

BTI 2008 | Kyrgyzstan Country Report

Status Index	1-10	5.80	# 63 of 125	
Democracy	1-10	5.95	# 66 of 125	↑
Market Economy	1-10	5.64	# 59 of 125	→
Management Index	1-10	4.67	# 77 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	5.1	HDI	0.71	GDP p.c.	\$	1,714
Pop. growth ¹	% p.a.	1.0	HDI rank of 177	110	Gini Index		30.3
Life expectancy	years	68	UN Education Index	0.92	Poverty ³	%	21.4
Urban population	%	35.8	Gender equality ²	-	Aid per capita	\$	52.2

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Two years after a political upheaval in March 2005 forced authoritarian President Akaev to step down from office, the first relatively free elections in years ushered in a new elite under the leadership of President Bakiev and Prime Minister Kulov. However, Kyrgyzstan's future is far from certain. The country has the opportunity to consolidate its path toward democratization; it has already taken significant steps with the re-introduction of free speech, equal political rights and political competition in the spring of 2005. However, Kyrgyzstan may fall back to a more authoritarian type of political order if the country's elites prove unable to forge a consensus on the future "rules of the game." The new ruling elite may also resort to the unlimited executive power typical of the late Akaev era. Although there is significant potential for political pluralism in Kyrgyzstan, especially compared to its neighboring countries, the drive for a re-consolidation of authoritarian power in a region that is conspicuously short of democracies should not be underestimated. Meanwhile, the former Soviet republic continues to face major social and economic challenges. Economic growth, badly needed to compensate for catastrophic GDP contraction following the breakup of the Soviet Union, is vulnerable to singular shocks (such as a decline in production in the country's largest gold mine) and has been shaken by the political turmoil of recent years. In order to secure at least minimal investments in strategic sectors, such as health and education as well as physical infrastructure, the country continues to rely on external assistance. At the same time, the state bureaucracy receives inadequate salaries, and informal rules raise additional barriers to the implementation of effective reform policies.

History and Characteristics of Transformation

During the fifteen years of independence since the end of 1991, Kyrgyzstan's post-Soviet history has seen both periods of democratic progress and authoritarian backlash. The country has embarked on economic reforms more comprehensive than those of almost any other post-Soviet country, with the exception of the Baltic republics, but the social gains that should have resulted from that strategy have been painfully slow to materialize.

Soon after the dissolution of the Soviet Union, the former Soviet republic earned a reputation as a champion of democratization in Central Asia. President Askar Akaev, who rose to the helm of the republic in 1990, attracted international support for his small country and, having spent the greater part of his professional career as a scientist, enjoyed the image of an intellectual turned politician who was willing to lead his nation into a new, democratic era.

In fact, the country achieved some remarkable successes in bringing about political transformation. Civil rights such as freedom of speech and freedom of assembly were effectively introduced. Freedom of religion and freedom of conscience were also guaranteed. Citizens gained new opportunities to express their interests openly and legally, make their grievances known and suggest alternatives. Legislative and presidential elections were mostly free and fair.

By the mid-1990s, however, there was a backlash against liberalization, marked by legal changes intended to increase the authority of the president, sideline the opposition and manipulate elections. Parliament was deprived of power. Its responsibilities were limited, its legislative rights curtailed and its oversight functions reduced to a minimum. It was excluded from the government-building process. With the persecution of some independent journalists as early as 1997, the freedoms of speech and of the press were gradually restricted. Increasingly, positions of political authority and economic power came under the control of the president's "family," a euphemism for the narrow elite affiliated with Akaev either through kinship or personal loyalty.

In economic terms, Kyrgyzstan was initially quite dedicated to reform and quick to embrace the policy prescriptions of international financial institutions. Small- and medium-sized businesses were privatized, prices were liberalized, control over the exchange rate was relinquished and convertibility of the currency was achieved. In 1998, Kyrgyzstan was the first country in Central Asia to join the WTO, a move accompanied by a comprehensive liberalization of foreign trade. International organizations provided key support to the economic transformation process. Indeed, Kyrgyzstan received the most international aid per capita of all the countries in Central

Asia. External sponsorship did not prevent the country from sliding deep into economic crisis and poverty during the first years of independence. Although GDP grew continually from 1995 to 2004, this growth started from a devastatingly low level of 50% of its 1989 value, leaving the country with an economy that had barely reached 85% of its former volume 15 years after the beginning of economic reforms in 1989. By the beginning of 2005, social and political dissatisfaction with Akaev's rule had reached a critical level among the country's elites, and opposition groups comprised of many former Akaev allies had re-grouped under the leadership of prominent figures, among them former Prime Minister Kurmanbek Bakiev. The country was moving toward parliamentary elections and Akaev's own political future hung in limbo; the president's final term in office was supposed to end in autumn 2005, and Akaev had not yet given a clear indication of how he envisioned his succession.

