

Kyrgyzstan:  
National  
Human  
Development  
Report  
for 2000

## ABBREVIATIONS

AsDB	Asian development bank
CDF	comprehensive development framework
CIS	Commonwealth of Independent States
CHIF	Compulsory health insurance fund
CPI	consumer price index
EMP	essential medical preparations
FGP	family group practices
GDI	gender development index
GDP	gross domestic product
GEM	gender empowerment index
HDI	human development index
HEI	higher educational institution
HPI	human poverty index
IMF	International monetary fund
KR	Kyrgyz Republic
LSG	local self-governance
NGO	non-governmental organization
NHDR	national human development report
NPRS	national poverty reduction strategy
PMIS	public management information system
PPP	purchasing power parity
SHD	sustainable human development
UNDP	United Nations development program
WHO	World health organization

## **GLOSSARY**

*Aiyl* (village) – the smallest administrative and territorial unit of the Kyrgyz Republic.

*Rayon* (district) – the next, basic administrative and territorial unit of the Kyrgyz Republic after the aiyl.

*Oblast* (province) – the largest administrative and territorial unit in the Kyrgyz Republic with respect to regional territorial divisions.

*Local Community* refers to a population permanently residing within the territory of aiyl, (village), community or city councils, united by common interests in decision making processes through their representatives and other bodies. Rayons and oblasts represent the territorial organizations of local communities.

*Local Self-Governance* (LSG) refers to a system of organizational activities of a community for independent, initiative and responsible decision-making processes of local importance. LSG is a democratic form of “power to the people”. It represents one of the fundamental principles of the Constitution of the Kyrgyz Republic and operates along with forms of state power. LSG takes place through representative organs of local communities and their executive body, as well as directly through local referendum, meetings, conferences, and other forms of discussion.

*Local Keneshes* (Councils) are representative bodies of local communities elected by the population residing in the respective area by open and secret vote for five- year terms. At recent elections held on October 17, 1999, some 8,182 deputies were elected to 526 local councils.

*Aiyl okmotu* – an executive and administrative body under the aiyl (village) or community kenesh, whose responsibilities include management of local social activities and social services for a given community.

*Akim* – a head of an executive body, or local state administration at a corresponding level of territorial authority.

*Governor* - the head official of an oblast administration providing state control over the activities of local territorial administrations and local governments.

*Jogorku Kenesh* (national parliament) – highest legislative organ of power in the Kyrgyz Republic composed of two Assemblies: the Legislative Assembly (60 deputies), and People’s Representatives Assembly (45 deputies). Some 15 seats in the Legislative Assembly are held by representatives of political parties that have received 5% or more of all votes cast during the last elections held in 2000.

*Comprehensive Development Framework* (CDF) is a development program of the state whose major objective is poverty alleviation. The Program is based on the design and implementation of policy measures in the economic, social and ecological sectors, on structural adjustments, and on more effective governance. The first CDF is being prepared for Kyrgyzstan for the period through 2010.

*Public Agreement (Social Contract)* refer to socio-political interpretation that the state has emerged as a result of an agreement with the people that stipulates for voluntary denial of some of their natural rights in favor of state power in return for the provision of certain common services provided by the state.

*Preventive Development* is a development approach involving various forms of risk mitigation to address major development aspects. Preventive development is based on the use of stabilizing factors and mechanisms preventing sharp and sudden changes in systems of state and society. These stabilizing factors include *socio-cultural institutions* – structures responsible for certain social functions, cultural values and norms.

*Sustainable Human Development (SHD)* is a development approach in which growth in human potential takes priority. It strives to integrate economic, ecological and social goals from this human perspective. As such, SHD protects the poor and the environment, supports women and works to create jobs. SHD has been formulated as a concept in annual UNDP Global Human Development Reports since 1990.

*Decentralization* is a term referring to a transfer of power and/or responsibility for implementation of functions from an organization or from the level of central government to lower levels of government or to the private sector.

*Civil Society* refers to individuals or groups of society, organized or unorganized, that interact in with the social, political and economic sectors and are regulated by formal or informal rules and laws. Civil society provides for a dynamic, multi-layered spectrum of views and values seeking expression in the social arena.

*State Governance* can be viewed as implementation of economic, political and administrative power in order to guide the country at all levels. It comprises mechanisms, procedures and power institutions through which citizens and groups of citizens may express their interests, fulfill their rights and obligations, and resolve conflicts.

*State Regional Policy* is an area of activity for governance of political, economic and social development in the context of the region. It involves efforts to improve relations between state and oblasts and rayons, as well as between oblasts and rayons themselves.

*Socio-cultural institution* - a structure within which a certain area of social life takes place that stabilizes social dynamics. Socio-cultural institutions cover areas of education, law, science, and healthcare, as well as certain corporate and social unions representing the foundations of civil society.

*Security* – a concept characterizing a complex range of living conditions in which the absence or minimizing of dangers is ensured and development opportunities are expanded to the greatest extent possible.

*Rule of Law* refers to the superiority of law over government, protection of citizens against arbitrariness on the part of the state, and its acceptance by the whole of society. Creation and provision of rule of law depends on availability of clear

information about laws without discrimination and their efficient application, predictable and legitimate methods of changing the content of legislation, and a civil society that regards the law as just and legitimate and is committed to them.

*Globalization* – a range of complex political, economical and cultural processes occurring in the second half of the 20th century. Globalization is characterized by transparency of borders between countries for economic, political and cultural relations. Development of information technologies have played a special role in enhancing the pace of globalization processes.

*Cultural Policy* – a new type of political interaction designed to encourage well-directed change of existing values and norms in society. Transformation of norms generates new behavioral types that support new economic and political activities.

*Focus Group* – a tool used in sociological research allowing for additional qualitative analysis of quantitative indicators. A focus group is a small, but representative group of eight to twelve people, who are asked several questions on a particular topic. Use of this format makes it possible not only to ascertain opinions of participants on a particular problem, but also to receive detailed information about the reasons on which their opinions are based, which is usually not possible within the framework of traditional sociological surveys.

*Social Distance* – a concept used in an assessment of the degree of social stratification. Representatives of different groups of society have different opportunities for the satisfaction of their needs and desires, including material needs, as well such things as education, and public expression. Social distances characterize the difference between the set of opportunities of different groups of society and the number of individuals living at the extreme borders of these distances. In ideal conditions of social distances, there are relatively few people living at these poles. In democratic states, a large majority of the population enjoys relatively equal opportunities for development.

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## EXECUTIVE SUMMARY

National Human Development Reports have been prepared and published in the Kyrgyz Republic since 1995. The principle themes of these Reports are recommended by UNDP, with each theme reflecting ongoing development processes in the country.

Previous Reports have laid the basis for a discussion of human development factors and proposed areas for further analysis of key development issues.

This Report is the last of the passing millenium, a fact that has had a direct influence on the choice of human development topics it takes under consideration. As such, the Report focuses on not just one single theme. It offers a discussion of several new areas of human development in the republic that will require close attention by state and society over at least the next five to ten years. These major themes involve issues of globalization, security, and preventive development.

There has been a growing emphasis over the last years of the twentieth century on the importance of human development as the central focus of all development approaches. This is evidenced by new shifts in the types of strategies prepared by other major international development organizations, in addition to the UN family. The World Bank, for example, has initiated the preparation of long-term Comprehensive Development Frameworks in several countries, including Kyrgyzstan. The International Monetary Fund has also reoriented its focus in some countries, moving from programs of strict structural adjustments to programs addressing poverty reduction. Efforts have been made to discuss all themes of this year's Report within this human development framework. The Report covers important development events and activities that took place in the republic through the year 1999.

The 1999 Human Development Report<sup>1</sup> prepared by UNDP was dedicated to a discussion of globalization as one of the dominant processes characterizing the world community during the last decade of the twentieth century. Time and spatial distances are continuously shrinking, borders between countries are disappearing. Globalization is a process encompassing not only economic, but also cultural, technological, and governance issues. People residing in different corners of the globe are becoming linked more closely and dependent on events happening in countries far away.

Establishment of an independent Kyrgyzstan has coincided with this period of global transformations. The present Report provides an assessment of the influence of certain globalization processes on the republic, including both positive and negative consequences. This analysis is undertaken within the context of overall human development processes occurring over the same period. At the same time the role of previous NHDRs and their treatment of specific transition problems are reviewed. An attempt has also been made to analyze various security issues, including new threats to individual, social and national security, emerging as a result of globalization.

Globalization processes, including those both beneficial and detrimental to the human development of a country, have led to a new understanding of such important concepts as security and preventive development. While the influence of potentially

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<sup>1</sup> UNDP. 1999. Human Development Report for 1999, New-York: Oxford University Press.

unifying trends of globalization, including technology, forms of governance, and social norms, continues to grow, the very existence of independent nations in the world community allows for their own unique paths of development and international integration. For these reasons, an understanding of *regional, national, social and individual security* can vary in every country. In the same way, preventive development can also refer to many different development priorities that ensure harmonious development of the social system, while still “keeping up” with global standards of progress.

Certain criteria used to measure the quality of life must be included in all national development programs and require special discussion. Indicators now being selected for preparation of the first CDF in Kyrgyzstan supplement work carried out under the National Sustainable Human Development Strategy, which has been implemented since 1997.<sup>2</sup> Development of a good system of indicators also requires identification of resources not available during implementation of previous programs and projects.

Monitoring of the most important areas of social development is already carried out by the state, NGOs and international donors and organizations. The Common Country Assessment prepared by UNDP on a regular basis in cooperation with the National Statistics Committee of the Kyrgyz Republic is an example of these activities. Monitoring of only quantitative indicators, however, cannot capture all aspects of development. In this connection, the special UNDP project for “Tracking Human Development Progress” is rather timely. Efforts in this area have been undertaken since 1999. Indicators reflecting various qualitative facets of human development are coordinated at the inter-program level and can serve as the base upon which national monitoring and decision-making processes are conducted.

The transition period in which Kyrgyzstan now finds itself includes not only economic reforms and a strengthening of democratic institutions. It also involves fundamental changes in public consciousness. Selection of an appropriate set of development approaches and strategies is just as important as the country’s aspirations to achieve harmonious development. This Report provides a discussion of the key parameters around which such strategies can be designed to ensure the sustainability of human development in the Kyrgyz Republic.

*Chapter 1* of this Report looks at certain specific global standards and trends as they are reflected in the republic. This review takes into consideration three areas of interest: 1) the role and impact of the National Human Development Reports themselves on development as an internationally recognized, standardized tool for development analysis and policy dialogue; 2) standard Human Potential Development Indexes; 3) and information and communication technologies.

As in past years, the major indicators of human development and their calculations are provided. These include the Human Development Index, Gender Development Index, and Gender Empowerment Index. Given the importance of poverty alleviation efforts in the republic, beginning in 1999, the NHDRs have also included the Human Poverty Index (HPI) for developing countries (HPI-1).<sup>3</sup>

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<sup>2</sup> Sustainable Human Development Council under the President of the KR and UNDP. 1998. National Sustainable Human Development Strategy in the Kyrgyz Republic, Bishkek.

<sup>3</sup> UNDP. 1999. Kyrgyzstan National Human Development Report for 1999, Bishkek.

In 1999 the country's First National Population Census was conducted. Because the results of this Census have provided the most accurate demographic information available, retrospective calculations have been made for all population figures and related statistics for the years leading up to 1999. As a result, all indexes for previous years (except HPI-1) have been changed. An international comparison of human development indexes is also provided.

Globalization leads not only to changes in the economy, but also to formation of new geopolitical relations based on an integration of human and informational resources. Growth of the Internet can serve as an indicator of how the development of the country is corresponding with world trends and prospects. This topic is also discussed in *Chapter 1*.

One of the most important factors of development is the safety and security of human beings. Problems of globalization force a new understanding of this problem. Ensuring individual security is becoming an absolute priority. This focus is especially evident in the work of many international organizations. At the national level, human safety can be considered in terms of external and internal threats to the country.

*Chapter 2* makes observations on one of the most pressing external threats for the republic, international extremism and potential "balkanization" of the Eurasian region as a whole. In 1999 the country successfully coped with an insurgence of armed rebels in the South of the republic. The danger of a reoccurrence of such conflicts has led to a series of preventive development measures.

Poverty alleviation, rule of law, and more efficient mechanisms of state represent additional aspects of security for individuals and society in the Kyrgyz Republic. Internal security threats also include growing social differences and inequalities, which reflect trends for a stratification of society. Overcoming these inequalities, while taking into consideration all ethnic-cultural and gender factors, is of particular importance. Other factors, such as healthcare and developed systems of social services, also play an important role in ensuring human security.

An analysis of threats to human security is closely related to a discussion of possible measures to protect against these threats. Preventive development as a means to mitigate internal and external threats are the focus of *Chapter 3*. Sustainable human development widely depends on timely identification of activities and political decisions that carry the risk of crisis situations. For countries with transitional economies, such as Kyrgyzstan, the potential for instability is quite high both in terms of the economy, as well as the social sector. Under such conditions, it is especially important to have a variety of policy planning and decision-making tools that allow for these risks to be reduced and opportunities for human growth to increase.

*Chapter 3* also offers an analysis of preventive approaches designed to ensure more effective state governance and a well-developed civil society. Specific issues addressed include civil service reform, development of non-governmental organizations, problems of mass media, and the role of education in preventive development processes.

*Chapter 4* provides a discussion of regional human development policies. Development indexes are calculated for all oblasts (regions) of the country, upon which regional comparative analyses are based. Kyrgyzstan faces a difficult task in preserving ethnic and cultural diversity of all nationalities residing in its territories. Each oblast and many rayons have their own specific development requirements depending on several economic, cultural, and geo-physical factors. Under such conditions, successful regional policies must involve decentralization and the development of local self-governance capacity. Special attention is given to the problems of urban development. Difficulties faced at the local level are highlighted by a series of *Close Views*, text inserts offering first-hand accounts of regional issues.

The role of National Human Development Reports can and should take on greater importance. In addition to new indexes and sector reviews, the format and methods used to prepare NHDRs should change and expand to reflect ongoing reforms in the country and its new development experience. For this reason, *Chapter 5* offers a review of existing development techniques, as well as suggestions for new and complementary development approaches. Creation of a common ideology and system of positive values acceptable to all citizens must become a development priority. This requires certain changes in the political interactions of society. An increase in development opportunities can occur only in an environment in which a free and productive dialogue between all interested parties exists.

In preparations for this Report, some special forms of research were conducted through a series of focus groups and interviews. Numerous regional field trips were undertaken to allow for a more accurate and comprehensive understanding of development processes taking place throughout the republic. Therefore, the Report reflects not only the opinions of its authors and involved experts, but also the views of ordinary citizens. Public feedback and discussion on development issues has also been organized through the use of the Internet and distance telecommunication services. These technologies are well suited for such “on-line” discussion of development issues, which undoubtedly will have a positive influence on future NHDRs.

There is evidence to suggest that new courses on human development will be taught soon on a regular basis at universities and colleges in the republic, as is the case in certain other countries of the CIS. In addition, it is clear that information on human development priorities is now better disseminated among government officials, civil society and the private sector, although there is still much work remaining with respect to their institutionalization and full incorporation in state policy. The approaches developed in this Report can be used both as a tool in the daily activity of all development partners, including state bodies, individual citizens, and NGOs, as well as for the monitoring and evaluation of socio-economic progress.

## INTRODUCTION

On the eve of the new millennium, the world community – nation states, regional interest groups, international organizations – all have shown serious effort to comprehend the complex development process in all its many facets. Countless experts and scholars, politicians and managers, specialized organizations, and global agencies have discussed various aspects of and approaches to development.

Among these many internationally recognized analytical approaches, one in particular has differentiated itself in its ability to identify and capture the essence of what all development objectives should embody – the sustainable human development approach put forward by the United Nations. The special feature of this approach lies in its understanding and assessment of *human* development through the use of a now standard, expanded system of development indexes that make it possible to compare development efforts and progress across nations.

In addition, experts at the regional and country levels are able to use the various methodologies of the UN approach to look at specific issues through the prism of sustainable human development. This allows unique development issues to be viewed through use of a common set of analytical tools, which in turn allows such local phenomena to be generalized and compared with data from other countries.

The National Human Development Reports prepared each year under the aegis of the United Nations Development Program represent one of the most successful applications of the SHD approach. These Reports offer many advantages over certain other studies produced by international NGOs and financial institutions. They are prepared by teams of national experts on a regular basis using a common set of methodologies. As such, they fill an essential niche between both the work of state development organs and analytical research conducted by foreign experts.

Because the statistics and project data upon which NHDR analysis is based are available, however, only following a several month delay, both global and national reports must rely on materials relating to the previous calendar year. As a result, analysis must focus on partial results without taking into consideration the events and decisions of the current year, as the influence of these “current” events will serve in turn as the topic of analysis for the following year’s Report.

NHDRs prepared in the Kyrgyz Republic over the previous five years have fulfilled their mission in its broadest terms – they have collectively raised the human development topic for constructive discussion among both the state and civil society. Their influence on development processes in the republic in this regard is addressed in more detail in *Chapter 1*.

Kyrgyzstan is on the eve of the tenth anniversary of its independence. The first historical stage of its national revival and creation of statehood has already passed. Clearly, the many significant achievements made by the republic during this period cannot be argued: preservation of interethnic harmony, democratization of society, and international recognition.

Despite its necessary orientation to external assistance, however, Kyrgyzstan can no longer be viewed as a pilot country in which to test various development approaches. It is time for the republic to determine more for itself the directions of its growth and how best to achieve these goals. This corresponds to necessary changes in the development approaches of UNDP, as well as other international organizations. Recommendations proposed from year to year by foreign experts are certainly useful. It is perhaps more important, however, to assess the degree to which the country's capacity for self-determination has evolved.

The authors of the current Report have attempted to do more than simply expand the use of effective analytical approaches already developed in previous NHDRs to describe the occurrences of 1999 that have brought about social change in the republic. Rather, one of the overall goals of this year's Report has been to introduce several concepts behind a new development agenda: individual development in an environment of new and changing conditions.

At the same time, there are still many lessons to be learned from the past. By understanding the human development processes of the previous decade, an accurate assessment of the positive influence of globalization on the republic, as well as its negative consequences, can be derived. In this context, the role of previous NHDRs and their relationship with specific transition period problems, from Soviet Republic to full, independent member of the international community, has also been reviewed.

Human-oriented development processes encompass all spheres of life: economic, political, and social. Many aspects of economic reforms, although complex, often are at least quantitatively measurable. Societal change, however, and its related components, are inherently more difficult to analyze. For this reason, there is at times a better understanding of the irreversibility of certain development processes, rather than their trends and future directions.

Overly simplified explanations of complicated processes have long ago become stereotypes and the basis for various in-country political movements in the transition economies. The opportunity to manipulate public consciousness through popular economic "theories", for example, often seems to take precedence over the actual economic viability of these approaches. As a result, over time a flawed impression can be formed, for example, that only economic growth can trigger and shape the transformation of public consciousness and social unity.

In part due to pressure applied by numerous national and international social organizations, the World Bank and the International Monetary Fund have undertaken more in-depth studies of the human and social consequences of structural adjustment programs prescribed for transition economies. These institutions' traditional perception of human development, namely institutional issues in the health, education, and social assistance sectors, has been supplemented by a more comprehensive review of the problems associated with providing society with the rights and opportunities to participate in the development process.

The results of political processes, national programs and reforms are manifested in changes in the population's quality of life. These changes differ in specific ways for every region, town, and village. At the same time, they correspond to unique

development requirements that must be taken into consideration when selecting new models to achieve specific development goals. As such, an awareness and consideration of specific development criteria is becoming more important for national, results-oriented human development programs.

Some of the conditions necessary for human-oriented economic prosperity, which simultaneously serve as criteria for reform evaluation, were voiced by President Askar Akaev in 1999. These include higher levels of employment, improved standards of living, and reduced levels of poverty.

*“Social reforms are taking place in Kyrgyzstan: reforms in the systems of education and health, pension reform, and the creation of a reliable and efficient social security system through special programs supported by the Asian Development Bank and the World Bank. All these programs are coordinated by the comprehensive program of Sustainable Human Development accepted under the aegis of and through cooperation with UNDP”.*<sup>4</sup>

Askar Akaev

The formulation of a sound system of development criteria and indicators requires the identification of development resources that may not be available during program and project implementation. Already there exists considerable national capacity for the use and evaluation of such qualitative monitoring systems. The National Statistics Committee regularly determines various situational indicators, while the annual NHDRs themselves contain calculations of such integrated indicators as the Human Development Index and Human Poverty Index at the national and regional levels.

Despite the benefits to be gained from world experience and foreign experts, however, the most important path of development is self-development. It is not possible to develop a national social system from without, relying primarily on external assistance programs. While the aspiration for harmonious development represents a core foundation of national growth, just as important for the still young Kyrgyz Republic is careful selection of a set of appropriate approaches and strategies used in achieving these and other development goals. ***In any social system, the more opportunities and choices there are available for types of behavior and decision-making, the greater the chances for more productive and complementary cooperation between all the system’s stakeholders.***

Efforts to understand better the complex social, administrative, political and economic aspects of society represent a now traditional approach to the challenges of developing the individual, society and state. It is from this perspective that the present Report has been prepared.

*“The process of development should be viewed as a process of expanding the opportunities of individuals, and not as an increase in material or economic well-being or satisfaction. In final terms, development is an issue of freedom”.*<sup>5</sup>

Amartya Sen, 1998 Nobel Laureate in Economics

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<sup>4</sup> Askar Akaev. 2000. “Transition Economy Through the Eyes of a Physicist (A Mathematical Model of the Transition Economy)”, Bishkek.

