BTI 2018 Country Report

Kyrgyzstan

Status Index
5.90 # 55 on 1-10 scale out of 129

Political Transformation
6.15 # 55

Governance Index
4.73 # 73 on 1-10 scale out of 129

Economic Transformation
5.64 # 63
This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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Executive Summary

For Kyrgyzstan, 2015 to 2017 has been a period of relative political settlement and consolidation, following a short period of volatility after the April 2010 forceful change of power and the June 2010 ethnic conflict. The country has become a somewhat stable, modestly competitive mode of party politics, with the preponderance of President Almazbek Atambayev over all players and institutions.

The president’s preponderance created the conditions conducive to several key events in this period. One was the relatively successful 2015 parliamentary election in which the president’s Social Democratic Party won more seats than before but well short of a majority. The election was generally free and competitive but marred by a high level of vote-buying by parties, with some of the parties established only shortly before the election. On the one hand, the Social Democratic Party’s parliamentary majority strengthened the president. Yet, on the other hand, it prevented him from being able to fully dominate Kyrgyzstan’s politics. The parliamentary elections set the stage and example for 2016 local assembly elections, where again vote-buying featured heavily and there was also a high level of competition.

The second important development was a series of foreign policy moves that underscored President Atambayev’s mild form of nationalism and created difficulties with several international partners, including the United States and Turkey. Toward the United States and Turkey, Atambayev engaged in cold, sometimes hostile, rhetoric in reaction to what he viewed as signs of U.S. and Turkish disrespect toward Kyrgyzstan (e.g., Turkish calls to go after the Gülen movement). These developments were complemented by strengthening relations with Russia and by a noticeably illiberal tone in domestic politics, especially toward the media and civil society.

The third important event, in 2015, was Kyrgyzstan joining the Eurasian Economic Union, an economic integration project dominated by Russia and widely criticized by some groups in Kyrgyzstan. With promises of various economic and foreign trade benefits upon joining,
Kyrgyzstan has yet to be convinced it was a good decision. The country has certainly ceded significant autonomy with regard to foreign trade and import-export regulations.

All of these developments took place against the backdrop of a difficult economic situation in the region. While Kyrgyzstan mostly avoided becoming entangled in the geopolitical standoff between Russia and the West, it had to weather the economic crisis that resulted from this standoff. The key economic challenges, rather successfully coped with, were to prevent a dramatic devaluation in the national currency and the inflation rate increasing. Nevertheless, having largely succeeded in this, some troubling signs were underscored. Notably, the country’s foreign debt rose and the national deficit has grown, while its foreign trade volume - with a lopsided negative current account balance – has remained largely stagnant.

Thus, in this period Kyrgyzstan has arrived at an equivocal state of stability in both democratic and economic development. Though illiberal political tendencies have gained support, the country remains largely committed to democracy. In the economic sphere, macroeconomic stability appears fragile, despite currency stability and limited inflation. Though the benefits of joining the Eurasian Economic Union (EAEU) have not quite meeting the expectations.

**History and Characteristics of Transformation**

Kyrgyzstan, or the Kyrgyz Republic, is one of the fifteen independent states that emerged from the collapse of the Soviet Union. Located in Central Asia, it borders China in the east, Kazakhstan in the north, Uzbekistan in the west and Tajikistan in the south. Set in this sturdily authoritarian neighborhood, Kyrgyzstan has stood out as the most politically enterprising state, moving back and forth between democracy and authoritarianism, and embracing liberal market economy principles early on.

In the fall of 2017, Kyrgyzstan is set to hold a presidential election in which the incumbent president will not run for re-election due to constitutional term limits. The open-ended vote will result, if all goes well, in the election of the fourth president in the country’s brief independent history. If all goes well, it will be the country’s first peaceful, democratic transition of power from one competitively elected president to another. However, whether things happen as expected remains to be seen.

The ebbing and flowing path of Kyrgyzstan’s history to this point began with the country gaining independence in 1991, with a maverick physicist-cum-politician, Askar Akayev, becoming president. A soft-spoken liberal and democrat who regularly quoted Jefferson, Schumpeter and Milton Friedman, Akayev was an unusual character perched atop a system that had been run by the Soviet Communist Party just the day before. Against the recalcitrance of many in the parliament and outside it, the president launched a wide-ranging process of political (democratization) and economic (market-oriented) reforms.
By the mid-1990s, President Akayev reigned in the parliament and became increasingly authoritarian. His policies included increasing limits on freedom of media, persecution of opposition, suppression of political protest, delaying reforms through a series of constitutional referenda and centralizing political power in the presidential office. In economic life, market-liberalization reforms continued but grew entrenched in corruption and embezzlement. This trend continued until 2005 and was further confounded by allegations of that Akaev’s family members were closely involved in ruling the country. In March 2005, following a pattern set by Georgia and Ukraine earlier, Kyrgyzstan plunged into the “Tulip Revolution” that ousted the president.

The period between 2005 and the second “color revolution” in April 2010, under the presidency of Kurmanbek Bakiyev, was a period of instability, which was characterized by the emergence in late 2007 of a violent and kleptocratic authoritarian regime. This regime was far worse than the authoritarianism of Askar Akayev. Unconcerned with any principled reforms in any direction, the Bakiyev regime was preoccupied with appropriating any property of interest and controlling any lucrative business. On 7 April 2010, an unexpected mobilization of political protest led to violence between protesters and government forces, leaving several dozen people dead and the Bakiyev regime toppled.

The politicians claiming leadership of this revolution formed themselves into an interim provisional government, which would be dissolved after the adoption of a new constitution and holding of government elections. The vacuum of authority and weak legitimacy of the provisional government all but guaranteed the spread of instability across the country. Under these conditions, the situation in the south of the country slipped out of control and exploded in inter-ethnic, Kyrgyz-Uzbek, violent conflict between 11 and 14 June 2010 in the city of Osh and nearby regions. The conflict left over 400 people dead and a massive amount of other losses.

A new constitution was adopted on 27 June 2010, despite the critical circumstances. The constitution set the stage for a serious overhaul of political order in the country, reducing the powers of the president in favor of the parliament and the prime minister. A genuinely contested and largely fair parliamentary election was held in October 2010, and a presidential election was held in November 2011. Interim president Roza Otunbayeva vacated the office for the president-elect Almazbek Atambayev.

Until recently, President Atambayev nominally led a political system caught in a struggle between parliamentarism and presidentialism. By 2015, the president had gained a stable dominance over the parliament. Atambayev’s presidency, limited to a single six-year term by the constitution, adopted a messianic-revolutionary language and grew intolerant of domestic or foreign criticism. Kyrgyzstan’s current course is toward a non-liberal democracy with a market economy tied up in the Eurasian Economic Union, a key economic priority that Atambaev pushed through in late 2015.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Between 2015 and 2017, the state monopoly over use of force has been generally stable and complete in Kyrgyzstan. No identifiable separatist or otherwise politically significant group has challenged the state monopoly. This has largely been due to the institutional legacy of the Soviet period which had instilled a tradition of respecting the state authority even where there is opposition or disagreement over political issues.

The situation in this respect has continued to improve compared periods, when major challenges were seen in 2010 and their aftermaths continued into 2013. Since the end of 2014, no noteworthy events challenging the state’s monopoly over the use of violence were observed.

To a limited extent, and without directly challenging the state’s authority, some use or threat of use of force parallel to state is exercised by organized criminal groups. This phenomenon has either been stable or has decreased in recent years, partly due to law enforcement activities targeting these groups and partly due to the fact that some leaders of these groups have entered the legitimate political field.

The eventual return of Islamist fighters who have spent time in the service of the Islamic State (IS) group presents a challenge, although of marginal importance at present. However, the limited state capacity of Kyrgyzstan to gain accurate knowledge about the matter contributes to security concerns in certain rural areas.

There is almost no questioning of the legitimacy of the nation-state among the population. The state in principle - although not always in practice - respects the rights and citizenship entitlements of the whole population.

Unlike in previous years, due to the relative political stability and absence of major disputes, no new identifiable discriminatory practices toward any group by the state
have been observed. Though no noteworthy improvement of the preceding situation is observable, either.

All major groups in principle accept the legitimacy of the nation-state as it exists today. Though there are moderate or minor groups questioning the ethnic or religious inclusiveness or exclusiveness, or the secular principle (depending on the groups holding the grievance) of the state.

That being said, there is no positive confirmation yet that, for example, the full citizenship rights of the Uzbek minority (roughly 14%) have become better recognized and protected to a greater extent than in previous years.