The ruling elite's obvious attempts to manipulate the results of the February 2005 parliamentary vote in favor of Akaev and his supporters sparked protests among opposition forces who were inspired by recent events in Ukraine and Georgia. Within days, localized conflicts between supporters of defeated opposition candidates and local authorities in a number of southern provincial towns culminated in a major political crisis. Protests spread throughout the country, including the capital, and prompted Akaev to leave Kyrgyzstan on 24 March 2005. He resigned from office soon thereafter. The opposition leader Bakiev was quickly installed as acting president. An alliance with former Vice President Felix Kulov, another popular opposition figure, secured Bakiev a handy victory in the early presidential elections of July 2005. Despite persistent rumors about political infighting, the unlikely alliance between the southerner Bakiev and the northerner Kulov remained intact until the end of 2006. Their joint rule helped establish basic stability in the country. But soon politics became dominated by growing tensions over constitutional amendments designed to strengthen the role of parliament and curb the president's extensive powers. Heated controversy over policy issues, such as debt relief under the international HIPC initiative, aggravated the matter.

On 19 December 2006, Prime Minister Kulov resigned from office, allegedly in an effort to pave the way for early parliamentary elections. President Bakiev introduced Kulov's candidacy two more times to parliament, predictably failing to win a majority. Surprising many observers and Kulov as well, Bakiev proposed a new candidate for the third round, former Minister of Agriculture Azim Isabekov, who received parliamentary confirmation on 29 January 2007. Kulov, who had expected Bakiev to dissolve parliament should deputies reject his candidacy for a third time, accused the president of having broken his word. It will largely depend on the choices of a few political leaders whether these latest developments mark the beginning of a new period of cooperation between government and parliament, or whether they herald the end of a temporary truce of political forces that will now give way to power struggles and renewed instability.

Transformation Status

I. Democracy

1 | Stateness

The state's monopoly on the use of force is formally established throughout the Kyrgyz Republic. Threats of secession do not exist, nor is the principle authority of the state as such challenged. Ever since mass protests led to the ouster of President Akaev in March 2005, however, mass demonstrations, blockages of roads or even attempts at capturing government buildings have become regular expressions of public discontent with the government. Such incidents test the government's ability to guarantee law and order in agreement with a large majority of the population rather than in conflict with it. There are persistent rumors that most protest activities were not spontaneous expressions of popular discontent per se, but were orchestrated and sponsored by rival elite factions from different parts of the country. These data combine to create an overall picture of an intact yet vulnerable monopoly on the use of force.

Monopoly on the use of force

Like most successor states of the Soviet Union, Kyrgyzstan is a multi-ethnic state. After the breakup of the Soviet Union, Kyrgyzstani citizenship was granted to former Soviet citizens based on residency rather than ethnicity. Ethnic Russians in the north and ethnic Uzbeks in the south constitute considerable minorities. In general, all citizens enjoy the same civil rights regardless of their ethnic, religious or cultural affiliation. Conflict has arisen in recent years over preferential treatment of the Kyrgyz language, which is not even native to all ethnic Kyrgyz, and a language requirement that exists for presidential candidates. Some less prominent minorities, such as Uighurs, have complained in the past about a certain degree of practical discrimination by government employees, but such practices do not seem to be a result of intentional policy or to enjoy systematic government support.

State identity

Kyrgyzstan's constitution clearly separates the state from religious institutions and prohibits any influence by religious authorities on state affairs. The state is effectively a secular order, and religious dogmas and authorities exert no defining influence on the political process.

No interference of religious dogmas

The state has a differentiated administrative structure throughout its territory. Large parts of this structure were inherited from the Soviet system, although many institutions underwent structural reform after independence. Yet the proper functioning of administrative structures is hampered by low funding, corruption and the subversion of formal institutions by informal patronage networks at all levels of government, from the national level down to the local self-government layer of administration. In general terms, awareness among civil servants of the importance of good governance has been raised by a public debate over corruption. Administrations work more effectively in some areas than in others, some institutions are less corrupt than others, and some territories are better governed than others.

Basic
administration

2 | Political Participation

In Kyrgyzstan, the president, the national parliament, representative bodies at lower levels of government and the heads of local self-government bodies are all elected directly by the population. Yet up until the parliamentary elections of March 2005, the electoral process – including registration of candidates, access to the media and the ability to campaign freely in all parts of the country – was severely biased in favor of pro-regime candidates and drew criticism from international election observers for falling short of important standards for a free and fair vote. The first post-Akaev presidential elections in July 2005 marked a significant step forward to a fair electoral process. Given the extraordinary “post-revolutionary” atmosphere of that vote and the predictability of its outcome, however, it remains to be seen whether strongly contested elections will be conducted at the same standard in the future.

Free and fair
elections

The power of the elected president to rule is not effectively restricted, constitutionally or otherwise. He holds the effective power to govern, although there is an ongoing struggle between president and parliament over the extent of presidential vis-à-vis parliamentary powers with respect to control over the prime minister and his cabinet. Experts disagree on the extent to which local networks of patronage have been able to take over state institutions or deviate from official institutional procedures since 2005, but there are no indications of implicit or explicit agreements on “reserved domains” for any particular group or actor.

Effective power
to govern

Freedom of association and freedom of assembly are constitutionally guaranteed and accepted by the current administration which, after all, has come into office as a consequence of mass protests. The events of 2005 have indeed revitalized these basic civic rights, which had formally existed ever since independence but had been de facto restricted in the later years of President Akaev’s rule.

