgyzstan, fearing for his life and safety. The immunity of another SDPC member, Kubanychbek Kadyrov, was withdrawn by Parliament due to Kadyrov's alleged involvement in public disorders in the city of Balykchy during the last elections.

Not all the reforms are negative. The streamlining of passport issue functions, vehicle registration functions and civil registration functions is a positive development. Overall, however, these reforms have political aims. Several Kyrgyz experts believe that the reform is the first step of operation "Successor", aimed at preserving power in the hands of one family

Foreign and international policy

It has become customary to mention problems in Kyrgyz-Uzbek relations in this section of the overview. This time, the factor that contributed to maintaining tensions between the two countries was Uzbekistan's intention to secede from the Common Energy System, an energy system that unites the former Central Asian republics of the Soviet Union. On 29 September, KazTAG, quoting Mr. Sauat Mynbayev, Minister of Energy and Mineral Resources of Kazakhstan, reported Uzbekistan's intention to secede from the Common Energy System. The consequences of such a move would be felt by all the republics, with Kyrgyzstan suffering the most. The Common Energy System is used to deliver electric power from the grid systems of one country to another; the same system is used for the automatic regulation of hydroelectric power plants in the basin of the Naryn-Syrdar'ya and Amudar'ya rivers. The system is used to create back-



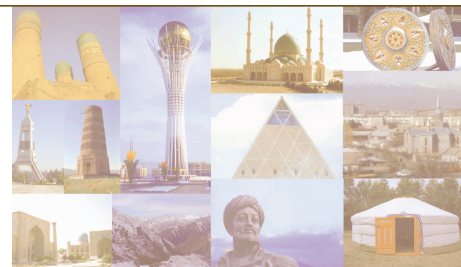
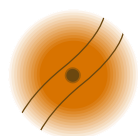
up power to offset consumption peaks or grid failures and to regulate operation of high-voltage electric power transmission lines. Uzbekistan's secession from the system would cause more grid failures in Kyrgyzstan. It should also be noted that the centralized switchboard/control room of the Common Energy System is located in Tashkent, Uzbekistan. The secession was postponed twice following visits of Kyrgyz officials to Tashkent. On 19 October, reports started surfacing that Uzbekistan has decided to stay in the Common Energy System. Another outcome of bilateral negotiations was that the countries agreed to formalize and monetize trade of electric power. In the past, the Uzbek section of the Ferghana Valley was powered by electricity generated by Kyrgyz power plants, while Tashkent supplied heat energy for Kyrgyzstan's north in the winter season via Kazakhstan. In October, the Kyrgyz government declared a power conservation mode in the country and started cutting off consumers.

In October, Spanish and French military personnel left the Manas Transit Center (formerly known as Manas Air Base). Kyrgyz Parliament failed to ratify a new agreement on the Transit Center by 13 October and the old agreement expired. At the same time, a series of large-scale military exercises of CSTO forces were held in Kazakhstan's Zhambul province, near the Kyrgyz-Kazakh border. The exercises were unofficially called anti-NATO manoeuvres, combining 6,000 troops from Kazakhstan and 800 troops for Russia, Armenia, Kyrgyzstan, Tajikistan and Belarus. The exercise was aimed at practicing actions of the military forces of the member states in the event of aggression by a third country against one of the member states, counter-insurgency actions and hostage rescue. The presidents of five member states observed the exercises. Mr. Nikolai Bardyuzha, CSTO Secretary General, in his interview with Russia's *Krasnaya Zvezda* newspaper noted that it was necessary to establish a collective conflict prevention force, similar to joint Russian-Belarusian and Russian-Armenian rapid deployment forces.

On 2 October, the Kyrgyz epic poem *Manas* -one of the longest epic poems in the world with 500 thousand lines, describing the history, mythology, beliefs, customs and traditions of the Kyrgyz people, preserved by generations of Manaschi (specialists in the epic)- was nominated for inclusion on the UNESCO World Heritage list by China. The fact that this proposal was not submitted by the Kyrgyz government sparked an outcry and caused the authorities to appeal to UNESCO to amend the nomination. Kyrgyz NGOs, scientists and performers wrote an open letter to UNESCO Director General Irina Bokova urging her to amend the nomination and cite Kyrgyzstan instead of China. A curious coincidence is that the Kyrgyz Parliament, worried by the lack of open displays of patriotism among Kyrgyz citizens, modified the Law on the National Anthem requiring all citizens to sing the National Anthem. Earlier, the requirement was to place the right hand on the left side of the chest during performances of the National Anthem. MPs have also promised to come up with penalties for failure to comply with the law on the National Anthem.

Economy and business enterprise

On 6 October, the Council of Ministers introduced a draft law repealing the Law "On Constructing and Operating Kambar-Ata 1 and 2 Power Plants". This Law requires the state to maintain 100% ownership of the capital of the two power plants and expressly prohibits the sale, exchange or transfer in any other form of the two power stations. The Council of Ministers explained that in order to complete construction of the two power plants, the government needs to bring additional funding from the Kyrgyz Development Foundation and that such a transaction requires removal of legislative barriers in the law with respect to shareholding and assets of the power plants (as mentioned previously, the Development Foundation has now become part of the Central Agency for Development, Investment and Innovation, headed by the President's son, Maxim Bakiev). On 9



November, the Ak-Jol party, with a majority of votes in Parliament, approved the draft, which means that the two power plants may now be sold or serve as collateral. Discussion of the proposed draft elicited a rare show of joint resistance from the only two opposition parties. Communist Nikolai Bailo said, “I think that this is another scam. We were pushed into a corner and are now expected to agree with modifications”. Ms. Roza Otunbayeva of the Social Democratic Party stated that the purpose of the Development Foundation was to ensure that a group of individuals could privatize strategically important Kyrgyz infrastructure objects and that “private interests are given priority over national interests”. The Law was signed off by the President on 14 October.

The Ministry of Finance published data on the country’s external debt. As of October 2009, the debt is 40% of GDP, which is a normal level and no problems are expected in servicing this debt. The country’s volume of foreign trade continued to decline (minus 23% compared to October 2008). Tax revenues from Kyrgyz exporters have also decreased. The number of newly created business has fallen by half (the decrease is mostly in the small and medium business sector). At the same time, the International Business Council of the Kyrgyz Republic (a business association, whose membership includes a wide range of big local and international businesses), notes increased positive perception of investment climate among its members. The National Bank’s discount rate has fallen to a record low of 1.99%, with a 0.39% drop in the space of one week (26 October–3 November). However, the efforts of the National Bank have yielded few results so far, with lending volumes in Kyrgyz commercial banks continuing to drop. However, there has been a significant and consistent increase in the volume of deposits, especially foreign currency deposits, which is an indication of lower consumption and investment.

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Б и ш к е к 2009 (Social and Economic Situation in the Kyrgyz Republic (January - September 2009), publication of the National Statistic Committee of the Kyrgyz Republic)

¹ Kyrgyz word for gathering, meeting, assembly

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