There is also a gradually increasing tension between the state, and secular or moderately religious groups on the one hand, and the more fundamentalist religious groups on the other. This tension is still largely premised on the question of nation-state legitimacy. However, among the fundamentalist groups, ideologically, it is a clear possibility that recognition of state legitimacy and authority may come under question.

While the place of religion - of several varieties of Islam - has continued to grow in Kyrgyz society, the state has remained secular, and the legal practices as well as formal political institutions have remained clear of religious dogma. There were some cases and areas in which religion seemed to affect political life. However, those still fall short of having “considerable influence.”

Specifically, it has been observed more frequently than in the past that popular religious scholars and imams have been recruited by political parties either to join them or vocally support them during electoral campaigns. Political parties have either remained neutral or were moderately religious (Muslim) in their rhetoric during elections. There was an aborted attempt in parliament to legally provide time for the Muslims’ Friday prayer by shifting and prolonging the time of lunch break. While this attempt failed, it did generate public debate and rancor.

If this trend continues, Kyrgyzstan may see a more prominent and disturbing influence of religious dogma (primarily Muslim) on formal state institutions. However, to date, that is not the case and state policy has been one of preventing that from happening.

The scope and effectiveness of administrative service coverage in Kyrgyzstan has remained stable in recent years; no noteworthy improvement or deterioration.

The whole territory of the country is covered, every community is attached to a relevant administrative unit, and all basic state services and functions (e.g., law and order, communications, roads, health care and education facilities) are provided in principle.
However, in practice, there is both uneven coverage in different parts of the country, and ineffective provision of various services across the whole country. The lack of coverage is usually due to lack of resources and the difficulty of accessing some remote mountain communities. The ineffectiveness of service provision is often due to widespread corruption, lack of resources, and an unreformed and inefficient bureaucracy.

As unemployment is high in the country, in particular in the countryside, and official incomes are meager, state administration faces employment pressure as the state is still a “safe” source of income. This results in a large but poorly trained and motivated administration.

2 | Political Participation

Kyrgyzstan held parliamentary elections in November 2015, and local assembly elections in February 2016 and December 2016. The local assembly elections were accompanied by a national referendum on constitutional reform.

This cycle of voting was characterized by serious competitiveness, campaigning was largely free and transparent, access to media coverage was generally equitable to all the main participants. Though there were some biases in tone or implicit biases observable in state media reporting. For example, state media provided extensive coverage of President Atambayev’s visits around the country, which favored his Social Democratic Party. But the main factor for inequality in all aspects of campaigning was the financial abilities of election participants. The richer candidates or parties were able to afford more advertising in mass media and heavier campaign activities. The Central Election Commission, a body composed of members representing different parties and civil society, performed generally well, albeit somewhat tending to be overly strict and control-minded in some respects.

An important and hotly debated innovation was the use of biometric data, which was used to identify voters and electronic ballot boxes to prevent multiple voting by the same person and ballot stuffing. The most important problem with this policy was that it denied the constitutional right to vote to a large percentage of registered voters who failed or refused to submit their biometric data. Unconfirmed allegations of abuse of the system were also heard.

Among negatives, all elections featured the heavy influence of money used legally in campaign spending and illegally to buy votes. However, no firm evidence of vote buying could be identified to pursue judicial charges. The referendum on the constitution - hotly debated as to its legitimacy - saw a prominent role in its favor of the president’s Social Democratic Party and its representatives in all government offices.
The period since 2015 has seen the continuation toward the consolidation of government power. No effective veto power holders remain outside of legitimate and elected leaders. Throughout the territory of the country, the power to govern belongs to and is exercised by legitimate institutions, elected or appointed.

One area of concern is the fair and legal distribution of authority among elected representatives - in particular, between the president and the parliament. Recent years have seen the increasingly dominant role of the president over agenda-setting and certain decision areas. Presidential power has increased the longer President Atambayev has been office. Resources have been more and more concentrated in the office of the president, inter alia, as the government has been shaken a number of times due to declining competence and corruption. (The frequent rotation of the prime ministers contributed to the concentration in presidential power in this period.)

While no unelected veto powers pose a serious concern, some potentially influential groups continue to exist. These include the growing voice of the Islamic clergy and several especially popular imams; some business interests, which continue to wield influence through their elected representatives in the parliament; and external power wielded by the Russian government, albeit it rarely happens contrary to the preferences of elected officials.

Kyrgyzstan’s constitution guarantees all basic human rights and civil liberties, including those of assembly (Article 33) and association (Article 34).

No noticeable trends up or down have occurred regarding the freedom of assembly during the last two years. Political as well as non-political civil society groups have continued to form and function during this period without any notable hurdles. Toward the end of the review period (end of 2016), occasional restrictions were observable on freedom of assembly, though not yet systematic. Occasionally, the public rhetoric of various decision-makers and the president in particular has cast non-governmental organizations in a negative light, often accusing NGOs of being funded by and implementing the wishes of foreign donors. However, in the review period, such rhetoric has not led to practical repercussions.

In a notable event in May 2016, the parliament rejected a draft of a “foreign agents” law by simple majority. The bill would have introduced restrictions on the operation of civil society associations that receive funding from foreign sources.

The two factors above indicate the influence of and temptation to “import” ideas from Russia, but also that there is not yet sufficiently fertile ground for adopting these ideas wholesale.
While freedom of assembly and association was stable, some downward trend in freedom of expression was noticeable. A constitutionally guaranteed freedom, in the context of criticism of the government, freedom of expression has come under increasing attack from political leaders, the president and other influential individuals. Attacks on freedom of expression have involved the president’s rhetoric and several lawsuits by influential politicians.

Several journalists were sued by close aides of the president, and at least one on behalf of the president. These cases typically resulted in “guilty” verdicts and the imposition of large fines. In the same vein, lawsuits against the president, for damaging speech, have been rejected. In 2016, a new disconcerting phenomenon was lawsuits against individuals for posting on Facebook. A deputy from the presidential party also asked the national security service to take measures against users of social network sites who attack the dignity of the president. The named agency complied by publishing a list of individuals identified as potentially subject to legal action.

There is a rather liberal law “on access to information,” guaranteeing freedom to request and receive government information. However, the law is not complied with in due diligence, requests often face lengthy delays, neglect or red tape.

A structural issue is the lack of a strong analytical media. Nearly all media outlets are divided between pro-government and opposition agendas. Opposition media outlets tend to be privately owned outlets of individual politicians that serve the politicians own political agenda, while state-owned media tends to reflect the government agenda.

3 | Rule of Law

The constitution of 2010 introduced a more genuine separation of powers in Kyrgyzstan, redistributing powers of the president toward the parliament and the prime minister. In nominal terms, the constitution outlined a parliamentary system of government that was practiced – initially – when Roza Otunbayeva acted as interim president.

More recently, there has been a gradual shift back toward de facto preponderance of the office of the president. In the absence of a critical majority in parliament exercising parliamentary autonomy, and the tendency of a succession of prime ministers toward close alignment with the president and his Social Democratic Party, President Atambayev has been exercising a much wider scope of power than the constitution provides.

The third main branch of power, the judiciary, has traditionally been weaker. Despite strong rhetoric for judicial reform, empowerment and independence, the tendency has been toward maintenance and occasionally even increase of judicial subservience to
the government, and to the president in particular. The initially somewhat more independent Constitutional Chamber of the Supreme Court grew more compliant with presidential power more recently.

Curiously, a package of constitutional changes in part empowering the prime minister and, in principle, cutting some presidential powers, were presented in a contentious referendum in December 2016 by the president who did not have the formal authority to initiate or otherwise support such a referendum. Some of those would lead to a partial fusion of powers between the parliament and the prime minister propose a parliamentary system.

Despite continued talk of judicial reform and promise of judicial independence, the leadership of Kyrgyzstan - the president specifically - has failed to allow genuine autonomy and self-governance to the judiciary.

For a couple of years, the Constitutional Chamber of the Supreme Court was the only notable exception to judicial subservience, issuing several dozen decisions. Many of these decisions were not in favor of the government and a couple of them were strongly contradicted the president’s preference. However, by the end of 2015, the body had lost much of its independence as a result of the sacking of one judge who had critical of the president and the appointment of two judges loyal to the president. A controversial decision by the chamber in late 2016 - where they determined that the highly debatable constitutional changes were constitutional on dubious grounds - was a clear sign that it had become controlled.

The rest of the judiciary has remained, as before, largely subject to political control, corrupt, and institutionally dependent. In all recent public opinion surveys conducted by the International Republican Institute in Kyrgyzstan, the courts were perceived as one of the two most corrupt institutions (the other being the police). Part of that perception, it can be assumed, is fed by courts often issuing politically motivated decisions in line with the political leadership’s preferences.