Association /
assembly rights

Freedom of opinion and of the press improved significantly after the fall of the Akaev regime. There was significantly less overt harassment of the opposition and independent media. Nonetheless, international reports such as Freedom House's 2006 Freedom of the Press report remain wary about the overall gains for media freedom. International observers have expressed concerns about renewed incidents of government interference in personnel policy at media outlets and in television programming content. There is also concern about pressure brought to bear on journalists, and there are reports about alleged government involvement in a forcible takeover attempt of a private TV company.

Freedom of
expression

3 | Rule of Law

The 2005 regime change has fundamentally altered the relationship between the executive and legislative branches. Parliament has turned from a loyal support base for barely restricted presidential powers under Akaev into a permanent challenger of the executive. But a tried and tested routine of mutual checks and balances has yet to develop. Despite promises by President Bakiev, a major shift in the constitutional distribution of power between the executive and the legislature, to the advantage of the latter, did not occur until late in 2006. After pressure from street protests and an initial compromise in November 2006 that was renegotiated only weeks later, a new constitution was adopted by parliament on 30 December 2006 and signed by President Bakiev two weeks later. Above all, the new basic law gives parliament a greater say in the choice of candidates for the post of prime minister. Whether this will suffice to prevent presidential power from turning authoritarian again is too early to judge, especially since the new provisions for choosing the prime minister will not come into force until after the next parliamentary elections, which are scheduled for 2009.

Separation of
powers

Effective judicial oversight of government and law enforcement agencies remains an area of great concern. Although some of the more obviously politically motivated court decisions of the Akaev era were quickly revised after March 2005 (which allowed, among other things, Feliks Kulov to return to political life), the ouster of Prosecutor General Azimbek Beknazarov in September 2005, only a few months after his nomination by President Bakiev, was surrounded by suspicions that this was in fact an attempt at political interference in certain ongoing investigations and judicial processes. While the judiciary is institutionally differentiated, the impartiality of lower-level court decisions is restricted by poor wages, corruption, and insufficient staff training and equipment.

Independent
judiciary

Corruption is pervasive at all levels of public administration in Kyrgyzstan. In Transparency International's Corruption Perception Index, Kyrgyzstan, together with most of its Central Asian neighbors, has been ranked among the bottom 20%

Prosecution of
office abuse

of nations worldwide for many years. The fight against corruption among officeholders has enjoyed high prominence in official rhetoric for just as long. However, corruption seems to be closely connected to the functioning of informal networks and thus difficult to eradicate. Prosecution under the law has always appeared to be selective, concentrating particularly on individuals critical of the government and/or the president. With the fall of the Akaev regime, public attention began to focus on corruption inside the Akaev clan. Meanwhile, charges against members of the new elite have been raised in public, but some critics accuse the new government of being just as selective in prosecuting such cases as the old regime was. Some attribute the early dismissal of Prosecutor General Beknazarov in September 2005 to his efforts at fighting corruption within the higher echelons of power.

Civil rights command general respect in Kyrgyzstan, although the bureaucracy's selective application of the law, administrative interference in cases of particular political interest, corruption and other functional deficits of the judicial system pose significant limits to their equal and effective application. The killings of several high-profile politicians and businessmen since March 2005 have revealed that the state is not able to prevent powerful non-state actors from exerting violent influence on business and politics. However, while much remains to be done to secure civil rights for all, the general situation for the average citizen has improved in comparison with the late Akaev years, if only because competition has re-emerged as an accepted feature of politics.

Civil rights

4 | Stability of Democratic Institutions

State institutions, including the administrative system and the judiciary, exist and function in accordance with the constitution, thus possessing formal democratic legitimacy. However, the political upheaval surrounding the fall of the Akaev regime has put democratic institutions, particularly parliament and the presidency, under severe stress, resulting in repeated changes of the constitution. The most positive feature of the post-Akaev era has been a significant reduction of the president's dominance over all other branches of power. On the other hand, parliament's preoccupation with the definition of its role vis-à-vis the presidency has put a strain on the legislature's performance in many other areas.

Performance of democratic institutions

Popular support for the 2005 protests against the manipulation of parliamentary elections demonstrated a widespread acceptance of democratic procedures. The degree to which regional political "clans" and other interest groups seem to have exerted pressure on political institutions, however, has raised concerns about whether all relevant elites have accepted democratic institutions. While there are no openly organized opponents to democratic procedures as such, questions about the legitimacy of the current parliament, which emerged from the elections that

Commitment to democratic institutions

triggered the 2005 protests in the first place, or even the current president, who has now broken up the coalition with which he was voted into office in July 2005, have been voiced in public in an effort to undermine their respective authority.

5 | Political and Social Integration

Despite an increase in the number of political organizations in the wake of the 2005 events, there is still no stable, socially rooted party system in Kyrgyzstan. Rather, access to power seems to be the major motivation for prominent politicians to join a party, form their own party or bring together a bloc of parties. An electoral system where candidates are directly elected in single-mandate districts has not helped the emergence of strong party factions in parliament; instead, it has favored prominent local figures with a strong informal base in their local society. As a result of the 2005 parliamentary election, still held under the rule of president Akaev, only around a quarter among the 75 elected candidates were affiliated with one of the three extant parties, all of which were considered pro-presidential at the time. In a 2006 survey, 52% of respondents could not name any political parties that exist in Kyrgyzstan.