<sup>5</sup> Amartya Sen. 1999. “Development as Freedom”, Oxford.

The need to change the focus of each NHDR to reflect changing development requirements in the republic is clear.

Kyrgyzstan is at a new historical stage in its evolution, a time when the euphoria of independence has worn off to be replaced by the sobering realities of transition processes that appear in everyday life as often difficult and contradictory manifestations.

Given the variety of reforms being introduced against a backdrop of societal inertia, the country's youth is expected to play an important role in these development processes. These people represent the first generation of independent Kyrgyzstan, those who have grown up not knowing the total influence of Soviet ideology and way of life. Little is known about these individuals, although it is on them that so much of the country's future depends. State doctrine is formally oriented toward this generation as the creative force that should shape the pace of development in the republic over the unfolding new century. For these reasons, it would serve well if the 2001 NHDR – the first Report of the new millennium – were dedicated to the role of the youth in human development processes, with the team of authors to include representatives from this generation, students and young adults.

The international development community, led by the United Nations, has recently declared its plans to ensure better opportunities for all communities to take advantage of the information communication and technology revolution now redefining local and global relations. Considering the pace of globalization and the benefits and potential dangers that such a process represents with respect to information access and control, it could be useful to dedicate the 2002 NHDR to a discussion of information and communication in the republic and its role in human development process.

One of the fundamental elements necessary to harmonize relations at all levels of society is development of the “third sector” and the capacity for self-governance. This topic is being discussed actively in the republic. Numerous programs in this sphere are being implemented on a pilot basis. As such, it is suggested that the topic for the 2003 NHDR focus on self-governance and the role of NGOs in sustainable human development.

## **CHAPTER 1**

### **GLOBAL HUMAN DEVELOPMENT STANDARDS AND TRENDS IN KYRGYZSTAN**

In efforts to understand better the sustainable human development progress made by Kyrgyzstan over the past several years, as well as the work that still lies ahead, it is useful to look at certain specific global standards and trends as they are reflected in the republic. This review takes into consideration three areas of interest: 1) the role and impact of the National Human Development Reports themselves on development as an internationally recognized, standardized tool for development analysis and policy dialogue; 2) standard Human Development Potential Indexes; and 3) information and communication technologies.

#### *National Human Development Reports*

National Human Development Reports prepared under the aegis of the UN in more than 100 countries define human development as a process for the expansion of human potential. The NHDRs allow development processes and related issues to be assessed through objective comparisons. By providing information on “best practices” and experience gained by various communities throughout the globe over a period of many years, both ordinary citizens and decision-makers are in a better position to make well-informed choices in an era of increased information and globalization.

Groups of independent experts have been preparing the NHDRs in Kyrgyzstan with the support of UNDP since 1995. Although the themes of these Reports have changed each year, they have always focussed on key issues of sustainable human development. Their cumulative impact on development processes in the republic has been significant.

The 1995 Report sought to introduce Kyrgyzstan to the international community and determine national priorities for human development. The next annual Report took as its focus the relationship between the economy and nature. Social integrity served as the focus of the 1997 NHDR. In 1998, the influence of the state on sustainable human development was examined, while the 1999 Report provided a review of human development processes in the republic from 1995-1998 in the context of legal, institutional, and regional development.

One of the most obvious and direct influences of the NHDRs involves the new analytical approaches available to the government to assess its own activities. Prior to 1995, a series of economic parameters and benchmarks served as the exclusive orientation for formulation of national policy. Since then, subsequent government programs and national statistics have begun to include such important development concepts as HDI, poverty, gender analysis and the Gini coefficient.

It is important that citizens have gained the opportunity and ability to assess the activity of the state according to these parameters. They are now more aware of the need for well-considered policies taking into consideration human development issues. The transition to such common instruments of analysis has also facilitated improved dialogue between the republic and other countries.

Socio-economic and political reforms in the post-Soviet era can be regarded as “mature” for many reasons. In most transition countries, however, the goal of these

reforms has never been announced publicly. Kyrgyzstan was the first country from the Central Asian region to identify clearly the human orientation of its reforms.

Analytical approaches used by the NHDRs have made it possible to outline a range of development issues. These include relative growth in human potential and social capital, as well as their mobilizing character.

In terms of human development assessment, special importance is attached to the chapters of the NHDRs dedicated to public policy and state mechanisms that nurture human development. The NHDRs have discussed in great detail the social impact of market reforms on human development. In addition, significant progress has been achieved in increasing the understanding of the mechanisms of state governance and the formation of *social contracts* between the state and society.

Ideally, the state provides certain support to human development and in turn receives human capital and trust from society. The state itself represents an overall manifestation of trust. This trust is a pledge for efficient governance and the most powerful stimulus for reforms.

In most Asian countries, this factor of trust is personalized. In Kyrgyzstan, trust in reform policy is associated with trust in President Askar Akaev. Over the period of the 1995-1999 NHDRs, the President has preserved his socio-psychological status as leading politician and leader of the country.

*“Bringing about the elements of civil society and private initiative based on the interest of individual citizens was the major goal of the initial stage of the transition from a centrally planned economy to a free market economy. Therefore, first and foremost, laws that were conducive to freedom of speech and press, development of political parties and social movements, protection of human rights, and development of private initiatives, as well as free elections, were approved”.*<sup>6</sup>

Askar Akaev

The NHDRs have also commented on the degree to which legislative aspects of human development in Kyrgyzstan are better developed than institutional or economic aspects. As a rule, problems arise at the level of local authorities or ministries. The national bureaucracy is becoming more and more a factor hindering or distorting the success of development programs through activities that still do not take individuals as their focus. The problem of a weak state is aggravated by political parties and other institutions of civil society insufficiently developed to compensate for the inertia of the state apparatus. The NGO sector is developing extensively. Its overall impact, however, is not sufficient to provide complementary balance to the weight of state socio-political governance structures.

Regional studies conducted under the NHDRs have highlighted for decision-makers some of the most important features and bottlenecks of human development potential that are sometimes lost through an analysis of development issues at the national level. The regional diversity of Kyrgyzstan is reflected in the unique characteristics of human development progress for each region. This variety is caused by geographical

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<sup>6</sup> Askar Akaev. 2000. “Transition Economy Through the Eyes of a Physicist (A Mathematical Model of the Transition Economy)”, Bishkek.

conditions, socio-economic, demographic and cultural differences. For these reasons, reform efforts must be observed at the regional levels.

The 1999 NHDR prepared brief statistical profiles of all oblasts and the capital in a unified format.<sup>7</sup> Key indicators of human development for each region were calculated for the first time, together with various supporting statistical and analytical indicators. As a result, assumptions regarding significant regional disproportions were quantitatively confirmed in terms of human development potential assessment. Each profile also discussed reasons underlying certain disproportions. *Chapter 4* of this Report continues this regional analysis.

A better understanding of human development issues has spread not only among the highest levels of the state, but also among NGOs and social organizations in all regions of the country. As such, the NHDRs appear to have been timely and useful documents for social organizations and various leaders. Although the NHDRs represent only one of several factors influencing national development policy, nonetheless, many practical steps have been taken reflecting ideas and recommendations discussed by the Reports across all aspects of human development.

The 1999 NHDR, for example, observed that the existing policy of setting low end-user rates for public utilities does not allow the state to invest funds essential for the urgently needed repair and upkeep of this infrastructure, which in turn leads to lower quality of life for the general population. In 1999, the government made a decision to increase gradually all utility rates. At the same time, state bodies began to provide targeted compensation to those segments of society unable to afford the increased costs for electricity, gas, and telephone services.

The 1999 Report also commented on problems arising from the interaction between Kyrgyz, the state language, and the Russian language with respect to social integration. Subsequent discussions on the two state languages has since resulted in adoption of a Law on the Official Language in the Kyrgyz Republic.

As discussed in detail by the 1998 and 1999 NHDRs, the largest gap in the republic's reforms lies in the area of effective public administration and good governance. At the end of 1999 a Law on Civil Service was approved. According to many experts, however, this Law is inadequate in many regards (see *Chapter 3*).

The 1999 NHDR also analyzed the problems of housing construction and maintenance of public utilities. A Concept for Housing Construction was subsequently approved by the President in April 2000. The Concept notes that sound housing policy is a key indicator of the government's overall effectiveness.

Previous NHDRs have also commented on the accomplishments of UNDP projects and other international organizations in the development of social technologies directed at poverty alleviation. Public awareness of SHD principles and approaches has since increased. Indicators of such improved understanding can be found in increased numbers of specialized NGOs addressing the challenges of poverty

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<sup>7</sup> UNDP. 1999. National Human Development Report for Kyrgyzstan, Bishkek.

reduction, and to a certain degree the creation of new NGOs focussing on other issues of human development.

### ***Human Development Potential Indicators***

Indexes developed by UNDP for development monitoring have received worldwide recognition. While nearly all international organizations use various indicative approaches, the system of UNDP indexes is the most appropriate approach from the perspective of human development.

Over the past five years, the NHDRs have calculated the Human Development Index (HDI), the Gender Development Index (GDI), and an overall development index taking into account gender issues, the Gender Empowerment Index (GEM). Beginning in 1998 a suggestion was made to include the Human Poverty Index used for developing countries (HPI-1) in the Reports, in so far as poverty reduction represents one of the major development objectives of the country. A more detailed description of methods used to calculate all NHDR indexes is provided in *Annex 2*.

**Table 1.1:** Dynamics of Human Development Indicators in the Kyrgyz Republic, 1996-1999

	1996	1997	1998	1999
Human Development Index	0.688	0.696	0.701	0.706
Gender Development Index	0.685	0.693	0.698	0.701
Gender Empowerment Index	0.453	0.445	0.447	0.457
Human Poverty Index (HPI-1)	10.3	9.1	10.9	9.5
Year of Data – 1999				

Source: *National Statistics Committee of KR*.

Indexes calculated for the 2000 Report differ from those of previous reports (see *Table 1.1*). This is in large part due to the results of the First National Population Census conducted in 1999<sup>8</sup>. Because the census produced demographic information more accurate than other simpler previous annual reviews, a recommendation has been made by the Interstate Statistical Committee of the CIS to recalculate data on the size of the population using new census information for the entire previous inter-census period from 1989-1999.

In turn these recalculations have resulted in a change of GDP per capita (GDP per capita in US dollars for PPP is calculated by the National Statistics Committee in accordance with a program for international GDP comparisons). GDP figures have changed at both national and oblast levels, with corresponding changes in all related indicators over the same period. For these reasons, indicators for all indexes in this Report, with the exception of HPI-1, differ from previously published figures.

Access to final official statistical data for the year 1999 was not available prior to finalization of the Report. Therefore, this Report, as in years past, calculates indexes for the previous year on the basis of preliminary data from the National Statistics Committee.

<sup>8</sup> National Statistics Committee of the KR. 2000. Primary results of the 1999 First National Population Census of the Kyrgyz Republic, Bishkek.

Calculation of the Human Development Index, including the recalculated figures for previous years, has been made using methods introduced in the 1999 Report. An analogous approach for calculation of HDI is used in UNDP's World Human Development Report. This allows for the useful comparison of indexes between National Reports of various countries.

Publication of the first NHDR for Kyrgyzstan in 1995 coincided with a trend for increasing HDI values. In 1996 this index increased by 1.8% over the previous year. In 1997 and 1998, however, the rate of HDI increase slowed down to 1.2% and 0.8%, respectively. In 1999 the rate of increase slowed still further to 0.6% over the 1998 value. A slowing in the HDI's positive growth is clearly observable. *Table 1.2* presents the dynamics of HDI growth since 1996. The *Table* also includes HDI values for the same period calculated according to the old method while using the more precise Census data. This comparison demonstrates the changes that can occur in indicator values when calculation methods for one of the index's components are changed.

**Table 1.2:** Human Development Index, Components of Human Development Index for the Kyrgyz Republic, 1996-1999

	1996	1997	1998	1999
Life Expectancy Index	0.693	0.698	0.702	0.700
Level of Education Index	0.862	0.869	0.879	0.888
Per Capita GDP Index	0.508	0.521	0.523	0.529
HDI	0.688	0.696	0.701	0.706
% with respect to previous year	101.7	101.2	100.8	100.6
HDI, calculated with methods used prior to 1999	0.626	0.638	0.645	0.651
				Year of data – 1999

Source: National Statistics Committee of KR.

One of the statistical indicators more widely used in socio-economic analysis is real GDP per capita by PPP. Although it represents one of several good indicators for the development process and economic activity, it does not in itself, however, represent a final measurement of development progress. In contrast, the HDI considers income as only one of the key aspects to measuring living standards, in addition to measurements of life expectancy and level of education.

*“HDI and GDP per capita do not measure the same things. GDP per capita is designed to be an indicator reflecting the well-being, practical or economic welfare of a population, while the human development index is an attempt to measure the level of human potential. Well-being and potential represent different things. HDI is called to measure potential, the number of alternatives available to individuals, and most important, the actual freedoms enjoyed by people. GDP per capita is used to measure the subjective satisfaction people receive from consumption. Thus, HDI and GDP per capita should be considered as complementary indicators carrying different types of information and are not interchangeable.”*

“Human Development: New Measurements of Socio-economic Progress”, Moscow, 2000

*Table 1.2* provides figures reflecting the dynamics of the three HDI components. During the 1996-1999 period, growth of all HDI components was observed, with the exception of Life Expectancy, a reduction of which occurred in 1999. The highest growth has come in the GDP per capita component, which has caused an increase in the weight of this indicator in the overall index from 24.63% to 24.97%. In 1998 the rate of HDI growth decreased as a result of economic stagnation.

During the same period, the Som exchange rate fell from 1998-1999 and the rate of GDP growth slowed. This fall in the Som exchange rate, of course, did not cause a proportional decrease in its purchasing power. The fall, however, was strongly reflected in the Consumer Price Index (see *Table 1.3*). Real income of the population declined. These low income levels contributed to a consumption structure characterized by high consumer spending and low savings. This in turn had a detrimental affect on overall economic development. Declines in standards of living led to an increase in numbers of people living in extreme poverty. *Chapter 2* provides more detailed discussion of these poverty issues.

**Table 1.3:** Main macroeconomic indicators and growth in population income, 1996-1999

	1996	1997	1998	1999
Rate of growth of real GDP, as % of previous year	107.1	109.9	102.1	103.6
Consumer Price Index, as % of previous year	132.0	123.4	110.5	135.9
Growth in effective population income, as a% of previous year	97.3	110.5	112.0	102.9
Growth in basic population income, as % of previous year	128.5	136.3	123.8	139.8
December Exchange Rate, Som to 1 USD	16.70	17.42	29.38	45.43

Source: *National Statistics Committee of KR*.

Changes in the various components used to calculate the HDI index, of course, result in changes of the overall HDI index along its scale of 0 to 1 (see *Figure 1.1*). Trends in HDI values show both the progress Kyrgyzstan has achieved in its efforts to distance itself as much as possible from the minimum HDI value of 0, as well as the amount of work that still lies ahead to achieve the maximum value of 1. Strictly within the analytical context of this index, more work is required in these ongoing efforts to improve economic growth, as the GDP component index is disproportionately lowest among HDI components: only 0.529, compared with 0.888 for the Educational Level Index and 0.7 for the Life Expectancy Index.

**Figure 1.1:** The Development Spiral, Development of Human Potential in Kyrgyzstan, 1996-1999

Substantial regional differences in levels of human development potential reached by various countries as determined by HDI are shown in UNDP's 1999 Human Development Report. According to an international ranking of HDI values, Kyrgyzstan placed 97th in 1997 with an HDI of 0.702. Differences between national HDI values cited in individual countries' NHDRs and HDI values calculated for the World Human Development Report occur because the World Report uses statistical

data provided by international development organizations rather than data from national statistical agencies. Despite the usefulness of the HDI for comparative purposes, it is interesting that countries so dissimilar to Kyrgyzstan from a human development perspective, such as Turkmenistan and China, were ranked internationally 96th and 98th with HDI values of 0.712 and 0.701, respectively. Rankings of all countries in the region according to HDI values are provided in *Figures 1.2* and *1.3*.

**Figure 1.2:** Russia, China, and Kyrgyzstan – Imbalances in Human Development Potential, 1997

**Figure 1.3** Regional Neighbors, Imbalances in Human Development, 1997

An analysis of individual HDI components enhances the discussion of the various ways used to develop national human potential. A comparison of Kyrgyzstan and China provides a particularly clear example of these differences. Although as noted above they possess nearly identical HDI values (0.702 versus 0.701), the value of their aggregate HDI components are diametrically opposed (see *Figure 1.2*). Kyrgyzstan's HDI is characterized by its relatively high literacy rate among the adult population, whereas the HDI for China is characterized by its relatively high GDP per capita rate by PPP.

An analysis of HDI values for countries with common initial development roots – the countries of the former Soviet Union – reveals that differences in HDI growth are determined primarily by differences in recent economic development. HDI social development components for these countries are relatively similar (see *Figure 1.3*). This is due to the existence of a common system of education and health developed over many decades and the relatively long development period required to produce changes in these HDI aggregate components. This comparison shows a relatively low rate of school enrollment in Kyrgyzstan in 1997 (69%) among those aged 7-24, cause for concern. Analysis of national data, however, indicates an overall growth of education levels.

No direct, constant correlation exists between sustainable economic growth and the human development process. The indicator reflecting the impact of economic growth on overall human development potential is based on real GDP per capita by PPP adjusted according to HDI rating. This indicator indirectly characterizes the degree to which economic development has been successful in increasing human potential. According to UNDP data, in 1997 this indicator was 19 for Kyrgyzstan (world ranking by HDI (116) minus world ranking by per capita GDP (97)). The value of this indicator for Uzbekistan and Albania was also 19, which corresponds to an international tied ranking for 20-22nd place.<sup>9</sup>

To make any conclusions based on such international rankings, it is essential that the comparability of data used be taken into consideration. For example, according to international rankings based on HDI, Kyrgyzstan has risen from 109th place in 1995

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<sup>9</sup> UNDP. 1999. Human Development Report for 1999, New York: Oxford University Press.

(HDI = 0.633)<sup>10</sup> to 97th place in 1997 (HDI = 0.702).<sup>11</sup> This change in ranking, however, is primarily the result of changes in calculation methods. Therefore, a change in world rankings does not necessarily correspond to human development changes in Kyrgyzstan. In addition, changes in world rankings may be caused also by changes in the relative prosperity of other countries.

The HDI indicator reflects only the average level of human development for a country. It does not, for example, take into account any imbalances between men and women. To provide a clearer picture of these differences, the Gender Development Index (GDI) is used. GDI reflects the same aggregated components as the HDI, while taking into consideration gender imbalances.

In Kyrgyzstan GDI values are very close to values of HDI. This indicates a relatively low level of gender imbalance. Nonetheless, over the past five years there has been a significant percentage increase in GDI deviations from the HDI. For the years 1996, 1997, and 1998, the GDI deviated from HDI by 0.45, 0.45, and 0.43%, respectively. In 1999, however, this deviation grew slightly to 0.65%. This increase has been caused largely by an increased disproportion in remuneration levels of women compared to men - down to 64% in 1999. From 1996-1998, women received from 71% to 73% of the salaries received by men for the same work. The small, overall percentage deviation of GDI from HDI reflects a rather high level of education of women in the republic. The number of women aged 7-24 enrolled in educational institutions increased from 65% in 1996 to 70% in 1999. The corresponding figures for men in educational institutions were 63% and 69%, respectively. The deviation also reflects a higher life expectancy for women, who on average live seven years longer.

To understand the processes underlying issues of gender inequality, it is useful to compare indicators for life expectancy, level of education, and income, first taking into account gender discrepancies (GDI) and then without (HDI). These comparisons are provided in *Table 1.4*.

**Table 1.4:** Composition of Human Development Index (HDI) and Gender Development Index (GDI), 1996-1999

	1996	1997	1998	1999
<b>HDI</b>				
Life Expectancy Index	0.693	0.698	0.702	0.700
Education Level Index	0.862	0.869	0.879	0.888
Per Capita GDP Index	0.508	0.521	0.523	0.529
<b>GDI</b>				
Gender-Based Life Expectancy Index	0.693	0.699	0.702	0.702
Gender-Based Education level Index	0.863	0.869	0.879	0.890
Gender-Based Per Capita GDP Index	0.498	0.510	0.513	0.512

Source: *National Statistics Committee of KR*.

<sup>10</sup> UNDP. 1998. Human Development Report for 1998, New York: Oxford University Press.

<sup>11</sup> UNDP. 1999. Human Development Report for 1999, New York: Oxford University Press.

GDI reflects only gender imbalances with respect to the most overall parameters of human development capacity. To assess levels of gender inequality in key areas of economic life, as well as participation in political life and decision-making processes, the Gender Empowerment (GEM) indicator is used.

An increase in the value of GEM to 0.457 in 1999, up from 0.447 in 1998, has been caused by an increase in the percentage of women in legislative bodies. This percentage had remained fairly stable over the past several years at 10.1%. In 1999 it increased to 11.3%. Other components of this indicator, however, do not show cause for optimism (see *Chapter 2*, and *Annex 2*).

**Global Influence in Kyrgyzstan.** The second half of the 90s represents the most important era in the life of a still young Kyrgyzstan, having attained independence only in 1991. It is during this period that the basic democratic, economic and social principles have been laid down, according to which the country will develop in the 21st century.