There are many reasons for the lack of judicial independence. The budget of the judiciary is allocated by the government, making the judiciary financially dependent. Legal education is another systematic issue involving a barely reformed Soviet-style legal school, which at all universities is perceived as very corrupt. One mechanism to guarantee impartial and merit-based judge selection, the National Council for the Selection of Judges, was mired in disputes immediately after its formation and has become an inconsequential body.

The changes to the constitution in December 2016, taking effect in two phases during 2017, are likely to lead to further executive and presidential control over the judiciary, especially through a redesigned institution of judicial self-governance and its disciplinary committee to which the president will be able to appoint several members.
Instances of prosecution of public servants have generally increased in recent years. It is more frequent for mid-level tax officers, prosecutors, police officers, and other public officeholders to be charged and prosecuted for abuse of authority, corruption or embezzlement.

It is less frequent, although certainly more frequent than in past years, for higher level officials to be prosecuted for similar charges. Several high-level charges have been alleged to be politically motivated. The corruption case against the head of the presidential administration in 2015 was the highest-level notable case. He was eventually convicted under a less serious charge and was released on parole at the end of 2016.

Alongside these cases of prosecution, however, numerous obvious cases of abuse of office, even when they receive publicity in social media and mass media, go without any reprobation.

Occasionally, legal liability is absorbed in political responsibility. Notably, the resignation of the prime minister in the middle of 2016 related to corruption seems to have lifted the consideration to seek legal recourse in spite of the severe financial losses incurred by the state.

Civil rights are provided and protected in the constitution and other relevant legislation. On relevant occasions, public authorities confirm their commitment to protection of these rights.

However, de facto guarantee of civil rights systematically comes second to other concerns, such as national interest or stability. Rights to free speech, due legal process, and occasionally freedom of assembly are sometimes compromised. The well-publicized case of Azimjan Askarov, attacks on civil society activists Tolekan Ismailova and Aziza Abdurasulova, and general critical rhetoric against civil rights organizations are evidence of these concerns.

The most frequently raised and problematic issue, in which civil rights were compromised, concerns the issue of post-2010 justice - not just the court cases - and the related question of maintaining inter-ethnic peace. It has become a politically highly sensitive issue, with any critical probe immediately provoking a government reaction. The question of guaranteeing equal civil rights to Uzbek communities has been difficult to pursue or ascertain, albeit the government rhetoric has been generally cognizant of the issue.

Besides ethnicity, sexual orientation is another criterion where discrimination or failure to guarantee civil rights is systematic. In recent times, and following debates over constitutional changes in late 2016, it had become normal to castigate LGBT minorities, and propagate “traditional” sexual and family values. Less systematically, there has also been a failure to guarantee the civil rights of women. Despite the recent adoption of a law criminalizing bride-kidnapping, the practice continues to be
widespread. Also, female migrant workers in Russia are frequently subjected to violence by male compatriots for their “improper relations.”

4 | Stability of Democratic Institutions

There is variation in the performance and effectiveness among several branches of the ensemble of Kyrgyzstan’s democratic institutions. Constitutionally and formally, the whole system of government and its branches meet standards of democratic legitimation and authorization. In reality, certain systematic problems exist.

One key problem is the weak institutionalization of key offices under the constitution of 2010, and of the parliament and the government in particular. The wholly party-based parliament, and the direct link between the governing cabinet and the majority coalition in the parliament, has meant frequent breakdowns in the cabinet, or in the government and coalition. On average, this occurs once a year or less. Political parties, on which much of the constitutional order is hinged, remain weak and unstable.

Against this backdrop, there has been a greater prominence of the office of the president, which has further infringed on the ability of other offices to perform effectively.

Not least, the judiciary has continued to remain dependent on the presidential office, and in some respects has become even more so. A notable episode was the 2015 sacking of an especially critical judge of the Constitutional Chamber of the Supreme Court under highly questionable legal procedures.

While the effective performance of democratic institutions is a concern, their acceptance as legitimate by all relevant actors is less of a concern. Generally, no organized group or influential political power questions the legitimacy, existence or functioning of any institution.

Having said that, the institution that has received the most criticism for weak performance and weak representation as a democratically authorized body has been the parliament. In tune with the widespread perception that the body has become an oligarchic group serving the interests of party patrons, both among the citizenry and civil society sector, the parliament has especially been viewed as failing to meet its constitutional responsibilities.

This widespread perception has been one legitimating reason for initiating and holding the constitutional referendum whose compliance with relevant legislation has been seriously questioned.
All criticism noted, the parliament remains viewed and addressed by all relevant actors as the main representative body that can and should give voice to various specific concerns of the citizenry.

5 | Political and Social Integration

The party system of Kyrgyzstan, despite the presence of constitutional incentives to improve, has not shown any noteworthy signs of strengthening, and remained fragmented, volatile and weakly rooted in society.

In 2015 and 2016, Kyrgyzstan held parliamentary and local assembly elections, respectively. These were the second round of elections held under the current constitution, and in which elections and representation is fully party-based. While the intensity of the campaign increased, the parties remained organizationally weak, the party-system fragmented, and party campaigns were heavily reliant not on proposed party programs but on vote-buying, nepotism and - for parties already in office - on administrative means of party promotion.

Candidates often campaign on the tradition of their regional roots and owe something to their more narrowly defined region once elected. This results in political fragmentation beyond party lines.

That said, it is worth noting that the organizational strength of political parties varies considerably and is increasing. A few parties have developed relatively strong, more stable party structures. It is reasonable to expect these parties to start growing stronger social roots and establish a stronger rapport with the electorate as they repeatedly participate in elections.

Civil society organizations are active and effective in Kyrgyzstan, but they tend to be focused on particular issues, increasingly polarized and concentrated mostly in the capital city.

Issues related to human and civil rights, as well as to consumer interests - such as owners of vehicles with a right-side steering wheel - are covered by many established organizations. Issues such as the environment, LGBT rights, rural community issues and migrant family rights, by contrast, have few representative civil society organizations.

A recent tendency has been the growth in groups reflecting national, cultural or religious values, which tend to be conservative, and prone to confrontations between each other or with more liberal-oriented groups. There is also a tendency, well-known in other countries, that a large number of NGOs are dependent upon external financing which leads to mainstreaming the area of their activity so that it would guarantee continuous revenue (and thus institutional survival).
People in Kyrgyzstan remain mostly in favor of democracy, despite widespread dissatisfaction with the parliament and political parties - key institutions of Kyrgyzstan’s democracy.

The most recent nationwide public opinion poll, carried out by the International Republican Institute in March 2016, reveals moderate but clear support for democracy. Thus, 57% of respondents answered the question “How satisfied are you with the way democracy is developing in Kyrgyzstan?” with strongly or somewhat satisfied. This was a higher percentage compared to earlier polls in 2014 and 2015. 77% thought it was healthy to “have active opposition parties,” which was also slightly higher than in 2014 and 2015. An overwhelming majority said economic prosperity was more important for them than democracy - a predictable outcome for such a dichotomous question. Most responded positively to questions about their interest in elections and likelihood to vote, although most were not involved or interested in party politics.

All in all, this newest poll suggests that people are disposed slightly more positively toward democratic politics, and there is no certain indication that they would prefer undemocratic or anti-democratic institutions and politics.

There is a moderate level of self-organization in Kyrgyzstan, which is largely driven by traditional social ties in rural areas, such as family, kin groups and local affiliations; religious practice and religious values of caring for others; and general civil society action, charity and community work. While the former is either stable or appears to be declining over time, the latter two bases of civil society cooperation are gradually on the rise.

Such cooperation is able to facilitate joint action in minor or non-costly problems, whereas larger or longer-term issues - such as improving community spaces, organizing against crime or helping indigent community members - remain beyond community self-help targets or are taken up infrequently.

II. Economic Transformation

Overall, the life conditions of Kyrgyzstani citizens have been difficult. Financial problems and low standards of living was the most mentioned (by 44% of respondents) household problem in the International Republican Institute (IRI) public opinion survey in 2016. The same survey showed unemployment, corruption and economic development as the three most mentioned problems in the country as a whole. At the same time, the majority of people were optimistic about the likelihood
of economic development in the country in near future. These give provide a general context to how people feel about their economic condition.

In Kyrgyzstan, there is no severely disadvantaged category of people. Economic difficulties tend to be evenly spread across all categories and groups of population. Some relatively - but not severely - disadvantaged groups include women, elderly people and rural populations. The disadvantages of these groups are somewhat structurally ingrained - there is a combination of cultural, economic, historic factors that have led to the ingrained relative deprivation of these categories.