Party system

Societal interests are only weakly represented by associations or interest groups in the political system. Although a host of business associations and other professional organizations exist, their position in the political system is typically unstable. Their integration into political processes depends less on their institutional role than on the quality of informal relations between their top representatives and the government.

Interest groups

Consent to democracy in Kyrgyzstan can most likely be called moderate, although reliable data could not be found for the current reporting period. In a 2001 IFES study, only 46% of respondents preferred democracy over any other form of government. Another survey, conducted in the aftermath of the 2005 presidential election, included questions about the political climate in Kyrgyzstan, and around 60% of respondents considered voting an opportunity to meaningfully influence decisions made in their country. This result was confirmed in a different survey conducted in summer 2006 by the Institute for Public Policy. This survey found that 48% believed that a political system in which the president has “full authority” was most suitable for Kyrgyzstan, while 5% preferred full authority for parliament. By contrast, 45% stated their preference for some form of government with greater horizontal checks and balances, referring to either “more authority” for the president (12%), “more authority” for parliament (3%), or “equal authority” for both institutions (30%).

Consent to democratic norms

After 1990 – 1991, voluntary associations of citizens and other forms of social self-organization evolved more quickly than in any other country of the region.

Associational activities

The process has been assisted ever since by international aid agencies and other organizations. As a result, numerous new have NGOs emerged. While some of them seem to exist for the sole purpose of implementing foreign aid programs, many organizations play important roles in their local communities. Often, local NGOs interact with local self-government bodies or officially endorsed traditional authorities, which contributes to increased trust among the population. However, the events of 2005 and the ensuing political power struggle have demonstrated that, both within the elite and in the population, there is still a considerably high level of distrust between members of different local or regional communities.

II. Market Economy

6 | Level of Socioeconomic Development

Key socioeconomic indicators show a mixed level of development. Although the country is not officially listed as a Least Developed Country (LDC) by the OECD in its list of aid recipients, in terms of GDP per capita, Kyrgyzstan ranks among countries like Haiti and Mauritania that are considered LDCs. The composite Human Development Index, by contrast, suggests medium human development for Kyrgyzstan, mainly due to relatively high levels of education and health care inherited from the Soviet Union. Despite partial success in the alleviation of rural poverty since the 1990s, the rural population remains disadvantaged and continues to be much poorer than urban residents. Minority ethnic groups, such as Uzbeks and Russians, experience disadvantages or discrimination in certain areas of activity. Yet this kind of social exclusion is not deeply ingrained in society. Both recent research and public reporting have highlighted the plight of women in a society where many men have left the country to earn a living abroad. In cases where the men have abandoned their families, women are often not able to find adequate employment to sustain themselves and their children. On the other hand, recent gender-related development index data for 2004 suggest that gender disparity in basic human development is relatively low, with only 55 countries in the world ranked better. Inequality has increased as a result of economic reforms after 1991. Indicators such as the Gini coefficient show that the highest level of inequality existed in 1997. Since then, the situation has improved. Today, the extent of inequality is comparable to Germany and lower than in most countries of the world, suggesting that it has not reached levels that preclude social cohesion.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	1,606	1,919	2,212	2,441
Growth of GDP	%	0.0	7.0	7.0	-0.6
Inflation (CPI)	%	2.1	3	4.1	4.4
Unemployment	%	12.5	-	-	-
Foreign direct investment	% of GDP	0.3	2.4	7.9	1.7
Export growth	%	8.1	5.3	12.8	-6.8
Import growth	%	13.1	16	16.3	12.7
Current account balance	\$ mn.	-48.9	-85.2	-75.5	-203.5
Public debt	\$ mn.	1,397.3	1,584.5	1,742.4	1,670.0
External debt	\$ mn.	1,850.6	2,023.7	2,107.0	2,032.3
External debt service	% of GNI	8.3	8.8	7.6	5.4
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	18.6	16.8	18.2	18.9
Public expnd. on edu.	% of GDP	4.5	4.5	-	-
Public expnd. on health	% of GDP	2.4	2.3	2.3	-
R&D expenditure	% of GDP	0.2	-	-	-
Military expenditure	% of GDP	2.7	2.9	2.9	3.1

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The fundamentals of market-based competition are guaranteed institutionally and in practice. Competition suffers, however, from corrupt bureaucracies and courts that do not guarantee the uniform application of the rules of the game for all market participants. A good deal of activity takes place in the informal sectors of services, street trading and subsistence farming. A new flat profit tax set at the rate of 10% came into effect in January 2006, together with other measures designed to simplify business transactions. It is hoped that these measures will help to curb corruption and reduce the size of the informal sector.