The use of international experience, a desire to cooperate, open-mindedness to progress and positive globalization ideas all characterize the integration of Kyrgyzstan into the world community. At the same time, the process of attaining a national identity also has been based on the cultural and historical legacy and existing social experience of the republic's multi-ethnic citizens. The President of the Kyrgyz Republic, Askar Akaev, titled his Address to Parliament and the Nation of Kyrgyzstan in 1998 "A Model of Social Sector Development in Kyrgyzstan in the 21st Century". The recognition of human development as the goal of reforms is clearly a significant achievement for Kyrgyzstan during the transition period.

In 1997 a National Strategy on Sustainable Human Development was adopted. Several national programs taking human development as their focus were also prepared. A Commission for Poverty Alleviation was established under the President and headed by the Prime Minister. The most important area of this work is support provided to regular poverty monitoring activities carried out in the republic only since 1996<sup>12</sup>. Problems of poverty, employment, gender equality, development of the NGO sector, and other development priorities have become an integral part of national social and political programs. In this context, the influence of the regularly published NHDRs with development approaches based on global experience is clear.

*"In summary, it can be stated that Kyrgyzstan today has completed successfully the first stage of social economic reforms. As a result, the basis for a market economy, which is a reliable prerequisite for sustainable economic growth and human development at the beginning of the 21st century, has been created. Of course, to strengthen and enhance self-organizing elements, enormous, painstaking and creative work to fine tune already actively functioning market mechanisms lies ahead".<sup>13</sup>*

Askar Akaev

<sup>12</sup> Research from the "Monitoring Poverty in the Kyrgyz Republic" under the Social Safety Net project implemented by the National Statistics Committee of the KR with assistance from the World Bank.

<sup>13</sup> Askar Akaev. 2000. "Transition Economy Through the Eyes of a Physicist (A Mathematical Model of the Transition Economy), Bishkek.

At the same time, the future of the country also depends on the degree to which the development of Kyrgyzstan adjusts to worldwide processes and corresponds with global tendencies. Clearly the economy of the country stands at the periphery of global changes with regard to the emergence of new transnational markets. Under current conditions this existing gap cannot be overcome solely at the expense of traditional economic measures designed to increase production.

### ***Influence of Information and Communication Technologies***

Globalization today involves not only changes in economic relations, but also the creation of a new geopolitical set of interactions defined by an integration of human and informational resources. The potential degree of freedom enjoyed by many, although not all, individuals is increasing first and foremost through increased and better access to all forms of mass information and information networks in real time. In addition, the freedom of mobility and choice to pursue personal and professional activities in all parts of the world have increased significantly.

In Kyrgyzstan there is a strong tradition of high education levels and professional qualifications among the general population. Nonetheless, however, at both the national and greater regional level there are a number of problems related to this informational aspect of globalization. New information technologies, on the one hand, offer greater access to culture, useful ideas and knowledge. On the other hand, if not enjoyed to the same degree by everyone, they have the potential to deepen educational and professional inequalities.

Information represents one of the most important factors for change in the 21st century. The 1999 UNDP World Human Development Report observed that residents of rich countries, those with high income and education levels, and “connections”, enjoy inexpensive and quick access to information. Other parts of the world have unstable, slow and expensive access. When people from these two contrasting societies coexist and compete with each other, those who have better access to communication and information possess a clear advantage. As a result, the voices and concerns of those still not “on-line” may not be heard within ongoing international dialogues.

During the Eurasian Economic Forum held in Almaty, Kazakhstan in 2000, experts commented on the surprisingly low levels of Internet use in Central Asia. For example, in Great Britain and Russia the number of Internet sites per 1000 population is 39 and 1.5, respectively. In the Central Asian republics overall this indicator is only 0.14. At the same time, public investment into information technologies is one of the most profitable. Because it operates without geographical borders, is to large degree politically independent, and functions in real time, the Internet has the potential to serve as a powerful regional and global integrator. The efficiency with which this potential is realized determines the course of future development, particularly with respect to local human resources. The government has the opportunity to stimulate the information and communication technology revolution by enhancing the transparency of ICT development activities and encouraging market competition.

In Kyrgyzstan the gap between the demand for Internet and the capacity to meet this demand is growing. This can be explained in part by the high prices for provider services (from 30 to 50 US dollars per month), as well as lack of equipment,

especially in the regions. Limited Internet capacity, however, is also the result of other factors. Mostly, the Internet currently is used in the country as a means of communication and source of information. Support provided by international donor and development organizations provides Internet services only for certain particular groups of users. To date, however, there has been little if any in-country use of the Internet for commercial purposes, either by local businesses or consumers.

One of the reasons for this growing lag in comparison to other parts of the world involves the lack of a comprehensive national ICT policy. In addition, the opportunity to use the Internet to improve processes of governance and to enhance the transparency of ministries' activities has not been utilized fully. All key state administrative structures over the recent years have obtained or received significant numbers of computers through donor projects. By the end of 1999, the first stage in the creation of a Public Management Information System was implemented.

Clearly, the government must do more to provide open access to and more efficient use of the Internet if the benefits of the ICT revolution are to be felt in Kyrgyzstan. For example, Internet access could be provided in post offices for those who cannot afford personal access.

At present, use of the Internet by state structures and by the population at large is much lower than average international user levels. According to informal expert evaluations, there are only some 6000 registered Internet users out of a population of 4.8 million. This represents a user percentage rate tens of times lower than in certain other countries of the former Soviet Union.

#### **BOX 1.1**

##### **KYRGYZSTAN AND THE INTERNET**

Small countries such as Kyrgyzstan that often find themselves at a comparative disadvantage in a number of areas can strive to achieve more equal positions in terms of the speed with which they create information societies. Lacking rich natural resources, such countries more and more often reach the conclusion that their wealth lies in their citizens and therefore are investing in the development of these people in the 21st century. This entails more than providing greater access to and less costly Internet services, although these also represent important tasks. People use the Internet in order to find things useful to them in their lives. By changing the content and composition of local information to better suit the needs and interests of ordinary citizens, numbers of active users would increase. Although state agency sites have been created, which is a step in the right direction, at present they are for the most part little more than electronic bulletin boards. They do not provide citizens or enterprises, for example, with the self-service oriented channels of communication for which ICT is so well adapted.

The current ICT environment in the republic is characterized by a lack of trust in electronic document processing and exchange, lack of transparency and access to information from state structures, and lack of a standard computer coding for the Kyrgyz language. Under these circumstances, efforts to create more interest in the Internet as a useful and essential tool for professional, consumer, and personal activities could serve as one element of a nationally coordinated ICT policy.

One of the results of global processes is a change in the role of the state. Developed countries of the world are becoming more open to partnerships at various levels and in various sectors. Certain functions that previously were carried out by the state are now being delegated to larger inter-state organizations. These newly delegated responsibilities serve to create not only common economic spheres, but also common defense and crime control networks. In addition, activities associated with development of local, domestic regions are also being taken over gradually by local communities. Thus, the state more and more often is taking on a role as coordinator and flexible partner both for the citizens of its own country, as well as for neighboring countries and regions.

The changing role of the state is described in more detail in subsequent Chapters. Given its geo-political location, Kyrgyzstan is in need of a well-elaborated conception of its own state structure, as well as the adoption of promising, new information technologies for more effective state governance. These requirements represent not only pre-conditions for successful development, but also basic issues of survival.

## **CHAPTER 2**

### **ENSURING INDIVIDUAL, SOCIAL, AND NATIONAL SECURITY: A NEW AGENDA**

One of the major issues that must be addressed by national development programs is the safety and security of human existence. Certain negative globalization trends give rise to new understandings of the concept of security. Despite the unifying effects of other more positive global processes, however, including new technologies, new forms of governance, and social norms, the separate historical identities and very existence of individual nation-states lead to unique paths of integration and development dynamics. For these reasons, the concept of security can be defined differently for every country. Various concepts of security, including *economic*, *energy*, *food* and others, are often used to differentiate and discuss several different development problems. It is *human* security, in particular, however, that is becoming an unconditional priority for development as evidenced by activities of many international organizations.

In Kyrgyzstan human security can be considered from the perspective of both external and internal threats. Among external factors, the most crucial issues involve international extremism and balkanization of the Eurasian region. Issues of poverty, social and legal vulnerability, and inefficient state systems represent internal security threats for Kyrgyzstan. Deepening dependence on financial aid, the growing external debt, and other cultural and economic uncertainties also threaten individual, social and national security.

As shown below in more detail, factors characterizing threats against humanity often simultaneously represent an intrinsic part of the solution to these dangers. The current Report format, however, does not allow for a detailed elaboration of all factors and issues affecting human security. Therefore, only certain specific dangers coming to surface in 1999 or gaining strength over the recent past have been selected for analysis.

#### ***International Extremism as an External Risk***

Events taking place over the last two years throughout the Central Asian region demonstrate a process whereby politicized Islam is coupled with ethnic separatism. More and more often, these activities involve terrorist tactics.

The most explicit of these external threats arose with the encroachment of armed extremist groups in the summer and autumn of 1999. Kyrgyzstan was forced to come into direct conflict with international terrorism. Kyrgyz and foreign civilians were taken hostages in the Osh oblast. Due in large part to the strong political efforts of the Kyrgyz leadership and the favorable high international reputation of the republic, the conflict was resolved successfully. The rebels were ousted and the hostages were released.

The threat of military terrorism clearly identified several security problems, of which military security represents only one of several issues. The Fergana valley also represents a potential source for social and border conflicts. The situation is aggravated by major international drug trafficking that occurs in the region.

During the military conflict and immediately following its conclusion, decisive, effective military and political steps were taken by the republic. Parliament supported the President's initiative to create a separate Batken oblast on the basis of three rayons of the Osh oblast. The creation of this Oblast on the border with Tajikistan and Uzbekistan means Kyrgyzstan recognizes that incursion of bandit groups has become a permanent external threat. In addition, due to political efforts by Kyrgyzstan to reduce the danger of international terrorism in the Central Asia region, support has been received from the international community.

One of the most important consequences of the Batken events has been clear evidence of the public's commitment to protect the territorial integrity of the republic, as well as their solidarity and desire to support refugees from the regions affected by the conflict.

### ***Poverty as an Internal Threat***

Loss of security due to internal threats can occur slowly and imperceptibly, or suddenly in catastrophic scales. The most acute problem arising from internal threats, for which no permanent solution has yet been found, despite the combined efforts of the state and society, is poverty.

*“Poverty in Third World countries prevails because institutional constraints in these countries reward political and economic decisions that are not conducive to productive activity”.*<sup>14</sup>

Askar Akaev

Poverty has a global characterization and multi-faceted manifestations. In many countries, for example, indicators used to assess one aspect of poverty, housing, measure whether residences are roofed or not. Such indicators in themselves are very telling. At least in this example, Kyrgyzstan enjoys a relatively better position. If more complex methods of poverty assessment recommended by international organizations are employed to monitor the dynamics of poverty over the past several years, however, the seriousness of the threat of poverty in the republic becomes clear.

Standard indexes used in annual UNDP development reports to measure poverty provide useful information. The Human Poverty Index (HPI) is a complex indicator measuring levels of impoverishment through three important aspects of life as reflected in the HDI: life expectancy, education levels, and standard of living. The method used to calculate HPI for developed countries (HPI-2) differs from the method used for developing countries (HPI-1). For Kyrgyzstan, it is more appropriate to calculate this index using the second method, HPI-1 (see *Annex 2*).

The global financial crisis led to a worsening of the republic's socio-economic situation in 1998. The lingering effects of this crisis were reflected in a lower value for HPI-1, (9.5% in 1999 versus 10.9% in 1998). A review of the poverty indexes for the 1996-1999 period shows that sustainable poverty reduction has yet to be achieved (see *Annex 2*). Despite the improvement of a number of indicators, extremely low standards of living persist for a majority of the population balancing on the edge of poverty.

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<sup>14</sup> Askar Akaev. 2000. “Transition Economy Through the Eyes of A Physicist (A Mathematical Model of the Transition Economy)”, Bishkek.

Although useful as an analytical tool, the HPI cannot be used by itself without additional assessment. For example, poverty and its alleviation represents one of the most serious development issues now facing the republic. When ranking countries according to their HDI, however, Kyrgyzstan would do comparatively rather well among developing countries, in the top ten.

In addition, HPI reflects only some aspects of the complex phenomenon of poverty. Poverty levels throughout the countries of the former Soviet Union cannot be measured accurately using either HPI-1 or HPI-2 calculation methods. A national assessment of poverty in Kyrgyzstan gives a more pessimistic picture than those created by other analytical approaches to this important problem.

In 1999 at the initiative of the Bretton Woods Institutions, the preparation of a medium-term National Poverty Reduction Strategy began. The previous National Poverty Alleviation Program, Araket, (1998)<sup>15</sup> has not yielded large-scale poverty alleviation results. The major reasons for this limited success have been reviewed in the 1999 NHDR: lack of adequate implementation mechanisms and mobilized resources, and only general strategic goals outlined, instead of specific program objectives, activities and indicators.

Efforts to address the internal security threats arising from widespread poverty in the republic are closely associated with two important program documents, whose preparation is nearing completion. These are the National Poverty Reduction Strategy through the year 2003, being developed with support of the AsDB, World Bank and UNDP, the Comprehensive Development Framework through 2010, being developed with support of the World Bank. In close conjunction with the primary 1997 National Sustainable Human Development Strategy through the year 2015, these above documents identify poverty reduction as the top development priority of the country. The two new strategies are to include administrative and economic implementation mechanisms for implementation of their respective development goals.

Both in existing program materials from the Araket program, as well as in proposals for the CDF, several ambitious target indicators have been described. These include the elimination of extreme poverty, a reduction of poverty by half by 2005, and by three times by 2010, and a two-fold increase in average national per capita income by 2010. To date, however, no specific measures and mechanisms have been presented with which to achieve these goals. Given the importance of this issue and the strategies to the future of Kyrgyzstan, it is useful to take under analysis the degree to which these goals are realistic.

In so far as it is impossible to rely on a transfer of existing state budget resources to solve this problem, only GDP growth and corresponding growth of real per capita income can serve as the basis for successful poverty reduction plans.

#### **BOX 2.1**

#### **GDP AS A MEASUREMENT FOR POVERTY ANALYSIS**

<sup>15</sup> National Poverty Alleviation Program Araket for 1998-2005 approved by Decree of the President of the KR "On Poverty Alleviation Measures in the KR" from February 2, 1998.

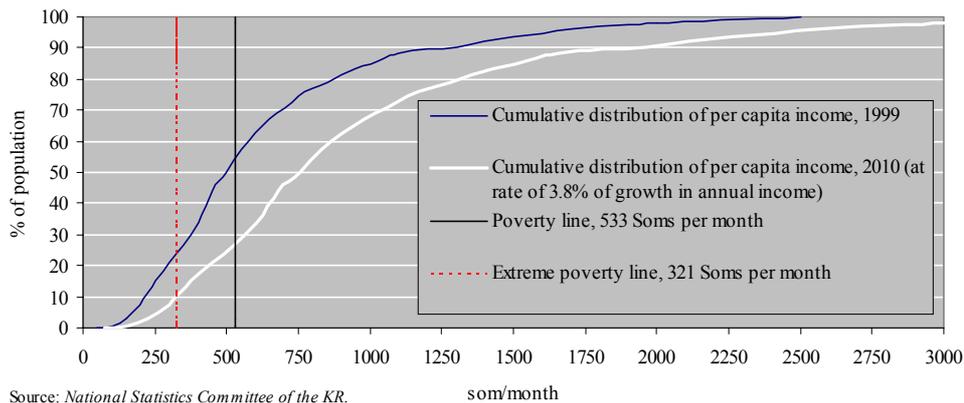
GDP in the republic can be represented as:  $GDP = LP * E * P$   
 where LP stands for Labor Productivity (GDP/number of employed), E stands for Employment rate in the economy (number of employed/general population) and P stands for general Population of the country.

As such, the percentage growth of GDP can be presented as  $\Delta GDP = \Delta LP + \Delta E + \Delta P$ , where  $\Delta$  stands for percentage change.

Per capita income growth is influenced by trends represented in both labor productivity and manufacturing sector employment indicators. These include national unemployment rates, as well as rates of employment among women. If a very optimistic sustainable GDP growth rate of 5% a year is used in poverty alleviation forecast scenarios, then given a population growth rate of 1.2% per year, and assuming all other factors to be equal, per capita income growth would reach 3.8% a year. If this rate is taken as the approximate average per capita growth rate for all population groups, then it is possible to project the portion of society living in extreme poverty using the results of a poverty study<sup>16</sup> conducted by the National Statistics Committee (see *Figure 2.1*).

Such a forecast – based on projected *equal rates of income growth* – is of course simplified. It is based on additional assumptions that the rate of growth for overall prices in the economy (GDP deflator) is identical to the rate of growth of the poverty threshold. Certainly, in a real-case scenario, the poverty threshold will grow either at a rate lower than the GDP deflator, which is most likely, or at a higher rate, but not at the same rate.

**Figure 2.1:** Cumulative Distribution of Per Capita Income in the KR, 1999 vs. 2010



Source: National Statistics Committee of the KR.

Poverty indicators for Kyrgyzstan in 1999 are provided below based on data from the National Statistics Committee.

<sup>16</sup> Poverty reduction forecast scenarios based on an assumption of equal growth of income among both well-off and poor segments of the population is quite realistic as numerous studies show that economic growth in countries with low levels of per capita income is as a rule associated with a preservation and deepening of social stratification.

- Poverty (including extreme poverty), % of total population 55.3
- Extreme poverty, % of total population 23.3
- Poverty depth, % 19.8
- Poverty degree, % 9.8
- Poverty level, som/month 533
- Extreme poverty level, som/month 321

With a per capita growth rate of 3.8% a year, by the year 2003 the portion of people living in extreme poverty would be reduced to approximately 18% of the total population. The portion of those classified as living in general poverty would be reduced to 44.9%. At the same rate, by the year 2010, these indicators would fall to 9.3% and 27.1%, respectively.

This analysis shows that a change in income growth rate of 1% would “cost” roughly 5% of the level of poverty in the country. In 1999 prices it would cost some one billion som to increase the income of people living in extreme poverty up to the extreme poverty/poverty income threshold by the year 2003 through state budget transfers. To increase the income of people living in poverty up to the poverty/non-poverty threshold would cost roughly 5 billion som. This amount represents approximately one tenth of GDP in 1999. By comparison, contributions to the Social Fund totaled some 3 billion som in 1999.

Forecasts for percentages of those living in poverty and extreme poverty in Kyrgyzstan through the year 2010 based on this scenario are presented in *Table 2.1*.

**Table 2.1:** Forecast of population living in poverty and extreme poverty in the Kyrgyz Republic\*, 2010

	Growth in annual income		
	2.8%	3.8%	4.8%
People living in extreme poverty, as a percentage of total population	12.9	9.3	6.7
People living in poverty (including extreme poverty), as a percentage of total population	32.7	27.1	22.9

\* Estimated by 2000 NHDR Working Group.

Forecasts for poverty reduction activities become even more pessimistic if more detailed data, collected through existing poverty monitoring studies in the republic on per capita income levels for various population groups, is used. In such scenarios, the rate of poverty reduction may be even lower than rates in the growth of GDP.

In other words, proposed poverty reduction goals can be attained only through efforts to ensure rapid growth of the income of the poorest segments of society. Increase in economic growth alone would not be sufficient to meet these goals, as there will not be sufficient opportunities to secure social transfers in the foreseeable future.

A more detailed analysis of the current situation and available resources, including non-material resources, is essential if proposed goals are to be realistically achievable and applied to all segments of society. The current Report looks in detail not so much at the economic and administrative measures that must be taken in this regard, but

rather more at the problems associated with social mobilization and the development of human potential.

### ***Protecting Individual Health by Improving Existing Healthcare Systems***

An assessment of major threats to public health is best begun with a ranking of health problems according to their per capita rates of occurrence. The following statistics are based on first-time registered patients diagnosed with a certain disease or illness. The most common health problems are caused by respiratory diseases, which affect 31.1 out of every 1000 citizens. In second place are health problems due to complications arising during pregnancy, delivery, and over the postnatal period, at a rate of 30.6 for every 1000 citizens.<sup>17</sup> The primary cause of mortality are vascular blood diseases. Respiratory diseases represent the second most common cause of death, followed by trauma, accidents and cancer.

The general structure of health problems and disease described by the above statistics has remained relatively unchanged over the past several years. Nonetheless, there still has been an overall trend towards improved health as indicated by an increase in the average life expectancy, and a reduction of both the overall mortality rate and the infant mortality rate.

Ensuring effective systems of healthcare has always been one of the traditional priorities of state policy in Kyrgyzstan. At the same time, however, carefully planned measures have been taken to gradually change the role of the state in the health sector according to ongoing healthcare reforms.

One of the most pressing causes for restructuring of the public healthcare system has involved changes in the size of the state budget. Levels of state spending for the health sector have decreased since 1990. In 1990, state financing represented 3.7% of GDP, in 1993 – 2.6%, in 1998 – 2.8%, and in 1999 – 2.5%.<sup>18</sup> Mid-term forecasts over the next three years for public spending in this sector are even lower. As a result, full financing is provided only for certain protected areas of the health sector. This means patients are forced to pay for a significant portion of their medical services themselves, although according to official declarations, they are to be free.