The available data confirm these patterns. According to World Bank data for 2014, 17.5% of population lived in poverty on (PPP 2011) $3.10 a day, a relatively improved percentage compared to previous years. The 2014 Gini coefficient in Kyrgyzstan was 26.7, a rather mild degree of inequality, placing Kyrgyzstan close to the least unequal economies. The country’s human development index (HDI) in 2014 at 0.655, placing Kyrgyzstan in the range of “medium human development” countries, indicating a gradual improvement over recent years. Gender Inequality Index score for Kyrgyzstan was 0.353 in 2014, which has remained very stable over the last five years, suggests a somewhat moderate level of inequality. This is a feature of a somewhat patriarchal culture where discrimination against women continues despite policy and legislation against it. Women are particularly disadvantaged in appointments to elected public administration and law enforcement positions, and are nearly always expected to prioritize house chores and child rearing over a career.

The literacy and education rates are traditionally high in Kyrgyzstan, albeit the quality of education is a concern. The quality of education in rural schools on average is poorer than in urban schools.

Thus, inequality exists in Kyrgyzstan, it is somewhat structurally ingrained, but it tends to be not very severe, and the relatively unimpressive economic conditions - presence of poverty - are spread across all population categories more or less equally.

Rural poverty results in movement of the labor force to larger cities, in particular to the capital in order to find employment. Similar to many other countries, the accumulation of capital (both domestic and foreign) tends to concentrate in the big cities, particularly the largest city Bishkek. The hope for economic development is that accumulated capital will then be distributed to other areas of the country at a later stage. Despite this process only recently beginning, the classical Marxist observation concerning the movement of labor to the big cities holds. (Some other cities boom under special conditions, like Osh, the second largest city on the illegal income from trafficking.)
### Economic Indicators

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<td>$ M</td>
<td>6803.8</td>
<td>7264.4</td>
<td>7510.8</td>
</tr>
<tr>
<td>Total debt service</td>
<td>$ M</td>
<td>388.3</td>
<td>402.8</td>
<td>412.7</td>
</tr>
<tr>
<td>Net lending/borrowing</td>
<td>% of GDP</td>
<td>-0.8</td>
<td>-0.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
<td>17.6</td>
<td>17.7</td>
<td>16.8</td>
</tr>
<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>18.4</td>
<td>17.5</td>
<td>17.2</td>
</tr>
<tr>
<td>Public education spending</td>
<td>% of GDP</td>
<td>6.8</td>
<td>5.5</td>
<td>-</td>
</tr>
<tr>
<td>Public health spending</td>
<td>% of GDP</td>
<td>3.9</td>
<td>3.6</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>3.2</td>
<td>3.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Sources: The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Kyrgyzstan ranked 75 out of 190 countries in the World Bank’s Doing Business 2017 index, scoring mid-range across all criteria for ease of doing business. The government has been pursuing policies to improve market conditions, such as reducing the numerous bureaucratic inspections. However, some systematic challenges remain in place, such as corruption and illegitimate attacks on property rights, while some challenges are exacerbated by the economic crisis in the region.

Currency convertibility is still mostly provided. However, as a consequence of the severe downward pressure on the currency, Kyrgyzstan has introduced limitations in this market - such as limits on the maximum amount exchangeable in a single...
transaction - and has required that all money transactions in the country be done in national currency, the som.

With Kyrgyzstan becoming a member of the Eurasian Economic Union in 2015, many import and export movements of goods and factors are governed by EAEU, discriminating between movements across member states and those with third countries. To the extent that those rules allow, Kyrgyzstan makes exit-entry of goods and factors free.

There is supposed to still be a large informal economy, an issue that the government has tried to leverage by easing regulation and inspections. EAEU could also be a factor in reducing the size of the informal sector. No reliable estimate of the size of informal economy exists, though various sources suggest it could be equal to about 25% of GDP.

Kyrgyzstan has all standard anti-monopoly provisions and institutional mechanisms, and in this regard no significant change has been noticed. The natural monopolies and oligopolies, such as in the gas or electricity distribution, are subject to the anti-monopoly agency regulation and oversight, and in other sectors, monopoly is not allowed.

Given the small size of both the country and its economy, it would be easy to maintain control over monopolies. When such control fails - such as allegations of monopoly in imports of sugar - it is usually due to informal networks and corruption, rather than genuine weakness of the anti-monopoly agency.

Similarly to some other areas, it is less the adoption of laws that presents a problem rather its implementation and enforcement.

Recently, the foreign trade regime of Kyrgyzstan has been affected by its accession to the Eurasian Economic Union. An early member of the World Trade Organization, Kyrgyzstan had a very liberal foreign trade policy, with rather low tariffs and almost no other barriers in terms of cross-border trade control.

With the EAEU membership, the country’s trading regime has joined an association of less liberal regimes. While trade within EAEU - four countries besides Kyrgyzstan, two of which are not significant trade partners for the country - is generally free and has no custom tariffs, the association has discriminatory tariffs for trade with third-party countries. Yet Kyrgyzstan has also had difficulties exporting goods within EAEU due to phytosanitary barriers with neighboring Kazakhstan.

Thus, while Kyrgyzstan’s own policy had been more liberal, its EAEU membership has made its foreign trade policies less liberal. WTO member obligations for free and non-discriminatory trade have generated some debate but have not affected EAEU
membership. As far as these restrictions allow, the traditionally well-established trading links with China and Turkey have continued without sharp decline.

In sum, EAEU membership has negatively affected the liberal trade regime without doing away with protectionist tendencies among the five members of the union. This trend is likely to continue and, if it does, the union may weaken when two key countries, Kazakhstan and Belarus, grow disenchanted with it. Kyrgyzstan, one of two smaller members with little leverage, is unlikely to lead a separate course.

Considering the economic and currency crises that have affected the region since 2014, the banking sector of Kyrgyzstan has been relatively strong and stable. In 2015, the share of nonperforming loans to total volume of loans was 7.1%, close to the global average. For the same year, Kyrgyzstan featured the third-highest bank capital-to-assets ratio (15.6%) among all countries included in the World Bank data. However, the country has faced a steady decline in this metric for several years.

The national bank regulates the banking sector. It has maintained its considerable independence from government and political influence, despite frequent pressure from parliament and has closely scrutinized the banking sector. The bank maintains cooperative links with the World Bank/IFC in terms of banking and credit sector development, although it is not clear to what extent the bank has prioritized the implementation of international banking standards.

In the wake of the currency crisis of 2014 to 2015, the national bank heavily engaged in currency trading to offset and mitigate the devaluation in the Kyrgyz currency, som. The national bank largely succeeded in making the som the strongest currency in the region. Part of these measures involved stricter regulation of foreign currency portfolios and bank transactions, including a requirement to lend key types of loans only in local currency and a cap on daily currency exchange operations. Such measures were viewed by some as over-regulation of the market, however, these may have been the right approaches to prevent a sharp growth in the proportion of nonperforming loans and currency volatility.

The presence of foreign banks in the retail banking sector contributes to competitiveness in this area. However, the capital market is quite small and hence FDI, particularly Chinese FDI, is compensating for this shortcoming partly.
8 | Currency and Price Stability

The 2014 to 2015 currency crisis in Russia and Kazakhstan (and several other countries in the region) was a test that Kyrgyzstan passed fairly successfully. Both inflation control and currency exchange stability are recognized components of macroeconomic stability - the main objective that has guided the national bank’s monetary policy.

In 2015, the inflation rate was at 6.5%, a relatively healthy level given the inflationary pressures from key trading partners, such as Russia. According to preliminary estimates of the Ministry of Economy, the 2016 inflation rate was less than 1%.

Kyrgyzstan has a free-floating exchange rate regime and the currency crisis begun in 2014 led to a period of rapid currency devaluation. The national bank’s heavy intervention in 2014 and throughout 2015, which involved selling significant amounts of its U.S. dollar reserves, succeeded in preventing a dramatic devaluation in the som. Indeed, the national bank was able to make the som the strongest currency in the region. In 2016, the bank in fact had to intervene in the opposite direction, to mitigate the som’s appreciation against the U.S. dollar. Currently, the exchange value of the som to the Russian ruble and Kazakh tenge stabilized at about 40% to 45% above its pre-crisis value.

The National Bank of Kyrgyzstan has kept a significant level of de facto independence from government influence, which it has maintained through the review period. This is notable in light of the level of pressure and criticism it attracted for its heavy intervention in the currency market and the devaluation of som. The bank and the government have mostly cooperated during the crisis period.