Market-based
competition

The state has retained monopoly rights in the areas of telecommunications, electricity, gas and aviation. The government has on various occasions declared its intention to continue privatizing these “strategic” sectors. Such plans, however, have met with effective resistance from various quarters in the political and business elite. For the time being, the risks associated with the preservation of state monopolies in at least some of these sectors (electricity, gas) is not so much that of monopoly rents leading to unnecessarily high prices, but rather to the opposite: the maintenance of subsidized consumer prices resulting in sustained efficiency losses and a permanent quasi-fiscal budget deficit. In the electricity sector, the authorities have begun to work with the World Bank on a tariff schedule to reach full cost recovery by 2010.

Anti-monopoly
policy

In 1998, Kyrgyzstan became the first, and thus far only, Central Asian country to join the WTO. According to a 2006 WTO trade policy review, there has been substantial liberalization of the trade regime during Kyrgyzstan’s economic transition. Tariffs have been reduced and many formal non-tariff barriers have been eliminated. Import bans and licensing are in place to protect human health and safety, national security and the environment, in accordance with international conventions.

Liberalization of
foreign trade

Since 1999, the EBRD Transition Report has rated Kyrgyz reform efforts in the financial sector as not very successful, although on average better than any other Central Asian country except Kazakhstan. Despite useful revisions to the law regulating the banking sector, which were introduced in November 2005, the legal environment is relatively weak and political interference with central bank activities remains a concern. According to a 2005 World Bank report, the sector is faced with high real interest rates, expensive collateral-based credit, and very limited long-term financing.

Banking system

8 | Currency and Price Stability

Since 1993, inflation and foreign exchange policies have largely followed the guidance of international financial institutions such as the IMF and the World Bank, leading to full current account convertibility and yielding impressive results in comparison with other CIS economies. Despite a temporary setback in the wake of the 1998 Russian crisis, a stable macroeconomic policy succeeded in bringing inflation and exchange rate volatility down to all-time lows by 2001 – 2002. Since then, the indicators have remained by and large stable, although inflation has increased gradually from year to year to an estimated 5.5% in 2006, and the IMF has begun to call for a tighter monetary policy. There is still room to improve the central bank’s autonomy.

Anti-inflation /
forex policy

Kyrgyzstan's large external debt, a consequence of generous external lending in the 1990s, could be significantly reduced and is today much less of a risk for macroeconomic stability than only three or four years ago. The Kyrgyz government and international financial institutions are monitoring this potential problem closely. Following its first agreement with the Paris Club in 2002, and upon completion of conditions that included keeping the budget deficit within narrowly defined limits, Kyrgyzstan was able to further restructure its debt with the Paris Club in March 2005. Participation in the new HIPC initiative, however, has met with major resistance from different political quarters and may not continue in the near future.

Macrostability

9 | Private Property

Private property, along with state-owned property and other forms, is constitutionally guaranteed. Property rights and the regulation of the acquisition of property are defined in major legal documents. Under the civil code, a proprietor has the right to possess and dispose of property at his or her discretion, but transactions of this sort are defined by other provisions in the law. About two-thirds of all land is now privately owned, but there are still restrictions on the transfer of land. A legal dispute surrounding the sale of BiTel, the country's largest mobile operator, to a Kazakh investor in 2005 illustrated that property transactions are still subject to competing legal interpretations that can have major repercussions on a whole sector of the economy.

Property rights

Privatization of small- and medium-sized state-owned enterprises made rapid progress in the early stages of post-Soviet reform. The privatization program stalled in the late 1990s when large enterprises were up for sale. However, since 2004, the EBRD has noted significant progress in Kyrgyzstan's large-scale privatization, with the private sector share in GDP rising to a steady 75%. As for the remaining state companies, a recent IMF assessment described efforts to accelerate and strengthen management of public utilities and state enterprises as sporadic, due to resistance from entrenched interests. As a result, management remains weak and business practices in state companies lack transparency and clear accountability mechanisms.

Private
enterprise

10 | Welfare Regime

The state safety net built up in Soviet times to compensate for social risks was thoroughly dismantled in the 1990s as a result of budget cuts. Formally, the current system of social protection in Kyrgyzstan offers payments of social benefits, including a unified monthly benefit and a social benefit, special assistance provided to some beneficiary categories, and the provision of social

Social safety nets

services to needy families and individuals. However, the amount of funds transferred through the official system remains inadequate to the task of substantially reducing the risk of poverty and economic exclusion. Nonetheless, combating poverty is on the political agenda. According to preliminary data, the poverty rate, based on consumption statistics, declined from 50% in 2003 to 44% in 2005. Meanwhile, family, clan and village structures have partially replaced the state's social network. Large portions of the population survive by subsistence economic activities. Consequently, citizens excluded from traditional networks are particularly vulnerable, such as retirees of European ethnicity or unmarried women.

There are no significant legal barriers to equality of opportunity in Kyrgyzstan, but gender and social background are reasons for differential treatment in many situations. Women have significant access to higher education and public office, but will rarely rise to leadership positions. Less educated women are under particular risk to become economically dependent on a male partner. Patronage networks play an important role in providing opportunities; they allow for vertical mobility, thus reducing the importance of material well-being, while at the same time excluding outsiders from their networks. The political unrest since 2005 has highlighted different regional origins as another source of grievances, but to what extent the underlying perceptions are really based on inequality of opportunities remains unclear.