#### **LIVE VOICES**

*When we are called to a car accident, we don't even have surgical thread with us to put in temporary sutures if necessary. We of course want our patient to arrive at our emergency facilities alive, though, so we buy surgical thread with our own money and offer to use it to put in sutures at the scene of the accident. People have no other options and usually agree. At the same time, though, we have to ask for our costs for the thread to be reimbursed. It's no use trying to explain, since everyone automatically assumes we are the worst kind of blackmailer, even though we are doing our best day in and day out with what we have. Of course, such basic emergency services should be free."*

Ambulance Physician, Bishkek, 30 years old

<sup>17</sup> Source: National Statistics Committee of the KR.

<sup>18</sup> Report on World Bank Health II Project (Healthcare Financing Component) February-June 2000.

Under these circumstances, many officials feel that some doctors prescribe more services than the state can afford to pay and more services than are really required for a patient to recover. They often believe that doctors simply are not used to taking the availability of other people's financial resources into consideration. The position of most physicians is the opposite, that they actually are forced to prescribe cheap medication in insufficient amounts leading to treatments that cannot cure.

Since 1995, in efforts to resolve this problem, a healthcare concept known as Essential Medical Preparations (EMP), based on recommendations of the World Health Organization for poor countries, has been followed in the Kyrgyz Republic. Use of the various listings of essential medications identified by the EMP allows for the most rational spending of scarce budget funds. The EMP Lists represent more of an idealized set of recommendations, however, as the state cannot afford to provide 100% access to all medications identified for all patients.

Another important area in healthcare reforms involves introduction of new methods of payment for medical service providers using resources from the state budget and the Compulsory Health Insurance Fund (CHIF). The main principle behind these methods is that "*money follows the patient*". Payments should be received by the doctor or hospital from which the patient receives care.

Resources from the CHIF have been used in the republic since 1997 to pay for in-patient treatment. This system of payments is designed to create an additional financial incentive for doctors. In principle, the most competent doctors will be visited by the most patients and receive the greatest financial compensation in comparison with less able doctors who will be visited by fewer patients. There is a potential danger, however, that this financial incentive might lead to "provider-driver demand" for treatment. Some doctors may intentionally release patients who are not fully cured to ensure a repeat visit and additional compensation.

A more pressing problem of the CHIF involves a lack of adequate financial resources for its formation. Employers are required to insure their employees by contributing funds to the CHIF. Some employers, however, are not willing to pay the full amount. Another problem arises when the CHIF attempts to obtain money from the Social Fund. As a result of these two problems, the CHIF in 1999 was 127 million som short of overall financial requirements totaling some 200 million som.<sup>19</sup>

These issues are complicated further by a lack of sufficient information about the system of medical insurance among the general population.

#### **LIVE VOICES**

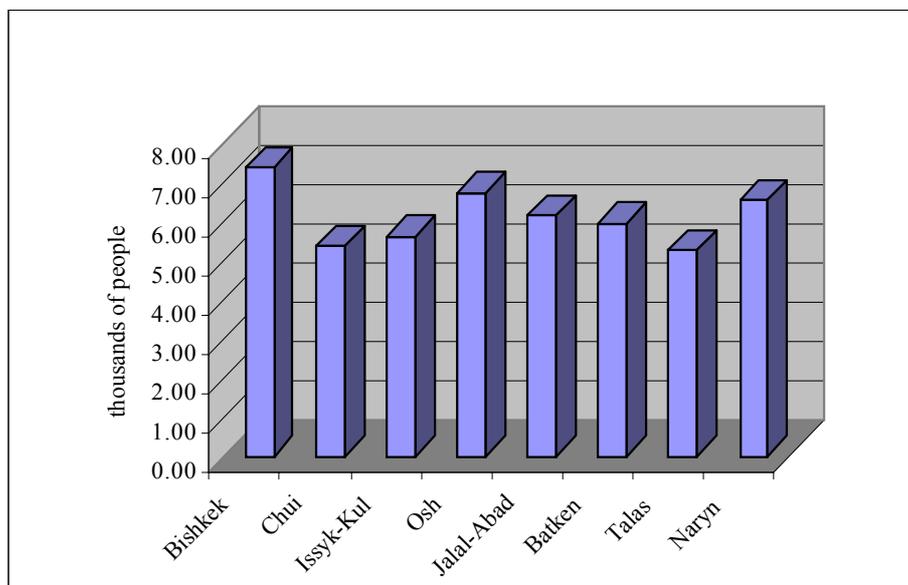
*Medical insurance? I don't know what that is... Social protection? No... I have an insurance attachment in my passport, but what good it is, I don't know. While I was being diagnosed, they told me that all the charges would be covered by my insurance because my employer deducts money for insurance, but in the end I paid for everything myself.*

Woman, 29 years old, Chui oblast

<sup>19</sup> Report on World Bank Health II Project (Healthcare Financing Component), February-June 2000.

Another development in public healthcare reforms is the creation of a system of Family Group Practices beginning in 1996. By the end of 1999, some 782 FGPs had been established, including: 107 in Bishkek, and among oblasts, 144 in Chui, 74 in Issyk-Kul, 175 in Osh, 142 in Jalal-Abad, 38 in Naryn, 38 in Talas, and 64 in Batken.<sup>20</sup>

**Figure 2.2:** Distribution of FGPs by Region in the Kyrgyz Republic, thousands of people per FGP, 1999



Source: Ministry of Health of the KR.

Ideally, the services of FGPs are to be used by a full cross-section of population. This means they should be available for children and adults, men and women, rich and poor, all on an equal basis. FGP doctors can provide medical advice and conduct initial medical examinations. Health problems that do not require the attention of more specialized physicians are treated directly by the FGP doctors. In those cases where a general practitioner's expertise is not sufficient, patients are referred to appropriate specialists.

Two primary achievements have been made in the development of FGPs: staff training and the assignment of potential care recipients to specific FGPs. For example, 80% of Bishkek residents have been registered with FGPs. In rural areas, this percentage is 95%. Efforts have been made to ensure equal access to the FGPs for all segments of society, especially the most vulnerable groups. Anyone can register with an FGP, even those lacking passports or who are not registered officially elsewhere with the authorities.

Funding for FGPs comes from the CHIF, as well as from central and local budgets. FGPs represent the first healthcare structure where there exists a transition to per capita payment. Such a system is more efficient than other systems based on fixed salaries. Even more important, FGPs create an environment in which doctors can focus on preventive healthcare. One of the indicators by which the effectiveness of

<sup>20</sup> Source: Ministry of Health of KR.

FGPs can be assessed involves the frequency of individual health emergencies. If the FGP system is working effectively, then the number of these cases should decrease.

Rural residents have responded more positively to FGPs than urban residents. This can be explained in part by rural and urban differences in the availability of healthcare services. In remote villages where there may be only one doctor for every 4000 or even 6000 residents, individuals are not able to consult with specialized physicians at their convenience, or to select a doctor based on personal preferences. For these people, the establishment of an FGP represents a true improvement in easily accessible medical services. In the cities, where opportunities to receive qualified assistance are much greater, some people cannot understand the need for FGPs.

**LIVE VOICES**

*“There is still no wide-spread embracing of the family practice concept in the city. Patients here have a different set of expectations and requirements: they want a specialist to deal with whatever problem it is that may be bothering them, and no one else will do.”*

FGP Physician, Bishkek

One of the main factors limiting access to medical services is the ability of patients to pay for them. Very few completely free medical services are provided in the republic. Average annual per capita public funding for free medical services covers little more than the cost of a “bandage, a splint, and a tongue depressor.” The volume of medical service charges not covered by the state, requiring “cofinancing” by the population is increasing. In 1999, according to experts, such cofinancing was more than 500 million som, or about 50% of total healthcare funds allocated from the budget.<sup>21</sup>

**LIVE VOICES**

*You need to have at least 10-15 som with you for every doctor’s office you visit. You have to pay for everything, even for your treatment card. A simple doctor’s note to your employer costs 10 som. If you have to come back again, that’s another 10 som.*

Woman, 54 years old, Talas oblast

An important indirect result of the reform process has been a change in the attitude of individuals to their own health and to the existing system of public healthcare. More often now, people are prepared to take responsibility for ensuring their future health. At the same time, however, there has not yet been a growth of trust in public healthcare, or in the health insurance system as a means to protect their health.

***Public Services as a Tool for Ensuring Social Security***

The most common instrument used to ensure and maintain the basic well-being of society is a system of state social services. Two principles are involved in providing such social support in the Kyrgyz Republic: state guarantees for a minimum level of consumption, and targeted aid to the most socially vulnerable.<sup>22</sup>

<sup>21</sup> Report on World Bank Health II Project (Healthcare Financing Component), February-June 2000.

<sup>22</sup> “A Model of Social Sector Development for Kyrgyzstan in the 21st Century”. Address by President of the KR, Askar Akaev, to the Jogorku Kenesh and People of Kyrgyzstan, 1998.

The principle of targeted aid is often mentioned in legislation and in other state development program documents. The exact meaning of this term, however, requires clarification. Targeted aid implies providing assistance to those people who are in most need of a particular form of support. To be effective, targeted aid requires an accurate and comprehensive check on the income of social assistance recipients.

Welfare payments and benefits, however, are still distributed according to a simple population category principle. Under this system, citizens belonging to a certain population group, e.g., single mothers and veterans, automatically are eligible to receive various allowances and benefits regardless of their existing incomes and real financial needs. For example, at present there are two types of state allowances and three categories of benefits for payment of utilities, including benefits-compensation, benefits-allowances, and benefits-bonuses.

Over the last three years certain categories of citizens have received up to twenty-five various kinds of benefits and compensations. All of these are awarded according to the category principle. Allowances are automatically given to “poor families”, that may in fact have adequate incomes. Several benefits are also provided to veterans, employees working in the educational sector, and others.

Efforts were made in 1999 by the Ministry of Labor and Social Protection to address these shortcomings of the category assistance approach. The number of state welfare recipients was decreased by 30%<sup>23</sup> through a more careful designation of eligible welfare recipients. A target approach was used involving a strict form of income testing and needs assessment.

The Ministry of Labor and Social Protection also is improving its income assessment methods through introduction of a standard system for calculating the relative value of land and livestock holdings in terms of overall income. This will allow for more accurate evaluations of true household income when people apply for benefits. Once fully tested and implemented, this new system of income assessment would allow the indicator of guaranteed minimal income to be increased, bringing it closer to the threshold of extreme poverty.

It is nearly impossible, however, to establish a perfect welfare system. All known methods of targeted aid are unfair to a certain degree and can result in rather significant mistakes of inclusion – granting allowances to people who are not poor, as well as mistakes of exclusion – excluding certain truly needy individuals from the allowances and benefits system. The standards for “inclusion” and “exclusion” are themselves dependent to a great extent on the accepted definition of poverty, e.g. the official poverty level. For these reasons, it is essential to stipulate clearly what specific types of social assistance are to be provided by the state according to the targeted aid approach, and what types are to be awarded according to the general population category approach.

Another problem faced by the state welfare system involves the volume of its financial assistance. Efforts to ensure minimal standards of living for all citizens is a

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<sup>23</sup> Report from Ministry of Labor and Social Protection of the KR, Rysaliev I. “Major Priorities for Poverty Alleviation in the KR”, Materials from Seminar on “Poverty Alleviation and Social Protection”, Bishkek, February 15-16, 2000.

task that involves not only changes in state approaches to social policy, but also adjustments made according to current macro-economic realities. There are plans to increase benefits to poor families from 60 som a month up to at least 75 som. Unemployment benefits also are to be increased from 150 som a month up to 250 som. Standard state allowances based on need are 47.3 som. Standard social allowances are 148 som a month.

The financial inadequacy of these very low amounts in comparison to real costs of living raises doubt as to whether such state expenditures on social assistance are even justified. The effectiveness of this assistance is limited further by problems associated with the financial discipline of state bodies. Only in June 1999, for example, were allowances disbursed to recipients for the previous year. Allowances for 1999 were disbursed only in January 2000.

As has been observed several times during addresses made by the President of the Kyrgyz Republic, the criteria upon which to assess the efficiency of the social welfare system is not the amount of resources spent. Rather, true indicators of successful social assistance systems are increases in the population's quality of life; the preservation and development of human potential; growth in social and labor mobility; and the rational utilization of all social sector resources.

One of the primary methods used to increase social sector efficiency could involve a transition to a more competitive social service provider environment. A greater variety of social institutions would give beneficiaries more opportunity to choose their providers of social services according to quality of services provided.

The development of such a system for the competitive distribution of public services requires use of a per capita financing scheme. Allocation of public funds would be distributed in direct proportion to numbers of people using the services of a given social institution. As a result, more resources would be redirected to those schools, hospitals and other institutions that compete for clients by increasing the quality of their services. The more people that attend a social institution, the more public funds it would receive. Most important, social service clients should always have the right to choose. The current system of mandatory enrollment in and use of social institutions according to place of residence should be eliminated.

The core element of state social policy should become education. The future of society depends on the skills and abilities of the new generation. The state will remain the major source of financing in the education sector for quite some time to come. In this regard, more public funds should be directed to primary and secondary education facilities, rather than to institutions of higher education. In addition, efforts to improve and modernize the technical and academic foundations of vocational institutions must be continued so that students are trained in specialties corresponding to the new demands of the labor market.

Previous NHDRs have observed that NGOs should be involved more widely in the development of effective social service delivery systems. By increasing the number of such properly trained organizations, particularly in rural areas, it would be possible for them to cooperate successfully with local self-governance bodies on a contract

basis in nearly all social areas. Unfortunately, the necessary legal and normative framework for such a system of social service delivery is still lacking.

### ***Additional Threats to the Integration of Society***

In addition to those individual, social and national threats already described, several additional threats exist that influence the relative security and integration of society. To better understand these problems of social stratification and inequity, as well as their possible solutions, it is useful to study the “social distances” that exist between various segments of the population.

#### **BOX 2.2**

#### **SOCIAL STRATIFICATION DEFINED**

Development challenges associated with social stratification are best discussed through an analysis of “social distances”.

Social distances describe the differences between various groups of the population based on the following criteria:

- Income and property ownership – distance/difference between the rich and the poor;
- Gender issues - distance/difference between men and women;
- Ethnicity and culture - distance/difference between representatives of various ethnic groups.

Societies can be classified according to the degree of these social distances.

1. Societies in which all social distances are minimal can be termed totalitarian, or hyper-homogeneous. Members of these societies share similar ways of thinking and demonstrate similar types of social behavior. This similar behavior exists independent of gender and ethnic characteristics. Discrepancies in property ownership are never evident.
2. Societies in which social distances are very large are termed hierarchical. These societies either tend to have many features of feudal social structures or are in unstable periods of transition, as is characteristic of Kyrgyzstan.
3. Societies where social distances are deemed optimal are termed democratic.

The size of social distances is determined by the degree to which they are or are not reflected in the most important areas of daily life. These areas include:

- information and communication sector, or mass media as a reflection of public opinion
- education system
- access to power

Social distances are deemed close to optimal, or democratic, when a large degree of diversity can be observed in each of the above sectors. For example, in countries with optimal social distances, mass media reflects the opinion of people with different

material opportunities and cultural preferences, there is wide access to education, and power is wielded by people belonging to different ethnic groups and beliefs.

The idea that there exists a certain guaranteed social equality in democratic societies is one of the strongest and longest-living myths that has appeared in the transition period. Democracy is always closely connected with social stratification. For this reason, democratic societies correspond well with effectively functioning market economies. Free market environments represent both a result of and stimulus for stratification and the emergence of various forms of social behavior.

Under market conditions people enjoy a range of opportunities to fulfill not only their needs, but also their desires. In former socialist societies where a majority of the population is poor, the question of satisfying individual desires is not paramount. Often there arises a strong nostalgia for former social systems that, although imperfect and lacking variety, at least regularly provided for basic human needs. Similar sentiments are often expressed with regard to former predictable political systems.

In Kyrgyzstan, processes of social stratification and differentiation began even before the dissolution of the Soviet Union. These processes have increased with the inception of radical economic reforms. Many expectations associated with the transition to a market economy have not materialized. This is in large degree the result of real declines in standards of living.

Countries with a developed democracy and market economy differ from other societies with respect to the most well-off and most vulnerable segments of their populations. The percent of the very rich and the percent of the very poor are relatively low. A majority of the population enjoys sufficient levels of income. As a result there are no extreme manifestations of poverty and wealth, although these differences exist. According to official data of the National Statistics Committee in 1999, 55% of the country's population are living below the poverty line. This percentage is increasing despite the existence of a positive trend in average per capita income growth. This shows that processes of social income stratification continue to develop. The poles of poverty and wealth are becoming more starkly defined. Current efforts to fight poverty are clearly justified.

At the same time, however, research conducted during preparation of this Report shows that many people view the existing situation in the country as positive. Focus group participants were posed a question intentionally designed to be open to various interpretation: "Has your life become better or worse over the last five years?" An overwhelming majority, including elderly participants and citizens from other regions, as well as young adults and residents of Bishkek, answered that their lives had become better. Many of these people explained that this improvement was not associated with their financial well-being, but more often than not with expanded opportunities and changes in their attitudes towards life.

These results show that changes are taking place not only in the economy, but also in the area of public consciousness. These changes may be regarded as among the most significant achievements of ongoing economic and political reforms in the country.

The sustainability of this success, however, is under serious threat. An analysis of the social distances existing today in Kyrgyzstan confirms this danger. Social distances are related not only to differences in income, they also are tied closely to and influence the current political situation.

Rapid economic development and creation of a market economy is possible, of course, without the existence of a true democracy. In recent years, successful market systems have been established in many countries whose political systems are much more feudal in nature. In these societies, one type of social distance based on income disparities may decrease as more people achieve incomes between the extreme levels of the rich and the poor. An unstable polarization, however, is still maintained with respect to other important social distances, including representation in the mass media and access to positions of power.

The development of market economies results in many different models of social behavior. It is only in democratic societies, however, that these behaviors are flexible and determined in part by individual choice and ability. Social distances certainly exist, but they can be overcome. Manifestations of extreme social polarization do not exist.

Kyrgyzstan, like all post-Soviet republics, faces the risks described above. Despite development of successful market systems, dangerous social stratification reflected by increased social distances can occur if a system of strict social hierarchies emerges.

In addition to growing stratification based on financial social distances or income differences, other forms of social polarization are also growing. This is especially true in Kyrgyzstan with respect to the threat of emerging gender-based social distances.

**Gender Balance and Social Stratification.** Due in large part to strong attention from the state and society to issues of gender equality, there exists a relatively favorable situation in this area of social development. This is confirmed by a traditionally small gap between values for HDI and GDI as discussed in more detail by *Chapter 1*. Nevertheless, some recent trends toward gender imbalance give rise to concern.

### **BOX 2.3**

#### **TRENDS TOWARD GENDER IMBALANCE**

In July 1999 the Forum of Women's NGOs in Kyrgyzstan organized an international conference on women's rights that identified three problematic areas with which the Central Asian countries had failed to cope. These included: violence against women, women and the economy, and women in power and their participation in state governance. NGO crisis centers have observed an increase in domestic violence against women, which represent 60% of their crisis cases. This issue, however, has not been acknowledged by the government and continues to be a "hidden" problem.

Among gender-based social distances and problems of gender inequality, the issue of women's participation in political processes and state governance at various levels requires special attention.

Elections to local governance bodies held in 1999 showed that the participation of

women in political issues is increasing steadily. As of 1999, women held 31.8% of all administrative supervisory positions in state organs. These positions, however, represent a pyramid form in their distribution. The number of women working at the lowest levels of management is relatively high, up to 70%, with only very few representatives at the highest levels of power.<sup>24</sup>

Gender issues are also still important with respect to economic life. Levels of economic activity among women are lower than for men in the republic. Women account for a majority of registered unemployed, 55.9% versus 44.1% among men. Women, however, are able to find new employment faster. This is explained only in part by the special measures taken by the government in cooperation with international development organizations: opportunities are created for increased women employment through organization of temporary jobs, self-employment support, and micro-lending.

To a large degree, however, faster rates of re-employment among women are explained by their willingness to accept nearly all forms of work, including low paying jobs, work in hazardous environments, and temporary or part-time jobs. For these reasons, what at first glance appears to be an encouraging decrease in the percentage difference between numbers of officially registered unemployed women and men, down from 39.4% in 1993 to 11.8% in 1999, may actually be cause for some concern.<sup>25</sup>

Employment opportunities for women are higher in so-called “female” areas of the economy, including: education (91.6% of positions held by women), healthcare (70.9%), trade and public catering (54.0%). Wage levels in these sectors are considerably lower than minimum subsistence levels. Traditional “male” sectors of the economy include: industry (60.3% of positions held by men); construction (80.9%); and transport (89.1%). In these sectors, wages are either close to or higher than minimum subsistence levels. In 1999 average wages for women were 67.4% of the minimum consumption level, whereas men’s wages were at 105%. These average figures are lower for both women and men in comparison with 1998 wages, which represented 79.7% and 110.2% of minimum consumption levels, respectively. The decrease in average women’s wages, however, clearly depicts a more serious situation.

In years prior to 1999, changes in the dynamics of these economic and gender-based indicators were not so drastic. This reflects an overall worsening in the situation of wage payments in 1999, as well as greater gender inequality. In 1998 for example, the average wage rate for women represented 72% of the average wage rate for men. In 1999, this figure was 64%. In regions outside the capital, this gender income gap is much higher. In the Issyk-Kul oblast, for example, average women’s wages in 1999 represented 40% of average wages for men.<sup>26</sup>

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<sup>24</sup> UNDP Regional Bureau for Europe and CIS. 2000. “From Beijing to New York, 1995-2000”, Report on the Status of Women.