Nevertheless, inflationary risks remain, given the heavy enmeshment of the Kyrgyz economy with economies of Russia and Kazakhstan. Many experts have expressed concern over the economically unsustainable high value of the Kyrgyz som against its neighbors’ currencies. Currency appreciation is not in the interest of Kyrgyzstan due to its small domestic market its export dependency is relatively large (on a small base). The other option is a reduction in the volume of exports, which has happened, albeit imports have also fallen in 2016.

The government’s fiscal and debt policies in the most recent period have been less conducive to macroeconomic stability than inflation and currency exchange policies. Kyrgyzstan finished 2016 with a record absolute level of budget deficit at about KGS 22 billion, equivalent to about 5% of GDP, and is about to adopt a budget that further exacerbate the budget deficit. Notably, government revenues have increased, but spending growth has outpaced income growth. A major spending item is government debt service. There are concerns about the long-term sustainability of the budgetary
policy. The economic boost based nearly exclusively on FDI (first and foremost Chinese FDI) does not help solve the extensive state spending.

At a reported GDP growth of 3.8% in 2016, and a similar showing in 2015, the deficit may look moderately manageable. However, a serious negative current account balance (a deficit of $800 million for 2015), and a steadily growing external debt (close to 60% of GDP, having surpassed this critical threshold and come slightly down as a result of debt forgiveness in late 2015), leaves the situation risky.

9 | Private Property

After a period of instability that involved a large number of property-related disputes, such as the property belonging to the family of the runaway president and land grab by people in the midst of unrest, Kyrgyzstan has recently entered a more stable regime.

Property is protected by the constitution - Article 12 - and all relevant legislation. Any legal taking of property by state is to be effected by a decision of court and with proper compensation of the value of property paid to the owner. This has not changed in the recent period.

The process of registering property in Kyrgyzstan, according to the World Bank’s Doing Business data, is one of the best in the world, requiring 4 days and 3 procedures.

All this said, it is not yet the case that property rights are fully secured. The formal and legal provisions do not always function as stated and for various reasons, including corruption and fraud, property rights can be threatened.

Private companies in Kyrgyzstan are permitted, generally protected, and considered a key factor in economic development. In World Bank’s Doing Business 2017 ranking, Kyrgyzstan ranked 78 out of 190 countries, and scored relatively well in registering property (8th), starting a business (30th), and getting construction permits and getting credit (32nd in both). Starting a business required 10 days and 4 procedures.

Starting and operating a small or medium business has been the easiest and most popular sector.

Kyrgyzstan’s record has been particularly poor in the mining sector, with many investor companies getting trapped in corrupt and politicized processes, unprotected from local protests, and unable to get their operations started. Over the last two to three years, the government has reformed the sector, but it remains still problematic.
The never-ending saga of the Kumtor gold mining company is a case in point, remaining far from resolved.

Most of the privatization process in Kyrgyzstan has already been carried out, having started early after independence. Currently, only a few occasional cases of privatization occur, usually through public bidding. The state has failed to privatize two major assets - Kyrgyztelecom (state-owned) and Megacom (49% state-owned) - after several rounds of failed bidding.

10 | Welfare Regime

Kyrgyzstan is a welfare state according to the constitution, and has a system of social safety guarantees largely a Soviet legacy, including childcare allowance, maternity (or paternity, rarely used but available) leave, unemployment and disability payments. However, all of these payments are extremely low and eligible citizens often forego them. Most of the expenses for these benefits are covered by tax revenue if state-covered or by private employers, when they are mandated to cover by law.

Health care system in Kyrgyzstan remains problematic, with public facilities, funded via mandatory insurance and symbolic co-payments, generally underfunded and under-equipped. Newer and better-quality private facilities are expensive, and are mostly concentrated only in three urban areas. A common phenomenon in recent years has been private fundraising appeals for health-related expenses. Corruption in the educational system, including the medical higher education, presents a challenge as it reduces the quality of health care services, in addition to the technical conditions and low capitalization in the sector. Exceptions do apply, not only due to some private facilities (and options to seek treatment abroad for the affluent) but also in areas that are less capital intensive (e.g., dentistry).

Life expectancy at birth has reached, in a slowly improving trend, 70.4 years. Public health care expenditure, according to the World Bank’s most recent data for 2014, was 3.6%, slightly down from preceding years.

According to the constitution and all legislation, Kyrgyzstan is committed to providing equal opportunities in socioeconomic and political life to all citizens. Discrimination based on gender, religion, ethnic background and other criteria is prohibited.

Population literacy rate remains traditionally high at 99.5%. With universal free and mandatory schooling, secondary school enrollment is 90.8% and tertiary enrollment is 45.9%. Gross parity index for female-to-male enrollment is 1.0 for both primary and secondary levels, and 1.3 in tertiary level, meaning women enrollment is higher than men there.
Women constitute 42.6% of the total labor force in Kyrgyzstan, indicating some degree of male advantage in employment.

Some issues in reality remain. Ethnic minorities experience implicit discrimination in public sector employment, women have unequal opportunities in certain spheres and equal opportunities for people with disabilities lag well behind the general population.

Social traditions influence the situation. Namely the traditional roles of women have been retained and according to some opinion polls women are ready to accept some discrimination in the family, including the occasional use of physical force.

Education in Uzbek language is guaranteed nominally and to some extent practically, but it does not provide career opportunities in the country and has negative bearing on advancement. Moreover, the use of the Latin alphabet in Uzbek textbooks, while Kyrgyz uses Cyrillic, poses another complication since many such books used to be brought from Uzbekistan.

11 | Economic Performance

Kyrgyzstan’s economy has generally done moderately well considering the challenging recent period. It has kept inflation and currency volatility under control, and maintained a positive economic growth rate. Areas of concern are foreign trade, where the country continues to have a vast current account deficit, and a growing debt burden that briefly surpassed the critical 60% of GDP mark before declining.

According to World Bank data, Kyrgyzstan’s GDP per capita was $3,427 in 2015 and was steadily growing. Its total GDP for 2015 was $6.5 billion, down from about $7.5 billion in 2014 - the effect of the appreciated U.S. dollar. GDP growth for 2015 was 3.5%, calculated at constant local currency and translated in 2010 constant dollar. Inflation level for 2015 was at 6.5% and estimated to be significantly lower in 2016.

The unemployment rate was estimated at 8.1% for 2015. A statistic that is difficult to verify or trust, given different ways of counting and large numbers of working age people who emigrate in search of work for long periods.

In 2015, FDI increased substantially to 11.5% of GDP, according to World Bank data. But the country’s current account deficit tipped over $800 million and the burden of state debt increased to over $4 billion in 2016, close to 60% of GDP. These are serious concerns for the economy. The increase in FDI, in addition to the trade dependency further increases China’s influence in Kyrgyzstan.
Environmental sustainability continues to be a seriously neglected issue both by the state and wider society. There is the requisite legislation in place and a government agency specifically charged with environmental inspection and policing function. Recently, the agency received major publicity having issued a damning report on the environmental damage done by the operations of the Kumtor gold company, which included a multi-billion som fine. While most viewed the event as a populist and corrupt step, the report itself did not lead to any action afterwards. (This has demonstrated the “too big to fail” phenomenon as Kumtor represents close to 10% of the country’s GDP, a lion’s share of its export volumes and is a major contributor to the national budget of Kyrgyzstan.)

Some of the major players in the economy are environmentally harmful, including the gold, metals and coal mining industries, while animal husbandry, especially sheep farming, verges on being unsustainable due to pasture degradation. One positive direction in the economy has been the emphasis on organic agriculture. However, this has not yet led to any notable practical activity.

In public life, there are few incentives for environmental awareness, including no adequate emissions control on the ever-increasing number of vehicles and heating plants, and no effective incentives to encourage resource efficiency (e.g., to reduce water use and minimize waste). The only incentive to reduce environmental damage is the cost of goods and services. Yet, most of the relevant products and services are relatively cheap.

Most cities have poorly maintained sewage systems. This includes the resort area around lake Issyk-Kul, which is a frequently discussed case, although so far, no action has been taken.

While in civil society discussion of environmental problems has steadily been increasing, it is yet to lead to any noteworthy change and improvement. Environmental awareness is growing in civil society but is currently undermined by a lack of investment in this sector. Economic investment tries to keep environmental costs at the lowest and maximize profit. Furthermore, any environmental initiative is likely to be undermined by corruption.

Kyrgyzstan’s investments in education and R&D continue to be weak. The average of 6% to 7% of GDP spent on education has not been sufficient given the country’s low level of GDP. The education sector also requires significant overhaul. Literacy (99.5%) and school enrollment data (above 90% at primary and secondary levels; 45% at tertiary level) are generally strong, although somewhat questionable. However, the quality of education has been the key challenge. While physical
infrastructure for education has received some funding, the more critical and complex question of teacher training, and textbook and teaching supplies remain poor.