Equal opportunity

11 | Economic Performance

After a period of strong economic recovery, with GDP growth at 7% in 2003 and 2004, the Kyrgyz economy experienced a contraction of output in 2005 at 0.6%, before rebounding with an estimated 4% in 2006. The decline in 2005 was partly due to a sharp decline in production from the Kumtor gold mine, which accounts for 6% of GDP. However, disruptions following the political events of March 2005 also had their effect on the economy, as non-gold GDP growth fell from 7.8% in 2004 to a mere 1.5% in 2005. At the same time, inflation was kept at tolerable, though rising levels. Increased attention to inflationary pressures seems warranted. Contrary to recent poverty estimates, new employment data suggest a continued rise in unemployment, creating the risk of a renewed increase in poverty. As another consequence of reduced gold exports in 2005, the current account deficit widened sharply to 8% of GDP, remaining high at an estimated 6.6% in 2006. However, with the help of Paris Club creditors who agreed to reschedule bilateral debt shortly before the political crisis of March 2005, external debt could be reduced considerably between 2003 and 2006, still leaving a solid overall debt but giving the country new room to maneuver. The steady increase in government revenue since 2003, including grants, has created new opportunities

Output strength

for the government to invest in education, health and social benefits, as well as infrastructure development.

12 | Sustainability

Environmental concerns are still not at the top of political agendas, although recent worldwide concerns about global warming have also resonated in Kyrgyzstan. In practice, however, environmental concerns tend to be discounted when they conflict with efforts to accelerate growth. Well-known ecological risks, such as salinized soils in areas of cotton production or the contamination of drinking and irrigation water near uranium depots, have been acknowledged for quite some time but are inadequately dealt with due to a lack of financing.

Environmental
policy

There are institutions for education, training, research and development in important research areas, but they are very heterogeneous on the whole, with clear deficits in research and development. There has been a marked decline in state investment since independence. However, the private or semi-private educational and research sectors are rather developed and unconstrained.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

Structural constraints on governance have continued to persist at a high level during the period under review. Before 1992, Kyrgyzstan had already been among the poorest republics of the Soviet Union and its budget was heavily subsidized. After independence, it suffered disproportionately from the breakup of Soviet trade patterns and production chains. A small domestic market, low levels of diversification and limited manufacturing capacities restricted the economy's potential for new investment. The country's land-locked and largely mountainous geography poses an additional barrier to trade and exchange. Inadequate roads and communications infrastructure complicate attempts at improving administrative governance and addressing local needs effectively. Two positive structural legacies of the Soviet era were the well-educated workforce and acceptable health standards by international comparison. Sharply declining investments in the education and health sector during the 1990s, however, may cause structural problems in the years to come. In recent political conflicts in the country, opposing forces were able to recruit young people with relative ease for their causes, and many of these recruits were ready to resort to violence. This development may be linked to low levels of education and high unemployment among males under 25 years of age.

Structural
constraints

Despite weak traditions of civil society from the Soviet period, Kyrgyz society was marked by a surprising increase in civic engagement and activity in the 1990s, supported by a widespread reorientation toward traditional social bonds. Nevertheless, trust in institutions is very limited, as is social trust in general. The events of March 2005 have triggered a period of "street activism" that clearly goes beyond healthy levels of civic participation, but some suspect that this may be the result of manipulation by leading political forces.

Civil society
traditions

Despite Kyrgyzstan's ethnic and cultural diversity, the country's main line of conflict, if not cleavage, appears to be the long-standing and widening north-south divide. This conflict is primarily rooted in southerners' belief that they are socioeconomically disadvantaged in comparison with the political elite in the northern capital of Bishkek. Interestingly, the relevance of this "cleavage" seems

Conflict intensity

to have increased rather than declined since southerner Kurmanbek Bakiev replaced northerner Askar Akaev as the president of the country, and long before the alliance between Bakiev and northerner Feliks Kulov broke apart in January 2007. Apart from the north-south divide, Kyrgyz society is structured by competing clans as well as ethnic and religious allegiances. Though none of these barriers is insurmountable or necessarily leads to conflict, together they provide political entrepreneurs with a variety of opportunities to mobilize fierce protest against any government or major policy decision.

II. Management Performance

14 | Steering Capability

Rhetoric about “strategic planning” has continued to dominate political announcements since the 2005 change in power. Vitalizing the economy under a market framework and improving social conditions for the majority of the population have remained on the top of the official political agenda. Likewise, strengthening democratic institutions is the generally accepted premise guiding the constitutional reform, which is supposed to provide for governing capacity as well as checks and balances on the pursuit of power. In reality, however, politics is largely dominated by political infighting between competing political factions that differ much more over their personnel than over explicit policy options. As a consequence, many policy reforms are stalled, and the political leadership appears no less paralyzed with regard to new policy initiatives than the Akaev administration was in its final stages. The government’s failure to secure parliamentary support for the HIPC initiative providing Kyrgyzstan substantial debt relief and thus new financial flexibility signals a substantial inability of the political elite to adopt necessary policies in the middle of a political struggle for power.