<sup>25</sup> National Statistics Committee of KR and UNDP. 2000. “Men and Women in Kyrgyzstan”, Statistical Directory, Bishkek.

<sup>26</sup> Source: *National Statistics Committee of KR*.

Another important aspect of gender-based social distances involves access to education. Due to the high level of education among women in Kyrgyzstan, GDI values for the republic differ only slightly from HDI, as is the case in many developed countries. As in previous years, there are still more women enrolled in institutions of higher education and graduate studies. Nearly twice as many girls (17,356) were enrolled in specialized secondary schools than boys (9,435) during the 1998/99 academic year.<sup>27</sup> The growing commercialization and rising costs of education, however, are forcing parents more often to make a choice as to which of their children will receive schooling. In a majority of these cases, parents' decisions are not in the favor of their daughters.

#### **LIVE VOICES**

*This year my two children are graduating from high school; however, I can't afford to pay for both of them to attend college. If I have to choose, though, of course, I want my son to go on to study. My daughter will have to work - maybe she can also attend part-time. It's more important for my son to study. Plus, if he doesn't enroll, he will have to enlist in the army. This isn't a problem for my daughter.*

Mother of twins (boy and girl), Bishkek

If such financial pressures continue, as is likely, there is a strong potential for gender-based social distances in the area of education to increase. Overall indicators of gender-based social distances are still relatively good, although there is room for improvement. The situation, however, clearly requires constant monitoring as current social changes carry the hidden threat of gender inequality.

**Equalizing Opportunities.** In the 1998 UNDP World Human Development Report, the contours of social distances are defined as those extremes in social differences or inequalities, beyond which the threads of society begin to tear. When ample opportunities exist for certain forms of free and equal interaction between those people living at both poles of social extremes, these distances are considered to be optimal. There are several mechanisms used to ensure such contact. These include the mass media, education, and rule of law.

**Mass Media.** In Kyrgyzstan, the information and communication system, or mass media, does not possess any striking structural or thematic characteristics that differentiate it significantly from forms of mass media found in many other countries. Among print publications, newspapers are the most popular. Neither newspapers, nor magazines have true targeted readerships. As a rule they are for "everyone who can read".

This reflects the fact that neither politically active organizations, nor any other entities existing in the country that represent special interest groups, have made a strong presence in the mass media. Under such conditions, control of public opinion through processes of social stratification is nearly impossible. The contents of published materials depends in this case only on the interests of journalists and the policy of

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<sup>27</sup> National Statistics Committee of KR and UNDP. 2000. "Men and Women in Kyrgyzstan", Statistical Directory, Bishkek.

publishers, which as a rule are not specifically defined with respect to any one particular orientation.

**Education.** Another mechanism supporting opportunities for free contact between the poles of social distances is an education system accessible to everyone at all levels. This issue is becoming increasingly significant under the influence of globalization processes discussed in *Chapter 1*. More and more often, knowledge and access to information are necessary not only for career growth or increase in social status. Education also is becoming a basic requirement for any productive activity that can generate income.

In Kyrgyzstan, the education sector has good reserves. General secondary education ensures social mobility and partly prevents further stratification of society. With a few exceptions due to specific circumstances, any citizen of the republic has the opportunity, albeit through a certain degree of effort, to receive a higher education and commence a career in any of various professional fields. This opportunity serves as a social bridge between different segments of society. After graduating from a poor, rural high school, for example, it is possible to enter a university in Bishkek, graduate, and then find a well-paying job.

On the other hand, there are certain trends in the education system that are of concern. The number of schools in the republic in which the primary language of education is Russian has decreased significantly. At the end of 1999 there were 1,259 Kyrgyz language schools, 133 Russian schools, and 138 Uzbek schools. In addition, certain other ethnic minorities are not able to select among any schools providing instruction in their native language.<sup>28</sup>

Nevertheless, instruction in institutions of higher education is conducted primarily in Russian. For this reason, opportunities to continue with a successful university education depend a great deal on how well the Russian language is taught in high school. The number of public university scholarships is also decreasing, while the cost of a quality education is steadily increasing. As a result, transition from one social group to another soon may become very difficult.

Such a situation results in unequal access to information and represents an additional cause of ethnic-based social distances. Opportunities for people in rural and remote areas, as well as for ethnic minorities are restricted. Future life styles and choice of professional careers become more dependent on the area or family in which people are born and raised, as opposed to their abilities and aspirations. If such inequalities grow, the social mobility of society will decrease and attachment to one or the other poles of social distances will become more rigidly fixed.

**Rule of Law.** Abidance to a set of legal norms by both citizens and the state represents the sole guarantee of order in an environment where personal and social freedoms are also ensured. Common perceptions of “right” and “wrong” have developed for historical reasons that sometimes result in misunderstanding of the role of law in society. Often people’s behavior is guided not by the law, but by their own perception of what is good and what is bad.

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<sup>28</sup> Ministry of Education, Science and Culture of KR. 1999. “Non-specialized Schools in the KR for the 1998/1999 Academic Year”, Statistical Directory, Bishkek.

In Kyrgyzstan, there exists a low level of legal culture among the public in terms of knowledge of existing legislation and individual legal rights and responsibilities. This situation is combined with the existence of sometimes arbitrary power structures and contradictions in the law itself. As a result, social life is becoming more unpredictable. Certain social groups enjoy impunity from the law, while others feel especially vulnerable to it. This is another factor contributing to social polarization.

Legal vulnerability directly influences the social activity of the population, as well. In this case, measures designed to strengthen the rule of law and respect for formal rules of economic and political interaction could produce significant changes in daily life.

As such, there are many factors that represent a threat to sustainable human development in Kyrgyzstan. Growing income disparities, a problem on which the government has focussed much its resources, is just one of these potential dangers. ***Polarization trends now emerging in society carry a serious threat. Efforts to address the causes of these growing social distances and inequalities represent one of the most important aspects of preventive development in the republic.***

## CHAPTER 3 PREVENTIVE DEVELOPMENT: A NEW APPROACH FOR SOCIAL PROGRESS

### *Preventive Development as a Strategy for Self-Determination of Transition Countries*

The development of any country involves a process of constant changes. Many of these changes are not predictable or planned. Sustainable human development to a large degree depends on a timely determination as to which changes carry the threat of crisis situations.

Tense, pre-crisis situations often arise in transition economies, including Kyrgyzstan. These threats occur not only in the changing economy. Social relations are very much affected, as well. In such conditions, it is important to possess a set of technologies, with which adequate and timely risk mitigating and conflict prevention measures can be taken.

Such an approach, emerging only in recent years as a formally recognized concept within the global development community, is termed “preventive development”. *The meaning of the word “preventive” in this case can be understood literally as taking certain conscientious actions to keep negative consequences from occurring, a prophylactic approach against dangerous development trends.* Concrete policy options based on the concept of preventive development, however, are not always so easily determined.

Many projects implemented in Kyrgyzstan over the past several years with support of international financial institutions and social organizations incorporate certain elements of preventive policy. These include programs designed to increase employment opportunities, especially in communities where major industrial enterprises have ceased operating, as well as micro-lending and other employment support projects.

In 1999 efforts were made through the initiative of UNDP to develop a project based on preventive development approaches in the Fergana valley. Unfortunately, a multilateral project could not be organized with participation of Uzbekistan, Kyrgyzstan and Tajikistan for which the Fergana valley is “a zone of special concern” (see *Chapter 2*). Since 1999, however, a UNDP Preventive Development Project has been implemented in the Batken oblast of the Kyrgyz Republic.

An example of regional preventive development policy can be found in the Silk Road Diplomacy Doctrine proposed and voiced by President of the Kyrgyz Republic, Askar Akaev, in 1999.<sup>29</sup>

Preventive development policy requires the attention of both society and the state. In democratic states based on rule of law, relations between these two entities often take the form of a fair partnership in which both sides are equally strong.

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<sup>29</sup> “Silk Road Diplomacy” (Doctrine of the President of the KR, Askar Akaev). Newspaper Bishkek Morning, No. 22 (299), 1999.

In Kyrgyzstan there are several factors hindering opportunities for preventive development. All of these factors involve problems in building effective relationships between society and power structures. Unfortunately, formal procedures and the official “rules of the game” often do not apply within these structures and their relations with the elite. In recent years, many important policy decisions have been taken on the basis of informal relations.

In countries with a well-developed democracy, such relationships, like the economy itself, can be characterized by their market nature. Taxes are paid in return for state services. This form of interaction was expressed well by Nobel Prize Winner, James Buchanan: “At the market people exchange apples for oranges - in policy they agree to pay taxes in exchange for those things necessary for each and everyone, everything from local fire-departments to national courts”. Many of the problems faced by Kyrgyzstan in the 90’s were caused by improperly formed social contracts between state and society. Society was not given the opportunity to negotiate or even know the final “price” to be paid for transition reforms.

With the adoption of the National Sustainable Human Development Strategy in 1997, a more active discussion of various models for state structure reforms began. To a large degree, this process of reform has been influenced by global tendencies for changes in the role of the state. Many of these new roles and responsibilities have been described by President Askar Akaev.

*“Selection of a social policy, a policy for creating a state focussed on the needs of society, this became for me a special conceptual goal; a state that would strive to nurture both a free and just society, making it better especially for those who have become lost or found the way to success difficult during the transition period; a state that would expand the fight against poverty, as one of the consequences of transition to a market economy is increased numbers of impoverished; a state that would develop a reliable, targeted system of social protection for those who cannot make a deserved, decent living without additional assistance.”<sup>30</sup>*

Askar Akaev

Transition to such a model of productive social partnership requires considerable effort. The role of the state in everyday life since the beginning of Soviet times has been extremely influential and all-encompassing. Over the past several years of reform, the state has not only maintained its former level of responsibilities and power in governing the country. In many instances, it has gained even more influence and control.

Many members of society are also not yet completely prepared to undertake new, comprehensive partnership-based relations with the state. There is a conflict between those individuals who have already accepted the challenges that come with economic freedom and are willing to take responsibility for their actions, and those who still prefer to shift responsibility for their own problems and well-being on to the state. For these reasons, the formation of new institutions and structures characteristic of a well-developed civil society is occurring only very gradually. Existing political parties, non-governmental organizations, and civil movements have yet to achieve full

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<sup>30</sup> Askar Akaev. 2000. “The Transition Economy through the Eyes of a Physicist (A Mathematical Model for the Transition Economy)”, Bishkek.

empowerment. Nevertheless, considerable progress has been made. With each passing year, the activeness, responsibility, and influence of these structures grows.

Preventive development policies strive to stabilize society by creating mechanisms that do not allow severe and unexpected changes to occur within state and social systems. These stabilizing mechanisms include socio-cultural institutions that are responsible for various social functions, cultural values, and norms.

*“[Social] institutions represent the “rules of the game” in society or, put in a more formal way, they are the defining frameworks created by people within which the relationships of individuals and society are organized. These institutions reduce uncertainty by structuring day-to-day life. They represent formal and informal boundaries, laws and constitutions, as well as agreements and voluntarily accepted codes of behavior, developed by people to provide order and to structure their interactions.”<sup>31</sup>*

Askar Akaev

In Kyrgyzstan some of these institutions are still in the first stages of formation. This holds true in particular for the socio-cultural institutions of human rights, private property and free press.

### ***Progressive State Governance: Moving from Models to Reality***

State governance in Kyrgyzstan has evolved historically as a system headed by an executive power that dominates the legislative and judicial branches. It is, however, the ineffective execution and application of laws, and a gap between obligations assumed by the state and their actual implementation that represent the most serious obstacles to human development in the Kyrgyz Republic.

Plans for restructuring public administration - one of the most important elements of the governance system – have yet to be developed in terms of ideology and strategic objectives. The Law on Civil Service passed by Parliament in 1999 declares several important provisions for reform. These include stipulations that civil service should be non-partisan in nature, that all citizens should have equal access to civil service, and that civil servants have the right to be promoted according to professional merit.

The new Law, however, cannot in its present state serve as the basic legal framework for professional civil service. It has not yet been strengthened by additionally required legal acts. The legal status of civil servants is still formally regulated by the Interim Provision on civil service confirmed Presidential Decree in 1996.

#### **BOX 3.1**

#### **TWO MODELS OF CIVIL SERVICE**

There are in fact two major approaches to the organization of civil service. The first of these, normally called an elite approach, prescribes a closed system of bureaucracy with limited access. The major motivation factor for participation in such a structure is prestige - acquisition of the elevated status of civil servant, rather than a desire to be a “brief-case toting” bureaucrat. Classic examples of this

<sup>31</sup> Askar Akaev. 2000. “The Transition Economy through the Eyes of a Physicist (A Mathematical Model for the Transition Economy)”, Bishkek.

approach are the elite systems developed in France and Japan. In these countries, it is possible to become an official only after completing appropriate training in public administration.

An alternative approach to the organization of civil service prescribes an open and market-oriented approach to recruitment and advancement of civil servants. In this type of system, appointment to civil service does not usually require the passing of standardized qualifying exams, although each posting may have minimum serving requirements. Nearly any individual meeting all basic professional requirements can assume the responsibilities of a civil service position. The United States serves as the classic example of this open, competitive-based civil service system.

An analysis of the new Law on Civil Service reveals systemic contradictions describing both types of civil service systems outlined above. On the one hand, a step towards the closed system has been made. The Law introduces a ranking or grading system of civil servants to be established through the use of qualification exams and attestation. At the same time, it links the process of professional grading directly to the requirements of the posts themselves: “Grading of civil servants is to be based on the degree to which the qualifications of civil servants corresponds to the professional requirements of the relevant civil service posts”.

No distinction is made between politically appointed posts and regular, career civil service positions. According to the Law, for example, the deputies of the Legislative Assembly, as well as some deputies of the People’s Representatives Assembly, are also deemed civil servants. While it mechanically introduces the institution of politically-appointed posts, it does not resolve through its stipulations the existing practice whereby career civil servants in a given administrative structure are often replaced en masse with a change in or the appointment of a new official.

In addition, the Law fails to address the different role, functions, and obligations of civil servants as opposed to non-civil servants working for public institutions. The latter are simply excluded de facto from the jurisdiction of the Law. As a result, problems involving the status of civil servants versus that of public employees are left unresolved.

Difficulties met in efforts to reform Kyrgyzstan’s system of civil service are due in part to the already well-developed, informal and unwritten rules of local bureaucratic structures, as well as to certain national traditions and customs. The Kyrgyz bureaucracy has inherited many of the less positive characteristics associated with the former Soviet system of civil service. The importance given to civil service positions that offer the best opportunities for corruption has even increased. A junior position in a state inspection agency, for example, often is considered more prestigious than a senior-level position in other state structures lacking such opportunities for abuse.

Within the greater global community, traditional forms of governance are more and more often being revised or replaced according to the requirements of new systems of public administration, new governance technologies, and management styles. More attention is directed towards methods of corporate governance, the formation of temporary project groups and staffing, and the activities of responsive corporations. Methods of *ad hoc* situational management are becoming increasingly wide-spread.

Under such circumstances, competition between at least three of the basic defining concepts of statehood is intensifying. These three concepts involve legal, bureaucratic, and targeted programming orientations of governance. It is still difficult to state which of these conceptions has prevailed in the republic. Given the factors described above, additional efforts clearly are required to reform state governance.

### ***Role of Education in Preventive Development***

Recognition of the importance of education and its corresponding socio-cultural institutions represents an important aspect of global development approaches.

*“High levels of education form the basis for social changes with respect to positive transformations of society”.*<sup>32</sup>

Askar Akaev

The Kyrgyz Republic is a multicultural, multi-ethnic society existing within the framework of a nation state. Education represents one of the most important factors influencing the degree to which the integration and stabilization of a society of such diverse traditions and value systems can occur and destructive social discord can be prevented.

Education can be successful in this regard only if the system of education in the republic incorporates important principles of succession and accessibility. Sustainable human development and social mobility depends in large part on the existence of a system in which transition from one stage of education to the next is as free as possible (see *Chapter 2*).

#### **BOX 3.2**

##### **RELATIONS BETWEEN SOCIETY AND SYSTEMS OF EDUCATION**

Before looking in more detail at the role of education with respect to society and preventive development, it is useful to define three aspects of the educational process.

- *Education* refers to the transference of commonly recognized forms of knowledge.
- *Training* refers to the development of skills and abilities related to the mastery of specific activities.
- *Upbringing* refers to the instilling of a certain set of ideals, value systems and norms.

In Kyrgyzstan these three aspects of the overall education system are influenced by certain standards inherited from the former Soviet system. It is clear that the state can no longer serve as a single, all-knowing body responsible for the identification of society's educational requirements, just as it can no longer finance and administer the republic's entire educational system. Instead, society itself can become a partner in education by identifying its own development requirements and prospects. A new education standard for all educational institutions should be formulated that would serve as a vehicle for instilling a positive ideology uniting

<sup>32</sup> Askar Akaev. 2000. “The Transition Economy through the Eyes of a Physicist (A Mathematical Model for the Transition Economy)”, Bishkek.

all citizens. This ideology should be based on such fundamental values as freedom, responsibility, trust, personal dignity, and recognition of the rights of individuals to self-determination.

The educational system is one of the most conservative structures of society with respect to its role as a mechanism for social stabilization. Nevertheless, changes in the educational system are becoming more evident with each year. These changes for the most part represent a gradual diversification.

At the beginning of the 1998-1999 academic year, out of 1,953 general education schools, there were 346 schools (17.5%) offering specialized subject studies, 164 of which have the status of gymnasium or lyceum (see *Table 3.1*). This means that 17.5% of all schools in the republic offer coursework that exceeds minimal national standards of education. In addition, in accordance with the national Bilim Program and the Law on Education, a net of private schools is being established. Some 2.5 thousand students are now enrolled in 29 private high schools throughout the republic. In 1995 there were only 19 such private schools. There are also some 2000 students enrolled in twelve joint Kyrgyz-Turkish lycea.

**Table 3.1:** Numbers of schools offering specialized study in various fields at the beginning of the 1998-1999 academic year by oblast

	Schools offering specialized study		Gymnasia		Lycea	
	Total	Students	Total	Students	Total	Students
Osh	154	32762	29	8211	28	4896
Jalal-Abad	80	24759	29	11320	6	3606
Chui	28	10600	7	3249	6	960
Issyk-kul	28	10901	8	4193	12	3073
Talas	6	3938	3	2235	3	370
Naryn	13	1421	6	732	7	689
Bishkek	37	23529	12	16454	8	5941
Total	346	107910	94	46394	70	19535

Source: *Ministry of Education, Science, and Culture of the KR.*

This diversity of programs is funded primarily through two sources of financing. The state provides 15% to 25% of teacher salaries. Parents provide tuition and payments to school boards and other analogous structures.

### **BOX 3.3**

#### **SCHOOL AS A SOCIAL AND CULTURAL INSTITUTION**

Schools often assume other functions in addition to their basic educational roles. These functions range from organization of children's leisure activities to assisting them in finding employment upon graduation. In small communities, schools often become their own socio-cultural units, playing a large role in all aspects of daily life. Because there are few if any institutions of cultural activity, schools often assume the function of cultural center, as well, particularly in remote and rural areas. In addition to children and teachers, parents also are actively involved in various school activities. As a result, schools are becoming more influential centers attracting a variety of forces and segments of society. Education and participation in educational processes carry both moral and political value. If this positive

potential is utilized fully, schools can contribute significantly to efforts by state and society to resolve various issues, particularly problems of regional development.

In the context of preventive development, particular concern is caused by the quality of pre-school education. Many children do not attend pre-school, but are raised at home in families where parents typically have no time and/or opportunity to pay proper attention to their children's development.

Out of the total number of 1,953 educational institutions in the republic, only 416 are kindergartens or pre-schools.<sup>33</sup> This lower number corresponds to poor overall preparation for schooling. This is especially harmful in terms of access to the best schools, which require students to pass basic entrance examinations. In addition, this delays the development of children's social skills. As a result, it is more difficult for children to enter and adapt to the school system, which in turn has a detrimental effect on the overall effectiveness of their schooling.

**LIVE VOICES**

*In the past, each year, two or three out of all my first-graders at most came to their first day of school not knowing how to read. In recent years, though, almost half of all my first-graders start school not knowing their basic ABCs, not even able to draw pictures.*

Primary School Teacher, 45 years old, Chui oblast

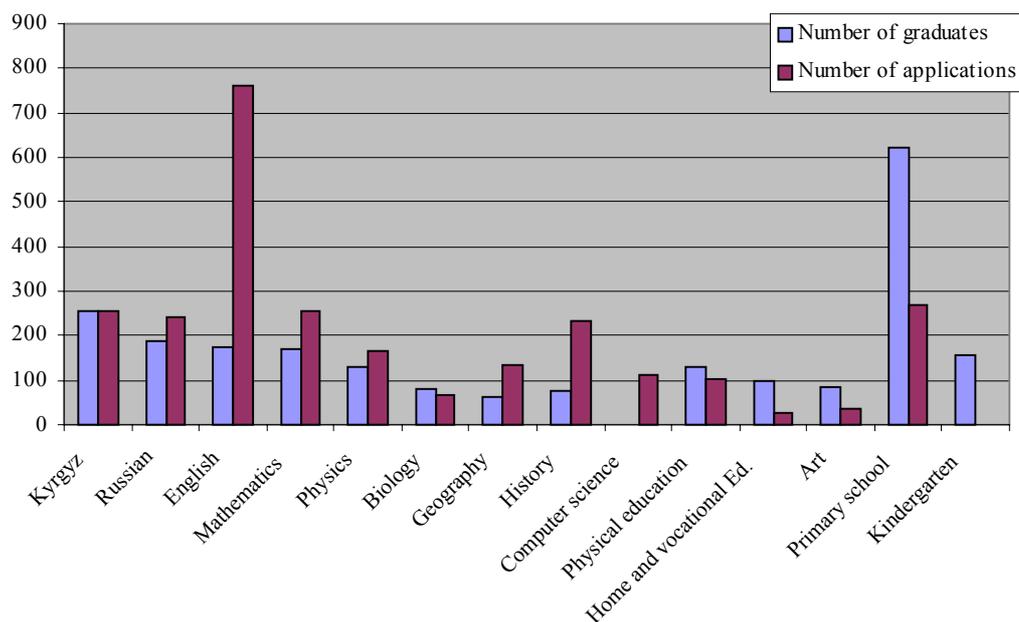
Unless these worrisome trends are reversed, over the next several years there may be a delayed impact culminating in a marked deterioration of the education of young students.