People who do not pursue higher education often lose their Russian-language knowledge. This would not be a problem if people would have a good command of another foreign language (e.g., Chinese Mandarin or English). However, some members of the younger generation can only speak their native language, which limits their future career opportunities and the completion of their higher education.

At the university level, a persistently pernicious problem has been corruption, “bribing for grades.” Government efforts to tackle this problem are yet to have any affect. Only two or three universities in Kyrgyzstan have ranked positively in several secondary-level rating systems. University entrance examinations are also affected by corruption that contributes to the problem at an early stage.

The situation is still less positive in the research and development sector. In a criticism of redundancy and lack of achievements, the National Academy of Sciences was targeted for reform and possibly dissolution. However, ultimately little change was introduced. R&D expenses have been a meager 0.5% of GDP in recent years. The R&D area is massively affected by brain drain. As the best and the brightest students complete their studies in foreign countries, they often do not return to Kyrgyzstan and hence do not contribute to the development of the country.
Governance

I. Level of Difficulty

With regard to structural difficulties, no significant change has occurred since the previous ranking. Kyrgyzstan remains beholden to a serious level of poverty, where much of public’s expenditure is directed to meeting basic needs and not to modernization and development.

Some attempts – such as the provision of low-interest loans for farmers and microfinance facilities for microenterprises – have aimed at easing rural poverty. However, they have not significantly changed the situation and have sometimes increased indebtedness of households to unsustainable levels.

Kyrgyzstan’s geographic location continues to be a challenge. Kyrgyzstan is landlocked, far from major markets, very mountainous and in a difficult geopolitical region. Economically, membership in EAEU would be a factor that could facilitate some of Kyrgyzstan’s geographic constraints, but to date that promise has not materialized.

Kyrgyzstan also continues to be subject to frequent climatic and natural difficulties, such as floods, draught and extreme heat.

For all these structural difficulties, there is weak or non-existent government strategy to overcome them. Some major projects have been too far-fetched and beyond Kyrgyzstan’s own capacity to implement. These include the building of a giant hydroelectric dam Kambar-Ata, campaigning for the extension of the transcontinental railway from China to the West to pass through Kyrgyzstan, or joining an international project to export electricity to Pakistan and India via Afghanistan.

Given the challenging poor economic conditions and in the wake of a serious inter-ethnic conflict, it has been difficult for an effective civil society to emerge in recent years. The public has been more engaged in social and political life than in other countries in the region, and more positively disposed toward the need for such engagement. However, in practice, there has been widespread apathy and a low sense of civil efficacy, or in certain cases a non-cooperative, destructive sort of local public mobilization.
On a more positive note, society has seen the growth of charitable and mutual-support activities. They have included secular charitable activities, often organized by youth organizations and progressive groups; and religiously motivated activities, organized by Muslim business associations, mosque-centered charities or inspired by influential imams.

Whereas Kyrgyzstan has been generally a politically volatile, prone-to-instability society, having experienced two “color revolutions” and a costly inter-ethnic conflict, the potential for conflict in society has tended to recede over time. This could be due to apathy and a turning away from public participation by citizens, but it is also due to the perception that conflicts and confrontational politics have not been good for society - leading to destruction, looting, dispossession of property, and flight of foreign capital - and that the country needs to develop more steadily and peacefully.

Still, certain cleavages persist and the potential for conflict is present. At least three cleavages are important: the ethnic cleavage between the Kyrgyz and the Uzbeks, the multiple religious cleavages, and the regional north-south cleavage that typically increases in significance during national elections. Some less salient cleavages are between the pro-Russian and pro-Western, conservative and liberal, and rich and poor groups. However, all of these cleavages are unlikely to translate into a nationwide conflict.

The political elite is somewhat divided over issues and personal animosities among some leaders. However, these have remained short of violence and have not led to critical mobilization of support groups on different sides.

More generally, while tensions, divisions and acrimony are present, the tendency has been away from violence.

II. Governance Performance

14 | Steering Capability

The government of Kyrgyzstan has continued to experience difficulties in setting and especially keeping policy priorities. Commitment to democratization and a market economy remain, although with nuances - especially about the former. The president and some other prominent political figures have pledged their allegiance to democracy - even more than past leaderships - but with the caveat that some liberal-democratic principles have been downplayed, and some interventions by international actors to further democracy in Kyrgyzstan has been unwelcome. While less a matter of public rhetoric, a commitment to developing a market economy has been more stable and effective, with a consistent commitment to improving the

[Graph: Conflict intensity]

[Graph: Prioritization]
business climate, private property regime, investment promotion and market optimization.

A greater ability to prioritize has been gained with political stabilization and with the stronger popular mandate that the president enjoys. The president came in to office with several policy priorities highlighted early on - such as anti-corruption fight and judicial reform - and has rhetorically stuck to these priorities over the last six years, albeit with issues in implementation.

However, given that most policy development and implementation is the prerogative of the prime minister and his cabinet, the high level of cabinet turnover has made it difficult to maintain a commitment to any policy agenda. Kyrgyzstan has replaced heads of government (cabinet) roughly every year. The number of prime ministers that headed the cabinet has exceeded the number of years of independence of Kyrgyzstan.

Electoral pressure and strategizing has resulted in relatively few policy shifts, compared to previous review periods. In the two nationwide elections, the parties - both in government and those in opposition - stayed clear of serious moves to redirect public spending or emphasis.

The role of the parliament has been mixed. At times, parliament has demanded that the government increase spending, while at other times parliament has held the government accountable for over-spending. The government budget deficit, which has been a steady feature of planning in recent years, has found its loudest critics among the parliamentary opposition factions and even from among the governing factions.

The government of Kyrgyzstan has been plagued by regular reshuffling, and the replacement of the prime minister and several cabinet ministers. This has seriously hampered the government’s ability to implement policies.

When the government implements any policy or reform, it often experiences difficulties with cadre and technical expertise, as well as a conservative push-back from those who are affected by the changes.

This has been the case, for example, with reforming the police system - the conservatism of the system has led each reform program to the same result in which the only substantial changes involve some new names. This matter is also intertwined with corruption and the politicization of public administration appointments. As a public appointment is often a favor or pay back, government officials have strong bargaining capacity to block otherwise necessary reforms. The pyramid of corruption in the police service has resulted in institutional stagnation, and the persistence of old structures and patterns.
A technical as well as communicative failure has been the introduction of housing and automobile insurance. The automobile insurance in particular was a complete fiasco before it even began due to poor communication of the idea to the public, and an unrealistically quick and poorly considered implementation plan. It has since had to be postponed indefinitely.

Another problematic case has been the process of joining the Eurasian Economic Union. While the country joined the organization through a rapid politically motivated process, the necessary infrastructure was far from ready, contributing to the disappointing early results when the country missed the benefits of free trade within this association. This circumstance is in addition to the observation that there seemed to be a lack of analytical capacity in the national government and the various government agencies to propose thorough and credible conclusions on whether EAEU membership would contribute to economic growth or not (irrespective of the fact that due to reasons of high politics and labor mobility the country was left without a viable choice concerning its accession).

The government of Kyrgyzstan, on average, has tended to be increasingly more open to policy learning, and more willing to bring in new people and new ideas. It has been generally open to cooperation with international partners in terms of raising the professionalism and expertise of its cadre. In partnership with the Japanese international cooperation agency (JICA), hundreds of government employees have gone through short-term as well as graduate training programs and, for the most part, have returned to public service. Less strictly linked to government employment, there have been similar training programs run with relevant organizations of, for example, the United States, Germany, South Korea and Turkey.

This openness, however, has not always had a genuine commitment behind it. Again, it has suffered from repeated changes in government leadership. While some heads of government would be more open to and encourage policy learning, others would be less open and prefer more conservative, less innovative approaches.

It remains to be seen what effect this will have on the state administration when these well-educated, multi-lingual, internationally exposed graduates are appointed to the higher echelons of public service. Will they be able to make huge difference or will they change due to the duress of the career advancement?

Cooperation with locally based academic, research and training institutions has been quite weak generally. Occasional openings have tended to be aimed at pragmatic tasks of soliciting strategy and approach alternatives rather than more lasting learning input. Even the governmental National Institute of Strategic Studies has been limited to a role of conducting specific policy review and advice upon request, and has not engaged in training and learning programs for the government. It is open to question whether the government is interested in dissenting voices or it regards it as an attack on its prerogatives.
15 | Resource Efficiency

Increasing the efficiency of the government has been a policy promised by all recent prime ministers and the electoral campaign programs of political parties. Most of the time, these promises have focused on personnel - specifically, on the need to cut down the number of state employees in various government agencies and ministries. Repeatedly, however, such promises have not led to any substantial action. This is understandable due to the dilemma that the state is a very big employer and unless the private sector can absorb public sector redundancies, a massive cut in the state administration will have a significant economic and political impact. The large public administration is often incompetent and poorly motivated due to low pay and dissatisfying working conditions.