Prioritization

Even so, the commitment to political competition and contestation is more trustworthy today than it was in the previous reporting period, if only because none of the relevant actors seem to be strong enough to impose their will on their competitors. At the same time, there have been signals of renewed attempts at “soft censorship,” but their scale and scope is not comparable to the extent typical for the late Akaev era. Implementation of policy reforms, including constitutional reforms, remains problematic. President Bakiev has retreated from his 2005 commitments to constitutional reform curbing presidential powers.

Implementation

After a first compromise was reached under the pressure of street protests in November 2006, Bakiev annulled the agreement within weeks and came up with a new constitution more favorable to the interests of the president.

After less than two years in office, it is difficult to assess the political leadership's ability to learn from past errors. However, many observers would maintain that the "new" elite is in many ways not much different from the old elites under Akaev, and that it demonstrates similar forms of behavior and routines of political interaction. In that respect, it does not seem that much has been learned from an unsuccessful recent past.

Policy learning

15 | Resource Efficiency

The political upheaval of 2005, and the ensuing struggle for political power, have diminished the efficiency of the government's resource usage. For incumbents in leadership positions at all levels, many of whom were recruited because of loyalty rather than professional skills, securing positions within the administrative hierarchies has become even more important than before, and has prevented the state administration from making major progress toward an efficient and impartial state bureaucracy. Insufficient investment in the training of administrative staff and inadequate salaries in the state sector continue to be major areas of concern; such practices limit the state's ability to efficiently use its resources and discourage employees from abusing public office. Local governments will need a few "normal" years of political life and regular budget cycles until it will be possible to assess whether efforts at administrative and political decentralization undertaken before 2005 have helped to install viable units of local governance. For the time being, results are very modest, since most local government bodies have virtually no financial room to maneuver. On the other hand, no other country in Central Asia has pushed decentralization further than Kyrgyzstan, and results will need time to materialize.

Efficient use of assets

The government's ability to coordinate conflicting objectives into a coherent policy is very limited. Controversies within the government, with parliament and between the government proper and the president have contributed to a complex mix of policy approaches that lacks a clear defining theme.

Policy coordination

In terms of corruption control, Kyrgyzstan has not taken visible steps forward. As in earlier years, the country has remained among the world's 25 most corrupt nations in Transparency International's 2006 Corruption Perceptions Index, ranking at 142nd out of 163 countries. Since corruption is a quasi-institutionalized informal practice, it is far more difficult to combat with adequate legislation and prosecution. On a positive note, after the change in power in 2005, corruption has been used less often to discredit influential

Anti-corruption policy

political opponents than was the case under the Akaev regime. On the other hand, some political commentators argued that Prosecutor General Azimbek Beknazarov, a leading opposition figure in the 2005 events, was relieved of his new duties in September 2005 precisely because he had been too tough on prosecuting cases of corruption among Akaev's family and colleagues, a practice viewed unfavorably by President Bakiev.

16 | Consensus-Building

After the change in power in 2005, all major political forces in Kyrgyzstan have publicly agreed on democracy as a strategic, long-term goal and as a problem-solving tool for the near future. This commitment will likely remain in place as long as no single actor within the political system assumes a dominant position of power that would allow him to effectively restrict the political rights of his main opponents. For the time being, instrumentality rather than conviction seems to dominate as a motivation to support democracy. By contrast, the commitment to building a socially responsible market economy is more deeply ingrained in the Kyrgyz political elite, and has been demonstrated by more than a decade of market-oriented reform policies that have gone deeper and further than in most post-Soviet countries.

Consensus on goals

Anti-democratic veto actors from outside the political system have not emerged in Kyrgyzstan. As in most other post-Soviet countries, the greatest danger to democracy stems from those at the top who have risen to these positions of power by more or less democratic procedures in the first place. The true test for the democratic commitment of the Kyrgyz political elite will come when parliamentary elections are held in early 2009.

Anti-democratic veto actors

After President Akaev's resignation in March 2005, the opposition leadership under Bakiev and Kulov showed a remarkable degree of restraint by agreeing to run on a joint presidential ticket. At that point in time, this move significantly contributed to the reduction of tensions within society and forged basic political consensus for a new beginning after the fall of the Akaev regime. Many observers were surprised by how long the cooperation between Bakiev and Kulov remained intact, if only superficially. New cleavages quickly appeared, however, between the president and a parliament dominated by elements still loyal to Akaev. There was also a significant, yet less visible, cleavage between different elite groups and sub-groups that fought over power and resources. These cleavages have resulted in continued street protests, some of which came close to the brink of mass violence, deepening mistrust between factions, unrest in society and a paralyzed public administration. If anything, the political leadership has not increased the population's trust in the government's ability to

Cleavage / conflict management

manage these challenges in a constructive, non-confrontational manner.

As a consequence of the 2005 events, civil society actors have received renewed attention from the political leadership, since all the leading opposition figures of 2005 had close relations with different civil society organizations. As a consequence of renewed media liberalization and political competition, civil society organizations in Kyrgyzstan, already very active by regional standards, experienced a second boom in activism after the early 1990s. However, institutionalized procedures for bringing competing societal interests into the political process are not yet established.