Another problem involves the preparation of a new corps of teachers. The average age of teachers in Kyrgyzstan is between 45-50 years. Many of these teachers are retirees. On top of this, the current reserve of young, new teachers is insufficient. Many qualified teachers have left the educational sector to seek better-paying positions. Given the profession's extremely low salary, it has become one of the least attractive career options.

There is also an acute shortage of teachers in secondary schools. During the 1999-2000 academic year, 2,525 qualified teachers graduated from institutions of higher education with pedagogical degrees. Over the same period there were 2,984 open teaching positions. This gap is most likely even larger as many graduates do not use their degree to work as teachers. There is an especially large shortage in teachers of the humanities, including English, history, and geography. This situation also applies to less traditional subject matters. Although market economics was included into school curricula several years ago, there are still no universities that prepare such qualified teachers. There is also no teacher specialization in the important area of computers and information technology. At the same time, a reverse teaching supply and demand situation exists in other areas. More teachers of elementary school and kindergarten, for example, are graduating than there are available teaching positions.

<sup>33</sup> Government of the KR, UNESCO, and UNICEF. 1999. Country Report "Education for All".

**Figure 3.1:** Supply and demand for teachers in non-specialized day schools during the 1998/1999 academic year



Source: Ministry of Education, Science, and Culture of the KR.

The number of open positions for teachers of the English language in 1998-1999 was 4.3 times higher than the number of graduated English language teachers (762 vs. 176). The demand for history teachers was 2.9 times higher than the number of graduated teachers (231 vs. 78), the demand for geography teachers 1.5 times greater (133 vs. 64), the demand for mathematics teachers also 1.5 times greater (256 vs. 172).

In contrast, more teachers are graduating than the demand for subjects in home and vocational education and art. An even sharper disproportion exists in the training of elementary school teachers: 624 teachers graduated versus a demand for 267. At the same time only 206 of these new teachers possess a higher education degree. During the same year, there was no demand for pre-school teaching positions, although 155 people were trained.<sup>34</sup>

Aside from the problem of low salaries, the profession is also viewed as having limited opportunities for promotion. Teaching is viewed as an occupation not requiring creative thinking, which of course affects the ultimate quality of education.

The most flexible part of the education system in terms of adaptability to market conditions has proven to be the institutions of higher education. Over the 1998-1999 period, some 159 thousand students were enrolled in 27 public and 13 private higher education facilities. The state budget covers tuition costs for only 30% of students attending public institutions.<sup>35</sup>

<sup>34</sup> Ministry of Education, Science, and Culture of the KR. 1999. "Non-specialized Schools in the KR during the 1998/1999 Academic Year". Statistical Directory, Bishkek.

<sup>35</sup> National Statistics Committee of the KR, UNDP. 1999. "Kyrgyzstan: Common Country Assessment", Bishkek.

Unfortunately, a large number of higher education institutions, including institutions formed recently, as well as older institutions, are not able to provide quality education. This is the result of various factors: insufficient numbers of qualified professors and lecturers, poor facilities, and insufficient numbers of textbooks and other educational materials. This situation was improved somewhat with attestation of certain particularly weak institutions that did not meet minimum national educational standards.

Additional issues requiring attention involve state financing of higher education institutions. The principles according to which funds are allocated to one or another university is not known. For example, it is not clear whether the best or weakest universities are supported. Regardless of the actual criteria used to make such decisions, the process should be more transparent, not only to university rectors, but also to all relevant members of society.

By 1999 the results of a new public policy of regional development became evident. One of the major components of this policy involves the opening of new institutions of higher education in the regions. These universities fulfill an important social function as they focus creative and human potential in these areas. This should contribute much to efforts to improve the capacity of young specialists in these areas. Only a few years ago, some 80% of students attended higher education institutions in the capital. Now this percentage has been reduced to 53%.<sup>36</sup>

A much more diverse curriculum can be observed in higher education institutions in comparison with primary education facilities. This is due to the use of better materials prepared by national specialists, as well as the use of methods and experience adapted from foreign educational systems, including Russia, Turkey, the United States, and France. In lieu of the previous five-year scheme of training, new systems of bachelor's and master's degrees have been introduced in many institutions. This reflects the overall influence of global trends on educational processes in Kyrgyzstan.

Such influence, however, has both a positive and negative side. Many students are already seeking advanced degrees with an eye to gaining professional skills not required in the republic, but in other countries. The lack of a well-thought out state policy taking into account the potential offered by various professional groups results in limited domestic prospects for many young specialists. As a result, there is a growing desire among many gifted students to seek employment outside the country.

#### **LIVE VOICES**

*I send application materials to different international educational programs all the time. The most important thing is to find a program that lets me live as long as possible abroad so that I have enough time to find a job there. Of course, I'm not planning on coming back after I graduate. What is there for me to do here? It will be much easier for me to help my parents from there.*

Third-year College Student, Bishkek

<sup>36</sup> Source: Ministry of Education, Science, and Culture of the KR, Department of State Policy and Educational Planning.

Some positive changes now taking place in the education sector reflect certain structural changes within the Ministry of Education, Science, and Culture. In 1999, for example, a Department for State Policy and Educational Planning was created. This demonstrates that the Ministry is trying to become more of an educational coordinator, rather than administrator, given current conditions. Such an approach promises to be effective for the further reform of the education system.

### ***Societal Participation in Preventive Development***

The relative maturity of any society depends to a large degree on the development of its non-governmental organizations, representing the “third sector”. The process of civil society formation in Kyrgyzstan is taking place at a rate slower than that required as a result of the current political situation in the country. Societies interested in their own development should guard their interests through clearly articulated positions. Despite this slower than desired pace, Kyrgyzstan nevertheless has made significant accomplishments in the area of NGO development.

Kyrgyzstan is a clear leader in Central Asia in terms of numbers of NGOs. More than 2,000 civil organizations are registered covering various areas of social life: human rights, gender development, ethnic harmony, poverty alleviation, ecology and others. The efficiency of such organizations depends on many factors, including sources of financing, chosen areas of development, availability of qualified staff, relations with external partners, and relations with local administrative organs.

The civil society movement in Kyrgyzstan is becoming more active in both regional and global development processes. It is opening the country more to the international community. This corresponds with global changes now taking place. More people and organizations are establishing strong partnership relations beyond existing geopolitical borders. The state has ceased to be the republic’s only representative in the global diplomatic field.

The most powerful NGOs, as a rule, are concentrated in the capital, as well as in oblast and industrial centers.

NGO activities are regulated by Paragraph 5 of the Civil Code of the Kyrgyz Republic, the Law on Non-profit Organizations (1999), and the Law on Charitable Activities (1999). This legislation, itself, was developed with the active participation of NGOs. Unfortunately, these legal documents are far from perfect and have generated criticism from many sides. The particular wording used in some articles of these Laws gives the state, at least legislatively, the right to not only control strictly the non-governmental sector, but also to intervene actively in the activities of such organizations.

Streamlining the development of NGO activities from a legal perspective could become one of the most important factors in the successful transition of these organizations to a new level of civil activity. There are a large number of socio-economic issues and cultural problems that cannot be resolved by the state alone, which represent a range of opportunities for NGO activity.

Such activity becomes especially important at the community level, excluding, of course, human rights activity. The latter requires intervention and policies

implemented at levels much higher. In 1999 the non-governmental sector acquired significant experience in the development of civil initiatives.

Productive cooperation between individual members of society, NGOs and the state have been demonstrated in the implementation of projects to improve water supply systems and the rehabilitation of certain social facilities.

**BOX 3.4**

**PARTICIPATION OF NGOs IN LOCAL SELF-GOVERNANCE**

The desire of the state to see the village council serve as its sole agent at the local level will not solve the complex issue of decentralization. One of the options to resolve this problem involves using NGOs at this local level. The experience of many countries in implementation of various projects in which NGOs take on organizational functions is very convincing. Local budget funds are allocated to development projects for which NGOs are given certain managerial functions. In Kyrgyzstan where more authority is being transferred to the regions, such a model of cooperation should receive more support.

Examples of democratic forms of governance at the local level exist in the national traditions of Kyrgyz nomads. Local problems traditionally were solved through public discussion in a process known as “kurultai”. The use of this experience clearly would help establish more modern forms and methods of social participation in resolving issues related to regional development and control over the function of local power. For example, the success of the Soros Foundation in Kyrgyzstan in allocating grants for rehabilitation of local communities’ socio-cultural assets allows for a sufficiently optimistic assessment of civil groups’ capacity to implement such projects. Tripartite commissions comprised of representatives from the local power, village elders, and NGOs, can make transparent joint decisions on such issues as funding for development projects.

There are few traditions in post-Soviet Kyrgyzstan of any civil changes other than those implemented through top-down methods approved by the state. Under current conditions, NGOs, as organizations uniting the most active members of society, should become agents of these changes. Despite a rapid, multi-fold growth in the numbers of NGOs, however, there is not yet a single example of direct, comprehensive interaction between state and civil society. This gives evidence to the fact that no substantive changes have occurred in terms of traditional stereotypes manifesting themselves in passive relations to social and self-governance issues.

Many NGOs that are themselves determining a framework for their development activity are not sufficiently oriented to participatory, cooperative work with the general population. For most organizations, their development work can be characterized as “for the people”, but not “with the people”. In this situation, NGOs serve as another top-down conductor of change that does not allow for equal partnerships that could have a positive influence on development issues. These observations have been addressed in more detail by both the 1999 NHDR and the UNDP 1999 Capacity Assessment of the NGO Sector in Kyrgyzstan<sup>37</sup>. At the same

<sup>37</sup> UNDP and Gender in Development Bureau. 1999. “Capacity Assessment of Non-Governmental Sector in Kyrgyzstan”, Bishkek.

time, the state also has displayed certain cautiousness towards cooperation with NGOs. In order for NGOs to take a more deserving place in the system of social relations, it is necessary to support their activities and stimulate their openness.

Another problem involves certain NGOs cultivating a self-identity of eliteness that attempt to monopolize the right to form the bridge of interaction between society and state. Such efforts to minimize the role of a majority of social organizations' opportunities to cooperate with the state gradually turn elite NGOs into either active participants of the political process or dependent annexes to government bodies. In either case, the basic concept of a "third sector" is diminished.

The third sector in Kyrgyzstan is still not developed fully. Efforts to classify NGOs at this stage inevitably take on political aspects. At the same time, however, it is useful for understanding the current non-governmental sector to classify NGOs into three groups.

The first group represents NGOs operating far from the influence of the state and thus enjoying real independence. The number of such NGOs is relatively small, as their activities require the financial and moral support of external donors. These NGOs have well-established relations both in the country and abroad. Their development objectives and approaches are well-articulated.

The second group of NGOs, the largest in number, comprises relatively independent NGOs. These organizations, however, are constantly forced to maneuver according to the interests of local administrative bodies, as well as of donors.

The third group comprises NGOs created by the state or directly servicing state interests.

Lack of trust on the part of the state and its unwillingness to establish normal relations with civil society, prevents thousands of people participating in the activities of these NGOs from cooperating effectively with the state. The participation of NGOs in civil activities takes place, as a rule, only through participation in donor projects. Such activity has a local character. Like other societal groups, NGOs appear to be isolated from decision-making processes concerning the most important issues. A great deal of capacity has been accumulated by NGOs during their relatively brief existence. This experience should allow them to play a more serious and active role in the country's development activities.

The number of people involved in the activities of NGOs is much higher than in the system of public administration. These people tend to be more active and free. Unlike state officials, they are not constrained by numerous instructions. More and more people who are facing problems prefer to apply to various NGOs for assistance, rather than to state structures. This is best exemplified by the work of consumer rights protection organizations and women crisis centers, whose clients number tens of thousands.

As has already been observed in the 1999 NHDR, one of the major problems of the third sector is the existence of certain NGOs that are well-experienced in writing grant proposals and obtaining financial support from international organizations. Donors

should be careful of a situation in which new, inexperienced NGOs are deprived of the opportunity to receive any support for which they are most needy. Elite NGOs sometimes replicate the activities of state structures and may create a poor image of NGOs within the public consciousness.

Unequal conditions for the development of NGOs, competition between NGO leaders, and the wide, often disparate, range of their interests have at times provoked dissension within the third sector. Intervention of the state into the freedom of its citizens, oppression of an independent mass media, and persecution of political opposition have also led at times to a “choosing of sides” among NGOs.

Given the difficult conditions of the lengthy transition period, such weakening of the civil sector is contrary to the interests of both the state and civil society, especially with respect to the creation of new value systems. It is necessary to implement a series of measures conducive to the integration of society. International organizations, with their significant intellectual and material resources, could play an important role in this regard.

Efforts by international organizations to create self-financing, sustainable projects and NGOs have for the most part been unsuccessful. It is nearly impossible to create a self-sufficient market for NGO services in a country with such critical economic problems. There have been few, fortunate exceptions to this reality.

### **BOX 3.5**

#### **NGOs AND REGIONAL REALITIES**

In the southern regions of Kyrgyzstan, there has been stronger demonstration of attempts to create sustainable, self-financing organizations following initial financial support. NGOs in Bishkek are structured primarily for project activities that require continuous financial support from donors. Despite the lower standards of living in the South, members of NGOs in these regions have shown themselves more willingly to pay membership fees and to organize NGOs into funds that are financed through contributions.

High quantitative indicators used to measure the per capita number of civil organizations do not by themselves provide evidence of a democratic environment. At times such situations have even carried with them a latent threat of oppression and political dominance, as was the case during development of the Weimar Republic. Too close a coupling of NGOs with power structures and political parties can lead to a disruption of democratic principles and does not ensure sustainable democratic societies. Consequently, development of the third sector requires continuous monitoring and support in selection of development priorities.

The overall activeness of the civil sector for the present depends directly on interventions by donors in various development projects. There exists an unconditional link between quantitative and qualitative indicators used to assess NGO activities and priorities proposed by donor organizations. It is necessary for donor organizations to be more pragmatic and careful in selecting development priorities by following the medical maxim that treatments must be selected with care, as the side-effects of certain prescriptions are more harmful than the disease.

Another reason for the insufficient effectiveness of the non-governmental sector involves poor coordination of the activities of NGOs, donors, and the government. Often programs duplicate one another. One rayon can become the beneficiary of several donors' pilot projects, while other rayons are neglected entirely.

Development of civil society and the formation of sustainable democracy in Kyrgyzstan requires all stakeholders to identify and take on their respective roles in a new system of civil relations. The non-governmental sector can take an active stance in fulfilling society's commitments to the republic's citizens, by undertaking to resolve those development issues that the state is unable to regulate on its own.

### ***The Role of Mass Media in Preventive Development: from Mass Information to Mass Communication***

At present, mass media activities in Kyrgyzstan are the major factor ensuring mass communication among citizens. In the absence of developed communication processes, society is deprived of the opportunity to influence events in the country.

In the context of preventive development, dialogue between state and society should be conducted, among other ways, through mass media. It should be used for a discussion of current events, as well as a debate on major problems and their resolution.

The most important characteristic of mass media in Kyrgyzstan is its distribution. As noted in the 1999 NHDR, the weakest point in the Kyrgyz mass media remains its relatively poor geographical coverage. This holds true for both print and electronic forms of information<sup>38</sup>. The most popular daily newspaper, at least in terms of circulation, is published in Bishkek. It has the status of a city newspaper, as opposed to a national publication. Only one national channel broadcasts broad-band air-waves. There are independent television channels in all but one oblast, but these are of only regional importance. Formation of a unified information space in the country still faces several constraints detailed in the 1999 Report. This represents a major problem for the normal functioning of the mass media, particularly in terms of its objectivity and citizens' accessibility to information in various regions of the country.

The most important function of the mass media is its role in the formation of public opinion, including opinions at the national level. As noted above, a majority of print and electronic independent mass media operations operate on a regional basis. This has a positive influence on the development of the regions and helps to fill what would otherwise be an information vacuum due to the lack of a truly national mass media. Nevertheless, the current situation makes it rather difficult to use mass media constructively to support national policy objectives. These constraints become particularly evident during times of crisis. The most difficult crisis that required active participation of the mass media in 1999 involved terrorist activities in Batken (see *Chapter 2*).

The necessity for the first time to report on a military incursion into the country put the mass media into a difficult situation. The major constraint involved the monopoly of the state on all information originating from areas of military action. This is

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<sup>38</sup> UNDP. 1999. Kyrgyzstan National Human Development Report for 1999, Bishkek.

characteristic of most military conflicts. Despite all of these institutional difficulties, however, the clear and responsible work of many journalists helped to prevent the spread of fear and panic among the public.

At the same time, it is still necessary to elaborate further on some of the negative consequences that arise with respect to problems in the creation of public opinion at the national level.

Many of the most popular forms of mass media in the republic rely heavily on either repeat programs or reprinted articles. From this perspective, Kyrgyzstan is better characterized as belonging to the general information and communication system of the Russian Federation, rather than maintaining its own independent mass media. Public awareness in the republic is oriented more towards problems and policies that exist outside the country. This seriously distorts the public's perception of the situation within Kyrgyzstan. The influence of the Russian media is especially strong because it presents a range of conflicting views about ongoing reform processes and new principles and goals of social development. Given the fact that the situation in Kyrgyzstan differs greatly from that in Russia, it is almost impossible to counteract this type of external media influence.

A similar situation is found in the South of the republic. Close physical proximity to Uzbekistan gives rise to a situation whereby Kyrgyz citizens of all ethnicities have become closely involved in the information and communication system of Uzbekistan. This increases the cultural and political influence of Uzbekistan on these southern regions.

The penetrability of national information boundaries, one of the many consequences of globalization, does not in itself necessarily carry negative implications. At present, however, there is no balanced response on the part of Kyrgyzstan to these forms of foreign mass media influence.

Mass media in Kyrgyzstan does not cope satisfactorily with the important task of reflecting public opinion. Clearly, a truly independent press is not only entitled to, but also should be compelled to publish documents containing opinions of journalists and analysts. It is very difficult, however, to differentiate between facts and commentary in the local press. This becomes evident when court actions are instituted against journalists for charges of libel. Journalists often cannot present documentary evidence for their conclusions, which results in defeat in the courts.

At the same time, a majority of reputable mass media organizations throughout the world supplement their reporting with sufficiently objective forms of information, including the results of public opinion polls, ratings, and reviews of quantitative indicators. Such material is lacking in the largest print publications in Kyrgyzstan, and only very rarely provided by local television and radio companies. In 1999 this situation was aggravated by introduction of a new Election Code. One of the Articles of this Code prescribes a cessation in the publication of or reference to public opinion polls and ratings of political leaders for a period of one month prior to official election dates. In such cases, the mass media can express only official state views, or their own personal opinions.

At present the relative influence of traditional print and electronic mass media in the world now depends much on the development of so-called “open” mass media, or information publications that are disseminated via the Internet and other information systems. Such publications very often are more efficient. In addition, they can defy external control and censorship and operate in an interactive regime. In Kyrgyzstan, these characteristics make such “open” media even more attractive. In 1999, dozens of new electronic versions of newspapers, web-sites and forums appeared.

Given the specific geo-territorial and relief characteristics of the republic, the use of computers for communication and exchange of information can become an important means for uniting the information and communication sphere across the country. Within such a system, it would be possible to organize new communication processes designed to encourage productive discussions of the country’s most pressing problems. This would bring people with similar ideas and convictions more easily together, and in turn increase levels of trust within society.

### ***A Comprehensive Preventive Development Approach***

In 1999 a new stage began in the determination of Kyrgyzstan’s ongoing path of development. Many actors have been involved in this important work, including the Kyrgyz Government, donors and NGOs. Their major goal is development of a long-term national strategy.

It is hoped that such a program of reforms will result not only in positive changes, but also serve to stimulate more rapid and progressive transformations of society.

Development processes that will occur over at least the next ten years will involve a constant struggle between two parallel economies. One is an efficient economy, where modern financial management and administrative techniques are applied, where wages and taxes are paid in full and on time, and where investment, particularly foreign investment, plays a large role. The second is an inefficient economy, in which non-payments flourish, where rent-seeking attitudes prevail, and where there can be no investments other than those usurped from state funds (see Annex 4).

*“The modification of standard forms of behavior that support and legitimize new laws represents an important long-term process. In the absence of such development mechanisms, state structure cannot be stable. This explains the vital importance of an active formulation of the legal framework for a market economy. It is active institutional reform that can guide the spontaneously developing process of reform to its desired destination.”<sup>39</sup>*

Askar Akaev

Carefully considered policies are required to stimulate economic growth, including the creation of conditions necessary to improve the financial status of real sector enterprises and to direct their revenues toward investment. Key actions in this area involve a reduction in their tax burden and involvement of such non-financial, long-term assets as land into the economic turnover. Lifting of the moratorium on buying and selling of land would change significantly the economic climate.