The hiring and firing of senior-level staff has continued to be politically motivated. New heads of government or public agencies replace key personnel with their own people, often disregarding professional qualifications.

The efficient management of state budget and other material assets has been a lesser subject of specific proposals, albeit a theme of political parlance all the time. Extravagant budget expenses such as the organization of the World Nomad Games-2016 (involving close to KGS 2 billion in public money) receive some critical discussion, but most of the routine and ineffective expenditure is poorly scrutinized.

Insufficient administrative resources have similarly been addressed in government rhetoric but rarely in practice. Almost every change in government (i.e., roughly once a year) has led to some public administration restructuring. Though changes have generally been vaguely justified or not justified at all, and often seem motivated by political or other sinister interests. Government stability has been in short supply, while energy and resources have been used for “system maintenance” rather than carrying out the task of the government.

The public sector is not the most attractive employer for the best and brightest people in the country. Most high-skilled people go abroad to work in international businesses or institutions rather working in Kyrgyzstan (unless they would benefit from corruption).

Policy coordination in the Kyrgyz government and public administration has been weak, similar to the weakness in ability to prioritize and raise efficiency. Given that the government is relatively small and not very diversified, the persistence of weak coordination would have to be explained by weak cohesion among leaders and by possible corrupt interests that require weak coordination. Thus, with the more consolidated authority and legitimacy of the president in recent years, and the fact that his Social Democratic Party has become de facto the ruling party, there has been somewhat better coordination due to more effective control and reporting.
miscommunication and divergent lines of policy can be observed, for example, between a sectoral ministry that opts for a program and the finance ministry that is unable to fund it. Such divergences and weak coordination is made especially prominent given that cabinet members are appointed according to coalition allocation of portfolios, with different ministers representing different and often competing parties.

Outstanding competence is occasionally penalized in the system, which tends to mediocrity (no challenge) or the selection of the least fit.

Public sector corruption is one of two key problems in the country, according to public opinion polls. The current president declared the fight against corruption to be one of his top priorities when assuming the office. He has been fairly persistent in pursuing this promise. However, the situation has not improved to any significant degree.

Many plausible anti-corruption measures are either not implemented or are very weak. Thus, budget transparency is not guaranteed and difficult to establish. Similarly, government procurement has been slow and resistant to digitalization, government-run tender auctions have continued to be open to manipulation and political party finances have been virtually unaccounted.

The fight against corruption has been primarily carried out by law enforcement agencies, especially by the Anti-Corruption Committee within the State Committee for National Security, and has targeted individual public officers in the act of taking or giving bribes. The effect of such an approach has been predictably negligible.

This anti-corruption campaign has often seemed to be utilized to get rid of inconvenient political rivals and opposition. It has remained selective, considering that numerous very wealthy, career-long public servants have gone untouched.

Regarding the latter point, Kyrgyzstan has required public servants to file annual personal income declarations for a number of years. However, not all public servants have been filing such declarations, too many declarations were improperly or incompletely filled and public officers have tended to declare only their official salaries, all other wealth being registered under the name of a close relative or family member.

A mechanism suggested to account for the disparity between modest income declarations and extravagant purchases - introducing expense declarations - has been floated but not taken up yet.
Consensus-Building

Among the political elite of Kyrgyzstan, and among those actually occupying public offices or wielding specific influence in government, there is a general consensus on normative matters, with only little debate. This normative consensus is that the country should be democratic, without any major champions for liberal democracy. The public voices in favor of authoritarianism or in favor of liberal democracy - typically, political and civil activists or minor party leaders without representation in parliament - are insignificant. The majority consensus is that Kyrgyzstan should develop in the way of an electoral democracy, with provision of citizen participation rights, and in pursuit of the common good and national interests - a version of a populist-republican democracy. That said, the pronounced normative positions are capable of ceding ground to different choices in the actual running of government. Thus, while no significant voice is undemocratic, many politicians are capable of adopting autocratic styles of governing and the recent history of Kyrgyzstan has ample evidence of that. The country’s first president, Askar Akaev, was initially perceived as the most democratic and liberal leader in the post-Soviet space, yet gradually turned into an autocratic leader. Similarly, the current president has favored democracy while clearly violating the constitutional separation of powers, favoring his political party beyond what is legitimate, and ignoring the need for some of his initiatives - such as the Anti-Corruption Committee - to be legally and publicly accountable. Thus, the challenge is not on the level of declared policy but in the way actual policy is conducted.

There is consensus on the economic direction of the country in favor of a market economy, with private enterprise and free trade embraced by all major political groups. Voices in favor of a state-run economy or championing libertarian economic policies exist, but are marginal. However, depending on popular preferences and requirements of the situation, certain economic issues can be addressed in ways that do not conform to market-economic principles. For example, it has been the case that the state has introduced price regulation when sharp price fluctuations led to popular concerns, or import or export controls when that was seen as necessary. Still, such action is not frequent and tends to be limited to narrow issues.

To the extent that the ruling elite’s consensus on democratic governance, albeit not necessarily on liberal democracy, is assumed to be a pro-democratic orientation, then there are not significant anti-democratic actors. No anti-democratic actor commands enough influence to count as a veto power.

Some anti-democratic groups include a few politicians who have not been successful in elections in recent cycles, some Soviet Union-sympathizers, some (although not all) Russia-sympathizers and potentially some Islamic groups. None of these groups
is anti-democratic in any strong or principled way, and has not been influential enough to pose a veto threat.

The critical mass comprising the pro-democracy consensus tends to be either strongly or moderately non-liberal, viewing the liberal element of democracy as a Western-value system that does not fit Kyrgyz society.

Furthermore, the disparity between democratic and undemocratic rhetoric and practice among the political leadership makes the line between pro-democratic reformers and anti-democratic forces ambiguous. One could, in a sense, consider the whole ruling elite of Kyrgyzstan as somewhat anti-democratic in their performance, but that would be an overstatement and a misleading category in any case.

There is some sympathy for power centralization (which is not necessarily anti-democratic) both in the country and among its main outside supporters - all centralized presidential and authoritarian regimes - who would prefer having to deal with just one central power than needing to court the parliament, too.

In political life, there are several lines of cleavage that are significant and in need of good management. One is the regional cleavage between the north and south, another is ethnic cleavage - primarily between Kyrgyz and Uzbek communities, but potentially with respect to other ethnic minorities too - and the third is along secular society/moderate Muslims against the more orthodox Islamic community.

The regional cleavage has been somewhat overcome by default, because any political party is required to win support in both parts of the country in order to enter the parliament. Therefore, all major parties have sought to bridge the regional divide and present themselves as unifiers, not dividers. Still, all parties are perceived by the electorate as belonging primarily to one region or another, such perceptions have not led to conflict-prone polarization of late.

The ethnic cleavages have been mitigated somewhat by the legal requirement for all political parties to fulfill the ethnic quota (to mandatorily feature representatives of minority groups among their leading candidates). However, the quota system has mostly been ineffective in previous elections, as all parties have tended toward all-male and all-Kyrgyz membership of their parliamentary deputies. The parties and the political elite in general have rhetorically stood against ethnic discrimination. However, they have not gone beyond rhetoric to mend inter-ethnic relations, especially between the Kyrgyz and the Uzbeks.

In the cleavages that have emerged more recently over the role of religion in politics, the political elite has initially tended to court the growing Muslim constituencies by expressing support for them. However, more recently, the government - and the president in particular - have opted for a more principled line of encouraging
moderate or “traditional” Islam, discouraging “imported” Islam, and defending the principle of separation of religion from politics and government.

In sum, the ability of the political elite and parties to prevent cleavage-based conflicts has been patchy and ad hoc. However, they have generally mitigated such conflicts by virtue of their own political interests.

In regard to encouragement of civil society participation in politics and governance, there has been some reversal over recent years away from the immediate post-April 2010 revolution atmosphere when government had welcomed civil society cooperation.

Over the last couple of years, in tandem with the more consolidated authority of the president and his party, and the more noticeable tone of (a mild form of) nationalism, there has been a more critical attitude toward civil society. Understood here as non-governmental organizations that tend to be favorable of democracy, liberal values and greater transparency, civil society organizations have often been castigated as advocates for Western-based sponsors, unpatriotic and disruptive meddlers in government work. A role for the civil society is still kept in formal regulations - such as the civil society quota in appointing various public bodies - however that role has tended to lose its potency.