Civil society participation

The fall of the Akaev regime has raised the issue of how to come to terms with the injustices of political persecution under the previous regime. Some victims of the Akaev regime were rehabilitated in renewed court procedures, with Feliks Kulov being the most prominent example. A general “settling of accounts” with former officeholders, however, is not on the political agenda, nor does it seem to be of major importance to the population, which is much more interested in the prosecution of corruption than in the rehabilitation of victims of political persecution. Instead, the prosecution of former members of the Akaev regime appears to be selective, perhaps owing to the fact that most members of the new leadership already held influential positions under Akaev at some point in time.

Reconciliation

17 | International Cooperation

The political upheaval of 2005 has not contributed to a major shift in the country’s external orientation nor in its willingness to cooperate internationally. The political leadership has continued to work closely with bilateral and multilateral donors. The government is dependent on broad and long-term international support to finance its depleted national budget. At the same time, it is trying to attract as many foreign donors as possible. In doing so, it continues to take advantage of the geostrategic significance Kyrgyzstan has gained since 9/11. Kyrgyzstan is home to both a Russian and a U.S.-run military air base near Bishkek. The U.S. base has gained additional strategic importance since the United States was forced to leave its air base in Uzbekistan following the Andijan events of May 2005. International aid programs have initiated a number of reform policies, though many of them have yielded only modest long-term results. The country’s macroeconomic performance, by contrast, which was closely coordinated with international recommendations, can safely be called a success story. In less technical areas, such as electoral assistance, there is hope that the 2005 change in power has contributed to a more conducive environment for external support. Clear evidence, however, has yet to emerge.

Effective use of support

Since 2005, the new Kyrgyz leadership has regained some of the credibility lost by the Akaev regime in the subjects of human rights and commitment to democracy. As far as its economic reliability is concerned, Kyrgyzstan's reputation with international investors has naturally suffered from political turmoil and uncertainty. In general, however, the country continues to enjoy a reputation as a relatively good but still high-risk site of investment.

Credibility

As a small country surrounded by major powers, such as China, Kazakhstan, Uzbekistan, and, indirectly, Russia, Kyrgyzstan has continued to cooperate actively with neighboring countries in diverse bilateral, regional and international arrangements. Several agreements covering issues of security, trade, customs, etc., include all or a number of CIS countries. There are also agreements with China in the security-related Shanghai Cooperation Organization, and with Europe in the OSCE. Cooperation with Kyrgyzstan's former Soviet neighbors, however, is somewhat strained by mutual distrust and a general suspicion that the large countries of the region, in particular Uzbekistan, will use every opportunity to increase their regional dominance. As a counterweight, Russia is another important regional partner for Bishkek, while the Western community plays an important role as a source of development aid. Kyrgyzstan's compliance with the rules set by regional and international organizations is above average in a regional context. With regard to its obligations vis-à-vis the OSCE or international human rights norms, the country's performance has improved as a consequence of the 2005 regime change.

Regional cooperation

Strategic Outlook

The change in power that occurred in 2005 has opened up new opportunities for Kyrgyzstan. At the same time, events since then have demonstrated that there is no easy way forward for a country that is relatively poor in resources, whose political and economic elite seems united only in the effort to secure access to those resources, and that is located in a difficult region as far as governance and economic policies are concerned.

In the short run, the country needs two elements of political development that will, at least initially, make for an uneasy co-existence: consensus and competition. Political consensus will be necessary to prevent portions of the elite from antagonizing their opponents by adopting extremist tactics, irreconcilable positions or violent means in order to secure mass support for an all-out struggle for power. First, consensus must be reached about the “rules of the game.” Secondly, these “rules of the game” must include an executive branch limited by clear checks and balances, an understanding among all major elite groups that the country must continue to be governed effectively, however fierce the struggle for power may be. Finally, all parties must agree that the struggle for power be confined to constitutionally defined procedures, thereby ensuring the political life of all parties, including the losers of past election cycles.

Because appeals to political altruism and the pursuit of the common good are usually of limited value when it comes to questions of power, the most important driving force for a consensus such as the one described above will probably be continued political competition. In the absence of credible external pressure toward democratic procedures (such as the Copenhagen criteria for EU accession candidates), only continued genuine political competition may be able to force the ruling elite to accept limits to its power, to acknowledge criticism and demands for transparent governance as justified facts of life, and to eventually reconcile with the possibility that they may lose their power sooner or later.

External actors willing to support the democratization of Kyrgyzstan have a limited range of options available. These options, however, may be decisive at certain points in time and help tip the balance in one way or the other if chosen with prudence. While continued support for advocates of democratization and civil society activities is certainly a good idea, bilateral donor governments, as well as international financial institutions, have a built-in preference for assisting a fragile incumbent government in delivering badly needed services,

thus inadvertently strengthening the position of the ruling elite. Although this is undoubtedly an important task given Kyrgyzstan's poor record in sectors such as education, health or employment, it will be of vital importance for the future of Kyrgyz democratization to give this support without simultaneously weakening the political opposition and giving indirect incentives for the incumbent government to back down on earlier commitments to competition.