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<sup>39</sup> Askar Akaev. 2000. “The Transition Economy through the Eyes of a Physicist (A Mathematical Model for the Transition Economy)”, Bishkek.

An expansion of trust from family to public institutions and state allows a radical change in the psychology and mentality of the public. Kyrgyzstan, in both its politics and economics, is gradually moving away from paternalistic, socialistic concepts of state regulation that implied active intervention in the economy. There are serious intentions by the Government and Parliament to change the principles of budget financing by making local self-governments the main beneficiaries of these funds. Such a change in financing would make it possible to monitor the results-oriented spending of state funds. It would also complement other efforts to develop forms of self-governance at the local level (see *Chapter 4*). Local self-governance at the city and town levels can support the development of small and medium enterprises, the representatives of which should become local economic and political elite.

It also can be assumed that by 2010 the sector structure of the Kyrgyz economy will correspond more closely with major global trends for productive economies. This means competitive advantage in areas of information and communication technologies, production services, consumer goods and agriculture. Rent-seeking is a universal symbol for all development constraints in the republic's economic transition. This practice must be replaced by principles of effectiveness and productivity.

The judicial system also will have the opportunity to play a new role in preventive development. This is due to a gradual change of citizen perceptions towards the courts. Turning to accessible, professional courts for redress will become a more common practice. In addition, it is the result of legislative strengthening of the role of judges in providing services to civil society and in the resolution of disputes. Planned development of such institutions as administrative courts and an Office of the Ombudsmen should also contribute to this transition. It is important that the judicial system gradually becomes the focus for larger portions of state budget spending. Mutual trust between the state and the people can be ensured only through the successful execution of such social contracts.

## CHAPTER 4 REGIONAL POLICY AND HUMAN DEVELOPMENT

### *Trends in Regional Human Development Indexes*

Standard indicators developed by UNDP reflecting the development of human potential can be used as analytical tools among regions, as well as at the national level. By disaggregating these indicators and using them for regional comparisons, it is possible to identify specific problems in the development process and to assess the causes of emerging disparities. The 1999 NHDR was the first Report to focus on the regions through such an approach. Human development indicators were calculated for each administrative oblast. This allowed regional differences and development trends at the level of oblasts to be identified.

Changes in statistical data, which occurred as a result of more accurate information being collected through the First National Population Census conducted in 1999 (see *Chapter 1*), have also affected indexes at the regional level. *Figure 4.1* provides these revised regional indexes. They illustrate the unevenness of the rate of progress achieved in human development (see *Annex 3*).

**Figure 4.1:** Regional Differences According to HDI, Kyrgyz Republic, 1995-1999

Geographical location has a clear influence on the specific development characteristics for each oblast in the republic, as well as for the country as a whole. A large portion of the population resides in mid- and high-mountainous regions. This type of mountainous relief predetermines the development of infrastructure, particularly for the transport sector. Such harsh natural environments also limit certain economic activities and choices for making a living. The republic's existing regional disparities in human development, however, cannot be explained only in terms of land relief and geographical location.

The picture provided by human development indicators for the Issyk-Kul oblast is very telling in this regard. The HDI value for the oblast in 1996 was 0.665 (96.74% of the national HDI value). Its HDI in 1999 was 0.730 (103.43% of the national value), a significant growth. If HDI components are examined separately, however, it becomes evident that this statistical "progress" is caused primarily by a sharp growth in gross regional product due to the Kumtor gold mining project. Poverty levels in the Issyk-Kul region are declining. In 1999 HPI-1 was 6.5%, down from 7.0% in 1998. (This is the same value as the 1999 HPI-1 for Bishkek. In the case of the capital, however, the 1999 value represents an increase, or worsening, by 0.3%.) Discrimination against women in terms of unequal compensation for equal work is characteristic of the oblast. Average women's wages represent only 40% of men's wages. In addition, official participation of women in the economy is also low at 44.1%.

As might be expected, declines in economic activity correspond closely to declines in, or a slowing down in the rate of growth of, human development progress indicators. This principle holds especially true for Bishkek, whose economic structure is characterized by its production and service sectors, both areas affected strongly by economic stagnation. The growth rate of per capita GDP by PPP in 1999 for Bishkek

was only 2.6%, as compared with 12.5% in 1998. This resulted in a corresponding decline in the rate of HDI growth, as well. In 1998, HDI represented 103.1% of the value for the previous year. In 1999, HDI growth over the previous year was only 0.6%, the lowest percentage increase over the previous four years.

Nevertheless, Bishkek continues to lead other regions in most integrated human development indicators. The HDI for Bishkek in 1999, for example, was 14.32% higher than the HDI for the Osh oblast, ranked last among regions according to this indicator. In one particularly striking exception, however, Bishkek in 1999 had the highest percentage of malnourished children, one of the components of HPI-1, at 14.5%. This is twice as much the national average of 7.3%. The lowest rates of child malnutrition are in the Talas oblast at 2.2%.

Human development indexes have been calculated for the 1998-1999 period for the Batken oblast, which was created in September 1999. Overall, indicators of human development potential in the Batken oblast are slightly higher than in the Osh oblast (see *Figure 4.2*). In the Osh oblast, the number of people living in poverty decreased by 0.1% from 1998 figures with an HPI-1 value of 12.2%. Despite this small improvement, the oblast is still in last place among all regions for this indicator. This is primarily due to the fact that more than 38.9% of Osh residents have no access to clean drinking water.

**Figure 4.2:** Oblast imbalances, Kyrgyz Republic, 1999

In the Jalal-Abad oblast, the number of people without access to safe drinking water was reduced by more than 30% over the previous year, down to 10% of the population in 1999. This also resulted in a significant improvement in its HPI-1 value to 10.7% in 1999, a 4.0% improvement over the 1998 value. The HDI for Jalal-Abad in 1999 also improved by 0.67% when compared to the previous year.

Small, gradual HDI growth has occurred in Jalal-Abad in previous years, as well. This progress has been achieved through an increase in life expectancy and numbers of students, despite a decline in its income index. A growth in per capita GDP by PPP occurred in 1999, following two years of decline, from USD 1,380 in 1998 to USD 1,421.1 in 1999. The 1999 index, however, is still lower than per capita GDP was in 1996 at USD 1,470.4.

A worrisome change in Jalal-Abad involves the health of its inhabitants. The number of people without access to health care facilities has increased each of the past several years. In 1999 this figure reached 27% of the oblast population.

After a decline in 1998, the HDI for the Talas oblast grew by 0.6% in 1999. Per capita GDP by PPP in the oblast increased by 3.78% in 1999 to USD 1,718.4. The poverty index declined by 0.2% to 8.8%, slightly lower than the national level. Despite these tentative gains, however, life expectancy declined from 66.7 to 66.5 years, continuing a concerning negative trend over the last several years. The Talas oblast is now ranked lowest according to this indicator. In addition, 21.5% of the oblast population have no access to health services.

In recent years, the Naryn oblast has shown sustainable trends in the development of its human potential. In 1999 its HDI was 0.711. The oblast has been ranked fourth among regions according to this indicator consistently since 1996. An insignificant decline in per capita GDP by PPP of 3.1% in 1998 has not resulted in a decrease in HDI, as other HDI index components have compensated. The number of enrolled students increased by 2.0%. There has also been an increase in life expectancy. The number of poor dropped in 1999 to 8.6%. This is the lowest the poverty indicator has been over the past several years. It is still too early, however, to label this a sustainable trend. In 1999 there was also a decrease in the number of people lacking safe drinking water access. Nevertheless, the level remains high at 16.9%.

The Chui oblast is the most developed economic region in the republic along with Bishkek. In calculations for the HDI, the per capita GDP index carries significant weight. For this reason, changes in the economy and corresponding fluctuations in GDP can have a direct effect on HDI. For example, in 1998 when per capita GDP by PPP in the oblast decreased by 7.9%, the value of HDI fell to 0.714. In 1999, there was an increase in per capita GDP and the oblast's HDI rose to 0.721. HDI values also depend on the education level index, which has been rising in Kyrgyzstan over the last five years. The HPI-1 for the Chui oblast in 1999, however, was quite high at 9.2%, an increase of 1.2% over the previous year. This is in large part due to the considerable number of people lacking access to health services at 22.3%.

Issues of gender equality in the regions are overall rather optimistic. The correlation between GDI and HDI is high (see *Figures 4.2, 4.3*). The Batken and Osh oblasts are ranked first according to this indicator, with the difference between GDI and HDI only 0.45%. In these regions, women account for nearly half of the economically active community. The ratio of average wages for women to wages for men in these two regions is either equal to or higher than the national average of 64%.

**Figure 4.3:** Oblast imbalances, Kyrgyz Republic, 1999

The gender situation is quite different among regions with respect to GEM. The Chui oblast ranked first among regions according to this indicator in 1999 with a value of 0.578. This represents 126.35% of the national average and reflects a high value of all the GEM components. The oblast also ranked first according to the proportion of women serving in its legislative bodies at 22.3%. Bishkek ranked a distant second for GEM in 1999 with a value of 0.477. The components of the Bishkek GEM were all higher than corresponding Chui GEM components, except for the proportion of women in legislative bodies. In Bishkek, this figure was only 9.7%, causing the capital to come in second. The proportion of Bishkek women among the economically active population is high at 46.7%. The ratio of women's wages to men's wages in Bishkek is the highest in the country at 70%.

Human development indexes in the southern regions of Kyrgyzstan, including Osh, Jalal-Abad and Batken oblasts, are lower than in the remaining regions (see *Figure 4.2*). Comparatively high levels of poverty are also characteristic of the southern oblasts.

### ***From Regional Indexes to Regional Policy***

These index comparisons show clearly that distinct disparities exist between regions with respect to various processes of human development. There is, however, much more useful information that can be derived through use of such an index-based analytical approach. Although the UNDP system of indexes, of course, by itself cannot be used to analyze all aspects of human development, the data contained in individual index components does shed light on many development issues.

As mentioned in the *Introduction*, the comprehensive approach prescribed by UNDP takes into consideration all aspects of human development: social, administrative, political, and economic, as well as their various inter-relations and dependencies. Regional development indexes by themselves are limited somewhat in the level of detail they can provide with respect to these complex issues. If the deeper issues reflected by the changes and dynamics of these indexes are taken into closer consideration, however, it becomes possible to comprehend more clearly the nature of underlying institutional changes (see *Annex 2*).

For example, the pace of administrative structure reform at the oblast, rayon and village level is still lower than in the capital. On the other hand, the regions are “catching up” with overall national levels in terms of the mobilization of social capital.

Although the government developed a formal regional state policy concept in 1997, regional development is still not defined clearly<sup>40</sup>. Since 1997, the administrative-territorial structure of the Kyrgyz Republic has changed somewhat: the new Batken oblast was established in September 1999 on the basis of three rayons from the Osh oblast. The vertical structure of regional administrative power has not changed with respect to the oblast, rayon, and *aiyl okmotu* levels. Similarly, there have been no changes in the system of “center-oblast” financial relations.

One of the clear consequences of globalization involves fundamental change in the role of nation states. More and more often, the concepts of nation, ethnicity, and state are differentiated in discussions of various political issues. This kind of differentiation is especially important in multi-ethnic states such as Kyrgyzstan.

Observance of a balance between diversity and unity, regional self-reliance and national interests, is also no less important for the development of effective regional policy. Every individual belongs to a certain ethnicity, or, as is often the case in Kyrgyzstan, to several ethnicities. As a nation state, Kyrgyzstan is faced by a difficult challenge: to make its national motto, “Kyrgyzstan - our common home”, a reality, while at the same time preserving the ethnic and cultural diversity of all nationalities residing in the republic.

Ethnic differences among the traditionally urban population are disappearing more quickly now than even during the Soviet period. In accordance with these rapid and significant social changes, new state policies are being developed in the area of interethnic relations.

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<sup>40</sup> Resolution No. 729 of the Government of the KR on a “Regional State Policy Concept for the Kyrgyz Republic” from December 15, 1997.

Political dialogue once based nearly entirely on relations between the state and national-cultural centers is now changing over to a dialogue between the state and citizens of the republic. It is equally important that the concept of ethnic “tolerance”, which hints of ethnic supremacy and suggests a certain abnormality of those who should be “tolerated”, be abandoned. Instead, it would be wiser to support initiatives cultivating concepts of “trust” and “cooperation”, global principles that suggest the equality of all development stakeholders.

### ***Decentralization of State Governance and Regional Development***

Decentralization of administration authority from the center to the regions represents a mandatory condition for regional policy designed to develop capacity for local self-governance. The issue of self-governance and decentralization in Kyrgyzstan is usually discussed only within the context of subordination and elections. This involves a choice between election and appointment of administration heads and between to whom they are subordinate, to the President or to the relevant local council. It is more accurate, however, to view this issue from the perspective of a delimiting of functions. If the traditional family forms the basis of society, then local self-governance structures should form the basis of the state.

It is difficult to cover all problems associated with the self-governance issue within the confines of this Report. These processes are discussed in greater detail by the 1999 NHDR. It may serve most useful to make the observation that local self-governance and decentralization activities in the Kyrgyz Republic are implemented in general through carefully planned and formal approaches.

In accordance with a Presidential Decree of December 7, 1999 in an Article on *aiyl okmotu* (village authorities), amendments have been made to legal provisions describing the mandate of the heads of *aiyl okmotu*. They now have the authority to approve appointments of heads of corresponding territorially-defined state institutions and organizations. At the same time, oblast-level structures of state ministries and agencies are being abolished. These types of reform underscore the pragmatic steps being taken to decentralize administrative power.

*Aiyl okmotu* and city authorities represent the major administrative bodies in rural areas and towns under rayon jurisdiction. Local government bodies should influence directly the development of the country’s economy in all its forms, not only farming and other agricultural activities.

It is often useful to illustrate the most difficult and pressing aspects of development issues that may require the attention of decision-makers at the national level through the use of specific, close-up examples from society. As such, this Report continues the practice of using a special series of text inserts titled *Close View*. The following series of *Close Views* provide more detailed accounts on problems involving decentralization and local self-governance.

#### **CLOSE VIEW**

*Deputy Chairman of Village Authority (Aiyl Okmotu), Chui oblast:* “As a branch of state power, we really work face to face with the people, we are the first point of recourse for them. Almost every application or request needs personal clearance from the top. Without this approval, we cannot even permit someone to dig a ditch.

For this reason, the word “okmot” (authority) comes across falsely. For example, recently we held a “subbotnik” (voluntary public works day) to clean up the community. Our local Association of Farmers, Druzjba, provided us with a tractor to collect trash - their “sponsor” support – but gasoline for the tractor was not included. We are thankful that we were at least provided with a tractor. This is our authority – to go around to everyone with open hands. Is this really what is meant by power of the people? This is the power of bureaucrats from the bottom up”.

The current scheme used to collect revenue for the state budget does not allow local self-governance bodies either to draw up development budgets, or to meet current, local economic needs. Grants based on fixed social categories stipulated in the national budget and targeted for health and education services account for 45% of total local budget expenditures. Matching grants account for about an additional 10%.

The most acute and complex problem in this area involves inter-budget relations. According to the existing system “the more funds that are generated by a given region, the more that can be deducted for subsidization of other regional budgets.” Income distribution between the national and local budgets is determined by the Law on Main Principles of Budget Right. Local income distribution is still decided among the three levels of power through *negotiations*. Oblast and rayon administrations decide how income from regulated taxes, land tax, and local taxes is to be distributed between oblast, rayon and aiyl okmotu (village authority) budgets.

#### **CLOSE VIEW**

*Aiyl okmotu employee, Chui oblast:* “If we had at least a minimum of authority we would consult the people directly and could do a lot of good things. For instance, we could open our own small village bank. With a population of 12,000 we collect some 1.5 million som in taxes. But out of this only 426 thousand som remain in our budget for maintenance of five schools, a hospital, two health centers and all other social services. More than a million som goes to the top. Our budgets are also sent to us from above with figures that have us by the throat. Local budgets should be drawn up at the local level. A million som is for us a huge amount that we could use very effectively for micro-credit lending”.

Such a situation results in an unsustainability of income for local administrations and aiyl okmotu. This also has a direct effect on local planners’ abilities to develop mid-term budget strategies.

When distributing administrative mandates, there is a tendency to increase the scope of administrative powers. Even at the level of aiyl okmotu, administrative structures have been strengthened. The heads of aiyl okmotu are representatives of the state appointed by the overseeing rayon administration.

Local self-governance implies the participation of local communities in governance through control over administrative norms and procedural compliance. In addition, it is the local community itself, through their elected representatives, that must conclude agreements with businesses and associations, and grant permission for construction on community lands. The administration should oversee execution of norms and procedures by enterprises and deal with such issues as registration. At present, nearly all these functions are implemented by local administrations.

In 1999 the Government revised procedures for using local sources of revenue. Both the Law on Major Principles of Budget Rights and the Tax Code were amended. The list of taxes and other revenue sources collected by oblast and lower administrative levels was expanded, as was the land tax base. In addition, a new Law on Financial Budget Frameworks for Local Communities is being developed.

These measures represent key components of plans to implement bottom-up budget planning. The budgets of local communities are to be developed on the basis of mid-term socio-economic development plans on a three-year basis. Such reform is particularly important at the threshold of efforts to organize a full-fledged land market. Local self-governance is based on the three pillars of budget, land, and property.

It is still too early, however, to discuss the degree to which local procedures in those regions of the country where self-governance has been established at the village level correspond to this new legislation. The problem lies in misperceptions about local self-governance as an institute of public power and important component of civil society.

#### **CLOSE VIEW**

*Deputy Chairman of Village Authority, Chui oblast:* “There are twelve national program documents filed in our village authority office addressing poverty alleviation, village development, public health improvement, and others. I studied all the programs very closely, out of my formal responsibilities and simple curiosity. They’re great. They envisage everything. They can and should be implemented. But the most important thing is missing – village authorities are designated as program implementers, but they have neither the funds nor authorization to implement them. All the programs are gathering dust on our shelves. It is difficult to look up and see them. No, I am not afraid to criticize – at the worst I might be fired. By all means! The salary of a chairman is 820 som, mine is even less. Our staff get 400-500 som. And for this compensation we have to hear and see with our own eyes the ordeals of our villagers day in and day out from morning to night. And there is practically nothing that you can do, only suggest a higher level and who in particular they need to go to with their problems. Even the police treat us with arrogance. But that’s to be expected - they work with our office, but they get paid by the local Association of Farmers. Why should they respect us?”

For these reasons, local state administrations and businesses in general have little contact with and agreement on the interests of local communities. Decisions on all construction and even the felling of trees are made by local state administrations. Local communities are deprived of very important controlling functions that diminish the meaning of decentralization actions already taken.

In August 1999 a Local Self-Governance Development Concept for 1999-2000 was approved by Presidential Decree. This document provides objective analysis of the initial, still insignificant, steps of ongoing reforms and identifies short-term priorities. These include strengthening the financial-economic framework for local self-

governance, more efficient use of communal property, and finalization of necessary legal frameworks.

Significant, positive input has been made to this reform process by the Decentralization Project being implemented by the Congress of Local Communities with the support of UNDP. Valuable experience has been gained through the Project's work in pilot *aiyl okmotu* and *rayons*. This includes specific results with methods of social mobilization and development of social partnerships, as well as the preparation of administrative-governance proposals and legislative drafting projects.

As a result of administrative, legislative and development project taken over recent years, the basic contours of a territorial-governance model has been developed. This area of reform is one of the most difficult. It directly influences and involves the interests of the public, while at the same time it is closely tied to a search for an optimal structure of the entire state apparatus. It is necessary to speed the introduction of well-developed administrative and corporate mechanisms into the practice of both central administrative bodies and local forms of self-governance at all levels.

For these reasons, it is now time to decide whether to strengthen vertical systems of power by abolishing unnecessary *rayon* governance structures, or to move more decisively towards a system of elected heads of local state administration. In case of the latter, adequate amounts of authority should be delegated to local administrators, especially for budget and tax planning, property management, and development of small and medium enterprises.

#### **CLOSE VIEW**

*Deputy of aiyl (village) kenesh, Chui oblast:* "About 150 families have left already to settle permanently in Russia. They have friends, relatives, homes, and farms here, but they left anyway. The only reason they left is because Russia is a large country. You can grow any vegetables there and sell them at any time. Here you can work hard all summer and sit all winter at the bazaar, but you still can't sell a thing: there's no demand for vegetables. This spring and winter we threw away hundreds of tons of onions, garlic, watermelons and other produce - everything we had worked so hard and spent so much money on!"

#### ***Problems of Small Towns***

At present, the principles of self-governance operate in all rural areas, including villages and eleven small towns serving as *rayon* centers, as well as *oblast* centers – towns such as Naryn and Karakol. All other municipalities and administrative-territorial formations, however – all *rayons* and eight major cities, as well as *oblasts* proper – fall under the direct governance of the executive branch of the state. The fact that part of the administrative-territorial formations of the republic are under the self-governance system and part still under state governance creates a number of difficulties. This is particularly true at the level of cities and towns. The situation in which representatives of the municipal "third level" of the current administrative system find themselves can be termed marginal. Problems are found in a lack of consistency in state policy addressing municipalities in general.