That said, civil society and the citizenry more generally have asserted their critical voice on various specific policy issues, forcing the government, public agencies and public officials to revise certain decisions. Thus, while not invited to provide constructive input in policy formulation, civil society has often succeeded in protesting problematic policy decisions.

The events of relevance in this regard are the April revolution and the June conflict, both in 2010. In both cases, with the passing of over six years since those events, the government has not succeeded in formulating an effective and fair policy toward reconciliation. Instead, it has approached both issues by prioritizing political expediency over justice.

Thus, in the case of April 2010, instead of seeking justice through the judiciary, the government has promoted and, where necessary, interfered in legal processes. The government has sought to vilify and scapegoat people who represented the fallen regime, and make heroes of the “revolutionaries” who battled the regime.

Similarly and still more gravely, the process of reconciliation of the Kyrgyz and Uzbeks has been mostly a process of asserting Kyrgyz primacy, failing to guarantee fair justice for all victims and perpetrators of the conflict, and persisting in public campaigns that have ignored genuine reconciliation, and pushed for declarations of friendship and accord.
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The government’s record of productively using international support to further development in recent years has been uneven, and prone to allowing political rhetoric and expediency overwhelm its development policy priorities.

Thus, Kyrgyzstan has sought the help of the Russian government, focusing particularly on the Russian-Kyrgyz Development Fund. The fund was promised as part of the package that Kyrgyzstan got for joining of the Eurasian Economic Union.

By contrast, Kyrgyzstan’s leadership has tended to refuse U.S. help in reaction to U.S. criticism of Kyrgyzstan’s record on human rights and the rule of law. In 2015, the government abrogated an important 1993 U.S.-Kyrgyz agreement that had facilitated the provision of U.S. development aid to Kyrgyzstan. The event introduced unnecessary complications, delaying agreement on a new accord.

Kyrgyzstan’s president has spoken similarly about Turkey after the Turkish government made statements that were politically unwelcome for Bishkek.

Beyond such cases of politicized international support, Kyrgyzstan has received and cooperated with international partners. The effect of such support has generally been weak due to mismanagement, poor prioritization and some level of misappropriation of funds.

There have been several occasions when Kyrgyzstan’s leadership allowed political considerations to overshadow their ability to act as credible partner. Nevertheless, particularly in more technical policy areas, Kyrgyzstan’s government has committed, at least outwardly, to demonstrating its credibility as a partner.

In line with this commitment, Kyrgyzstan has sought - unsuccessfully - a non-permanent U.N. Security Council seat. Kyrgyzstan is currently a member of the U.N. Human Rights Council, a participant in the Afghanistan-focused broad coalition of partners known as the “Istanbul Process” and has chaired several regional organizations (e.g., the Collective Security Treaty Organization, the Commonwealth of Independent States and the Shanghai Cooperation Organization.

Kyrgyzstan’s foreign debt burden, which has grown over recent years, is one area of concern especially for lenders. However, no default on liabilities has yet occurred so far.

Kyrgyzstan’s credibility as a partner is less strong in the private sector and with investors. All too often, foreign investors have experienced uncooperative, litigious, unpredictable and corrupt behavior in government agencies. This demonstrates Kyrgyzstan’s weak governance and very poor state capacities.
A small economy with little leverage over regional partners, Kyrgyzstan has traditionally been open to and supportive of regional cooperation.

However, the country has had frequent disputes and disagreements with neighbors, most often with Uzbekistan, less often with Tajikistan and fairly frequently with Kazakhstan. Disagreements with all three countries have generally been dictated by political disagreements, and - from the point of view of Bishkek - due to the unfriendly or uncooperative behavior of the neighboring country.

Kyrgyzstan’s most effective regional partners have been Russia and China, to the extent that these two major economies have engaged in cooperative projects.

Neighboring countries are often not easy partners. Kazakhstan has an (understandable) superiority complex in the region and considers Kyrgyzstan a junior partner. This kind of patronizing attitude was once clearly formulated by the Kazakh minister of culture. Tajikistan and Uzbekistan are far less democratic than Kyrgyzstan, and have longstanding issues. The change of guard in Tashkent has demonstrated that the improvement of relations often depends on the personality and the agenda of the leader. Even though improvements in regional cooperation have been volatile, under President Mirziyoyev, who looks far more predictable than his predecessor, relations have improved. China, the fourth neighbor of Kyrgyzstan is a great power and Kyrgyzstan’s most important trade partner. China is responsible for half of Kyrgyzstan’s foreign trade.

Kyrgyzstan has consistently joined regional cooperative initiatives and is currently a member of EAEU, the Shanghai Cooperation Organization and the Collective Security Treaty Organization, among others. In these and other structures, Kyrgyzstan is mostly a rule-accepting rather than a rule-setting player, and often acts in the role of a complainer rather than a breacher of rules.
Strategic Outlook

At the start of 2017, Kyrgyzstan stood in anticipation of an all-important presidential election. The incumbent president will not be running in the 2017 election and the competition will be mostly open. The question will be whether the president and his close circle would try to manipulate the election process to secure the election of their preferred candidate. It also remains to be seen whether the election will be peaceful, ordered and democratic, and what policy direction the country will course after the election.

Several relevant developments have preceded this uncertain election. One was the president’s successful consolidation of power to the extent possible given the constitutional framework and political field. This consolidation of power included several constitutional reforms, which were introduced late in his presidential term, the political implications of which are largely unknown. Another development was Kyrgyzstan’s membership in the Eurasian Economic Union, which the government has had a consistently difficult time defending against widespread public criticism. The government has regularly expressed its own disappointment with union partners over export barriers for Kyrgyz goods. A third development was the tenuously positive economic performance of the country. This included the maintaining relative macroeconomic stability and achieving modest economic growth, while mitigating the stress of the regional economic crisis. However, there are reasons to worry about the sustainability of these achievements.

Moving ahead, the country has a number of directions in which to proceed, each carrying its own implications.

Kyrgyzstan is at a crossroads in terms of its democratic development, and the presidential election will be crucial in determining which direction the country develops afterward. A nationalist and non-liberal democracy – the sort that the retiring president has been championing – represents a dangerous road for a country characterized by political, cultural and ethnic diversity. It is not mandatory to align with the policies of the United States, but an adequately liberal, tolerant and inclusive model of democratic politics is still possible, and it is a requirement for Kyrgyzstan. The new president will need to realize this and promote a corresponding strategy. Should the new president adopt the direction proposed by the outgoing president, or move further toward nationalism and illiberalism, such a course is likely to open some deep and explosive cleavages that will be difficult to reconcile.

In its approach to foreign relations, both economic and political, Kyrgyzstan has some degree of agency, which it must use judiciously. Joining the EAEU was as much an economic as it was a political decision. It brought Kyrgyzstan into a more intimate partnership with Russia. Moving ahead, the Kyrgyz political leadership, in cooperation with the private sector, is tasked with using Kyrgyzstan’s EAEU membership and partnership with Russia to benefit the country economically.
EAEU membership and a partnership with Russia must not simply represent a set of arbitrary constraints.

Kyrgyzstan must pursue a healthy, gainful and wide-ranging foreign policy, developing partnerships beyond Russia and the EAEU. One promising direction is Uzbekistan with its new president. Diversified foreign policy is an additional leverage to maintain autonomy in domestic politics and not have to comply with external prescriptions. After all, its two most important partners, China and Russia, are not going to push Kyrgyzstan in the direction of its best interest without pressure. It will require masterly statesmanship to avoid the models that might serve as points of reference to follow.

Kyrgyzstan’s relatively stable and positive economic performance between 2015 and 2016 represent only a modest success. To solidify these successes, the government needs to set clear priorities and principles for economic governance. These include the maintaining the autonomy of the national bank, balancing the public budget, promoting and diversifying the country’s exports, and introducing clear and judicious principles for fiscal borrowing and debt management. Of particular importance is, however, the need to improve the government’s capacity to formulate, prioritize and implement policies, and administer available resources. For example, the government must reduce staff turnover in the executive branch, review public appointment procedures, and invest in the retention and training of government personnel.

After the 2017 election, the situation will be somewhat different. The available strategic directions that Kyrgyzstan could pursue are not wide open. Principal choices have already been made and some of the initial paths have been established. The outgoing president has paved the way for stable development, albeit with some worrisome ingredients. The country will need to steer the right course, opt for well-advised reforms, and avoid any radical turns and revolutions.