Many countries have long ago placed the problems of towns and cities at the head of their list of national priorities. For Kyrgyzstan such a trend is important if

development of a town is viewed in connection with the development of a rayon for which it may serve as a major focus point of informational, financial, material and other resources. A “collaborative development approach” by the local population is perhaps more important to their social economic growth than any amount of investment. Strategic self-determination, based partially on a reassessment of cultural-historical values, can be achieved if each town follows a concept of comprehensive urban development. Under this approach, a set of development goals is approved by city dwellers and formalized by legislation. Management decisions that contradict the corporate interests of the city’s general population are automatically discarded.

The current system of taxation and budget financing, however, does not allow local administrative structures the opportunity to follow a path of strategic self-development. Municipal authorities, for example, may identify the need to use locally raised revenues to repair city infrastructure. The expenditure side of their budget, however, is cut by more than three times, as only a third of state fees collected, one of the major types of taxes, remains in city treasuries. The amount that is left over for rayon state administrations may be hardly enough to cover the costs of electricity or to pay wages to their local state employees.

**CLOSE VIEW**

*City administration specialist, Chui oblast:* “We are entitled to have legal sources of financing. Using the “ashar” method we were able to improve our cemetery, and repair roads and buildings. But this is not a solution – we cannot always be dependent on individuals and the private sector for assistance. The city can function well only after the powers and responsibilities of the city and the rayon, the executive power and bodies of self-governance, have been clearly delimited”.

Managers at the rayon level hold a different view on the current system of financing relations between rayons and the center: payments to the national budget have increased, while payments to local budgets have been reduced accordingly. Often, major corporate taxpayers are located in cities. Nearly all these enterprises’ taxes, however, go to the national budget, leaving very little for rayon budgets.

The transfer of certain administrative powers from central state bodies to local structures is slow. In the two years since issuance of the corresponding Presidential Decree, many ministries and agencies have yet to submit proposals to the Government for the delegation of certain functions to ail okmotu and city authorities. Some structures, including the Ministry of Internal Affairs, consider it unwise to transfer their services to municipal authorities.

In accordance with Article 4 of the Law on Local Self-Governance and Local State Administration, public participation in discussions of all important public and state issues represents one of the primary mechanisms used to implement new forms of self-governance. The practice of public hearings on issues of municipal budgets represents a particularly progressive step forward in efforts to increase the transparency and independence of municipal administrations.

Such public hearings were held in Naryn in June 1999 and in Tokmok and Uzgen in March and June 2000, with support from the United States Agency for International Development. During the course of discussions, ordinary citizens, as well NGO

leaders, made proposals identifying priorities for the social and economic development of their towns. Similar hearings are planned for towns throughout the republic. In addition, public councils with supervisory functions should be created to broaden the responsibilities and interests of local citizens in the budget process.

## **CHAPTER 5**

### **DEVELOPMENT IN THE 21ST CENTURY: DIALOGUE AS A POLICY**

This 2000 NHDR is the last Report of the passing millennium. For this reason, much attention has been given to human development processes taking place in the country over the past several years of its brief history. As one of the first Reports of the new millennium, however, it is also equally important to provide new vitality to the discussion of human development problems and efforts to develop new, more effective methods and approaches to achieve human development.

An attempt has been made to complement the objective data presented in this Report with the views of ordinary citizens on human development. Over recent years, people have gained the ability and opportunity to form their own views on ongoing changes in the country. This in itself represents one of the most important achievements of the democratization process. The course of reforms depends a great deal on the prevailing mood and public opinion of society. Social consciousness, awareness and understanding are all factors that seriously affect the relative success of the reform process. It is for this reason that they should receive special attention within the context of human development. As such, this *Chapter* reviews the economic, political and social aspects of development in the republic from the perspective of cultural and psychological changes now occurring in society.

#### ***Transforming Value Systems – A Critical Task for the Transition Period***

Urban residents and rural dwellers, university graduates and blue collar workers, public servants and private entrepreneurs - each of these groups of citizens often share very different views on specific issues determining the quality of their lives. A discussion of the basic value systems prevailing in a given society, however, deals with those common social norms and forms of behavior that serve to unify various segments of society, rather than form the basis of their differentiation. Changes in economic and political systems inevitably result in changes in value orientations. At the same time, processes of economic and political reform themselves depend on the degree to which new value systems are accepted by society.

Many values reflected in the lives of contemporary Kyrgyz citizens have been inherited from ideologies that dominated the former Soviet Union. Various ethno-cultural traditions, especially those based on values associated with close family ties, represent another major source of contemporary values. Some of the values prevailing in the republic play a positive role in society. Others can and should be subject to criticism. Such constructive criticism is allowable as the focus of debate is not cultural achievements in general, but rather only those specific value systems that influence and are influenced by economic reforms and an increase in human potential.

#### **BOX 5.1**

##### **VALUES SHOULD NEVER BE CHANGED, YET IT IS IMPOSSIBLE NOT TO CHANGE THEM**

There are many examples appearing in nearly all spheres of life of what happens when new development processes are introduced without a proper assessment of their relation to and affect on existing value systems. Often, for example, new forms of management or business activity that are dependent on adoption of non-traditional value systems either change their meanings or lose them completely

when efforts are made to apply them in the Kyrgyz Republic. A telling example of the type of cultural environment that makes institutionally-oriented reform efforts so difficult can be found in typical styles of staff management. Maintaining good personal relations with employees, who are often related to their supervisors, often takes precedence over the need to implement new managerial styles calling for norms regulating effective professional behavior and accountability.

An even more complicated area of reforms involves intervention into those areas of society that affect the most common activities and relations of familiar daily life. Poverty alleviation efforts, for example, are sometimes closely linked to training activities designed to raise public awareness of family planning options. Large families, however, are for many people residing in rural areas the only way of life that they have ever known, particularly in the southern regions of the republic. Those families in these areas who do have few children are often viewed as abnormal or disadvantaged. Regardless of the more general question concerning whether such family planning programs are required or even ethically well-motivated themselves, these deep-rooted cultural perceptions are clearly difficult to overcome. In this case, the differences between new and old value systems are at their greatest. An approach to life is presented as an ideal development model to people who may perceive it as completely foreign and “abnormal”.

Value systems that influence development efforts are based on the following concepts: *Freedom*, *Responsibility*, *Activeness*, and *Trust*. These concepts are central and universal to any productive society in which successful free market principles exist alongside with a maximum respect for human rights. It is exactly this type of society that the still young Kyrgyz Republic is striving to build, a society in which human development represents one of the most important priorities.

It is especially important to the long-term success of economic and political changes that those who design, implement and control development processes themselves accept these basic values. This refers to decision-makers involved at all levels of power: from deputies of the Jogorku Kenesh (national Parliament), to low-level civil servants. The type of values that these individuals choose to apply to themselves strongly influences the degree to which national value systems and ideologies proffered by the state are accepted by the general population.

The most important value required for the development of modern civilization is *freedom*. In productive societies personal freedom is strongly linked to *personal responsibility*. In traditional society these concepts are missing. This seriously hinders development of democratic institutions. In Kyrgyzstan, overall levels of education are quite high. For this reason it can not be viewed as a traditional society in its common understanding. Nevertheless, it is important to consider that many characteristics of traditional societies are present in the daily realities of modern Kyrgyzstan. These traditional features have a direct influence on the course of ongoing reforms.

German economic reformer, Ludwig Erhard, has observed that the launching of market mechanisms should help “remove from economies the chains” placed by the destructive influence of bureaucracy. Moreover, they should involve decisive steps towards a revival of moral principles among society based on an acknowledgement of every individual’s freedoms and responsibilities.

Another important value influencing the development process is *activeness* as expressed by the relative pro-active stance of individuals to their society.

Professionals believing in results-oriented action cannot be simple implementers of other people's intentions. For these people, to be efficient is more important than to be obedient. At the same time, if governance systems are based on the interactions of professionals, they must always function as a single unit. It is not possible for "the right hand not to know what the left hand is doing." In large bureaucracies, however, with strict hierarchies, it often becomes impossible to coordinate all development activities in an effective manner. In Kyrgyzstan, such situations are not rare, even at very high levels of governance.

The concept of *trust* is also very important to human development processes. In productive societies, trust is determined not by family ties, but by common moral and ethic understandings. Trust has enormous significance in terms of the effectiveness of political systems. This issue is of special significance during democratic elections. When a population loses its trust in existing powers, political activity and desires to participate in elections decline sharply. This means that the value of one of the most important methods for ensuring political accountability is greatly diminished.

The concept of trust plays an important role in the economic sector, as well. In Kyrgyzstan, new types of economic relations have emerged that can be characterized by their low levels of trust. This kind of relation results in inefficiency of the manufacturing sector, depreciates the value of labor and professionalism, and nearly excludes any opportunity for making money through honest means. This clearly undermines the basis for a healthy, developing society.

#### **LIVE VOICES**

*All of our bosses are convinced that their employees only want to get as much money as possible from them without doing any work. At the same time, all employees are certain that their bosses want to make them work as much as possible for little or no pay. Both groups are what you'd call normal people who like their work and care about results, but it is just not possible to work with them.*

Manager, 45 years old, Bishkek

Public and private sectors in countries where there is a lack of trust and restrictions of personal freedom and responsibility must operate under the pressures of numerous controlling mechanisms and regulatory procedures allegedly intended to prevent fraud. In reality, these very mechanisms and procedures strangle creativity, are subject to corruption, and perpetuate a system of bought and sold privileges. According to Professor Anders Aslund, Advisor to the President of the Kyrgyz Republic, for example, in 1999 some twenty-nine different inspecting and regulatory bodies were operating in the republic.<sup>41</sup>

The globalization process itself has been made possible due to the emergence of a system of common human values that provides a certain set of norms and rules for coexistence across all human communities.

<sup>41</sup> UNDP. Anders Aslund. 2000. "State and Public Governance in Transition", Bishkek.

Certainly, integration of the global economy leads to an integration of many cultural values and norms. At the same time, however, the globalization process itself is made possible in large part due to the existence of several “supra-national” norms and rules of coexistence across many different human communities.

*Global* norms can be applied only to *local* ethnic, cultural and family norms that become more and more personally defined as they reach the level of the individual. Bringing these two sides of the value system equation into balance in Kyrgyzstan should become the subject of targeted development activities. Such concerted efforts to reassess the values of society represents an essential condition for resolving internal problems and becoming a full-fledged member of the international community.

### ***From Pilot Projects to National Programs: Problems Identifying Real Development Needs***

The openness and commitment to development cooperation that characterizes the republic has helped stimulate the introduction of a great number of programs and projects aimed at various sector reforms. In 1999 more than 150 projects and programs of international organizations were being implemented throughout the country. Despite these considerable efforts and large amount of resources invested, however, no proportional impact has been achieved with respect to improved levels and quality of life for the general population. Both economic statistics and the human development indexes give evidence to this situation. Activities designed to introduce social, economic and political innovations throughout the republic are met consistently with certain difficulties.

In a majority of cases, the path from project initiation to full implementation follows a course of training. These programs are designed in general to provide business and management training to a full range of beneficiaries at various levels and sectors, from farmers to high-ranking officials.

Considering the large scope of these activities, it can be concluded that the effectiveness of many ongoing reforms in the country depends to a great extent on the success of this training. Successful training can result not only in new skills and abilities, but also in the emergence of a new system of priorities that directly influences the behavior of individuals and values of society.

Often, the transition from the pilot phase of a project to its national implementation encounters substantial difficulties.

Pilot projects for these national programs are based on a development strategy calling for active staff training. Clearly, this directly contributes to the assimilation of new value systems. Such training is limited in terms of the numbers of beneficiaries involved, but as a rule it is included in nearly all pilot projects. During subsequent nation-wide program implementation, however, focus usually is shifted away from this essential training component to the organization of non-training oriented technical activities. Not surprisingly, this stage of implementation typically runs into problems for many of the reasons discussed above. Most national programs address the necessary planning and organizational aspects of their development activities, but do

not take into consideration that their implementation requires a serious and sometimes total breakdown of basic traditional behavior stereotypes.

Through 1999 some dozen programs with National status were approved in the republic. Many of these have made serious accomplishments, many of which have been discussed in previous Chapters of this Report. Nevertheless, it is still not possible to identify a single development priority for which all program goals have been achieved or whose results have led directly to an improvement in the quality of life for the country's citizens.

Although areas addressed by these national programs vary greatly, the problems met during their implementation are rather similar. As a rule, detailed goals, objectives, and specific activities are included in program designs. These plans, however, do not consider the social or cultural conditions in which the program is to be implemented.

*Chapter 2* of this Report provided a discussion of the results achieved under the Araket National Poverty Alleviation Program. Despite certain specific achievements, however, poverty levels continue to grow. Resolving this problem remains one of the highest development priorities before the country.

As has been the case for other national programs, detailed activity plans prepared for Araket have not corresponded well to the specific conditions in which the program was supposed to operate. For example, an unvoiced assumption is that representatives of the poorest segments of the population are willing to be involved in the actions outlined in the program, most of which are related to the development of small businesses and self-employment. For this particular group of society, however, entrepreneurship is not a valued, attractive form of social behavior. Formation of such non-traditional values requires additional efforts not provided for in the program.

*Table 5.1* shows that despite efforts already made, the number of people employed in small and medium business is declining. On the one hand, this is the result of complicated economic conditions, not-well-thought-out tax policy, and other objective factors. On the other hand, psychological issues involved in these ongoing development processes are not in any way subject to monitoring or taken into consideration during program implementation.

**Table 5.1:** Small and Medium Enterprises in the Kyrgyz Republic, 1997-1999

	1997	1998	1999
Number of small enterprises	7500	7500	7993
Of which, number of employees (including contractors), thousands	59.6	47.4	46.3
Contribution to total GDP, %	9.0	8.0	6.8
Number of medium enterprises	1597	1068	1004
Of which, number of employees (including contractors), thousands	111.4	75.3	70.5
Contribution to total GDP, %	5.8	5.9	6.9

Source: *National Statistics Committee of KR.*

**LIVE VOICES**

*There are few farmers in our village, even though many people are unemployed. They want to work, but only the way they did before: come to work, be told what to do, do their work, and get paid. Farmers are well-off, everyone here envies them, but no one wants to work the way they do in the fields from sunrise to late at night.*

Aijan, 22 year old, Chui oblast

## **BOX 5.2**

### **WHAT IS THE “MIDDLE CLASS”?**

One of the priorities of the large Araket National Poverty Alleviation Program is the “development of a new middle class” that should “contribute to the social integration of society”. From the perspective of global trends encompassing all countries, the institution of a “middle class” is becoming a less and less easily definable socio-economic entity. Its existence hinges not only on an aligning of income levels, but also on a certain standard of consumption determined by a country’s industrial character of production and overall system of national consumption. At present, despite globalization of the consumption process, such a middle-class development scheme is not viable. In all countries, the trend is towards a diversification of both production and consumer markets. Representatives of existing middle classes are most often contract employees. As such, it is difficult to link the development of a middle class with increased entrepreneurship or micro- and SME development, whose creation is included as one of the goals of the Araket Program. For these reasons, “creation of a middle class” through the aligning of income levels and a reduction in the gap between rich and poor should not be considered one of the objectives of a national poverty alleviation program.

Another reason why national programs are not always fully accepted by the public involves the problem of program promotion. Experience gained from successful transitions to new economic conditions shows that reforms should be supported by corresponding information campaigns. This support should be based on well-considered ideologies and conceptions for conducting such public outreach and education activities through the mass media. This represents one of the major implementation mechanisms for any national program activity for which specific goals and objectives are defined.

Analysis of the most popular newspapers in the republic shows that the purpose and goals of national programs were presented infrequently in the press in 1999. The Araket Program was mentioned in seven publications, the Family Group Practices Program in eight publications, the Manas Health Program in three, and the Bilim Program for education reform in one. These numbers do not reflect the number of comprehensive articles dedicated to the programs, but to *all* references to the programs. Many other national programs were not mentioned even once during the entire course of the year.

Few existing national programs in the Kyrgyz Republic are supported with adequate information campaigns. Either information is completely lacking, or it is fragmentary and non-professional. A solution to this problem involves both a change in the perceptions of those in power to this aspect of program implementation, as well as a corresponding improvement and reorganization of actual information activities.

### ***The Need for Productive Dialogue***

Market and democratic reforms represent only the methods and mechanisms of true human development. The ultimate goal of reforms characterizing the development of modern civilizations lies in creation of a free society. The establishment of freedom as the cornerstone of all development values represents not only a goal, but also a prerequisite for other economic, political and social reforms. For Kyrgyzstan, with its potential for so many diverse life styles, creation of a free society also represents an issue of survival.

The major problem faced in achieving these conditions is the development of a system of social organizations and institutions under which high levels of societal integration can be combined with the opportunity for all citizens of the republic to pursue the life-styles and cultural traditions of their choice. For example, any individual who so wishes should be able to follow the ancient ways of their ancestors. Having made such a choice, however, these same individuals should then not be forced to lose access to the conveniences and services of modern society, nor be deprived the right of participating actively in political and civil life. This should hold true for any other life-style choice, as well, whether it involve private commercial entrepreneurship, public service, or academic and scientific studies.

History shows, however, that such a system cannot be planned. It appears spontaneously through the processes of interaction between both individuals and communities residing in a given area. Kyrgyzstan's rich traditions and openness to new experience can be used to develop such a scheme successfully if certain conditions are adhered to by both state and society.

This means ensuring the creation of an active, wide-spread and familiar system of communication throughout the country. Only through the constant, free interaction of various values and cultural norms is it possible for ongoing societal processes to be reflected clearly. This rational understanding of the changing nature of society is essential for the making of well-considered political decisions.

The process of exchanging views and ideas is most productive when based on real development activities. In recent years, efforts made by citizens of the republic to come together informally to resolve specific development problems in a participatory manner are becoming more and more visible. For example, efforts to improve local communities and landscapes, if not dictated in a top-down fashion, are often initiated by society itself.

When introducing various pilot projects for social development, the existing diversity of ethnic and cultural realities does not allow for a single, rigid national model for all regions to be formulated in advance. Given the unique conditions of Talas, for example, it may be possible to develop a more or less identical system of administrative units across the oblast. It would be unsound and impractical, however, to apply a similar, unified approach to the diverse development environments found, for example, in the Balikchi, Cholpon-Ata and Kaji-Say areas of the Issyk-Kul oblast.

One of the basic conditions for creation of productive social dialogue involves the development of various legal mechanisms ensuring the safety of all members of society. The existence of an effective judicial system represents one of the conditions

essential for open political processes. At the same time, such a system requires promotion and publicity. Transparent and popular judicial powers help to ensure basic human rights. By cultivating a culture based on individual rights and rule of law, and by forming corresponding socio-cultural institutions, society can be stabilized.

### ***Cultural Policy – A New Form of Interaction***

Creation of these conditions requires implementation of a new type of political interaction in the Kyrgyz Republic, namely a policy of cultural values. This interaction will serve to define better the primary goal and focus of all policies that, for reasons explained above, should involve the development of societal culture in the broadest sense of the word – the entire medley of emerging values and standards determining the quality of life both for society and the individual.

Modern civilizations have to a large degree turned this culture into the object of technical interaction. Global changes in the area of consumption over the last half of the twentieth century, for example, have led to a system in which the selling of products is linked closely to the development of marketing and advertising technologies. The development of mass media and information networks has played a major role in these processes. It has been through such mass marketing that the first examples of wide-spread cultural manipulations arose.

Cultural changes are now perceived both as part of political reality and as a factor of certain political interactions. Societies are more productive, however, when culture and its development becomes the overriding goal of all political activities. Within the framework of such a perception, economic growth and improvement of life quality represent not the pre-condition for cultural changes, but their result.

Any economic activity, of course, involves the interaction of people. This interaction depends in large part on individuals, their behavior and the rules by which they abide. Many great scholars, from Adam Smith to Frederik August von Hayek, have contributed to the discussion of this aspect of economic development. The dependency of economic processes on ethical norms is no longer doubted. In many cases, these values even are considered a determining factor for economic success.

Cultural policy can be implemented through ideological approaches involving various educational methodologies and methods of information interaction. At the same time, the goals of cultural policy can include structural adjustments in spheres of education and governance that influence the economic and political conditions of the country.

#### **BOX 5.3**

##### **EXAMPLES OF CULTURAL POLICY**

In European countries, breakthroughs in the area of light industry and expanded influence in the world market for outerwear were to great extent the result of “cultural” policies to increase enrollment at universities specializing in fashion design. In Italy, for example, a new professional designation was even created, that of “cultural technician”. In this way the conceptual orientations of what constituted the fashion design profession were changed. As a result, Italian firms have become more successful in promoting their wares designed for mass consumption. Through structural adjustments in educational approaches, it is possible to influence not only the economy, but also broader development issues.

A successful example of cultural policy in Kyrgyzstan can be found in the active licensing of law departments in the republic's universities. Such legal studies have become very popular among a new generation of students and active civil citizens. Concerns about the inability of the numerous graduates of these departments to find employment in their area of expertise are ungrounded. While it is true that many graduates will choose to pursue careers in other professions, the very existence of such a legally well-educated cadre of citizens creates an environment in which new forms of social activities and legal institutions can be created. In addition, the insurgence of young lawyers will increase competition in the market for legal services, particularly in the area of civil cases. Legal guarantees are being strengthened through an increase of advocacy and notary practices. Numerous judicial precedents are being created. These achievements are beginning to have a positive influence on the sustainable human development of the country.

All development stakeholders can participate in and benefit from cultural policy. These actors include not only the state and its many structures, but also representatives from the private commercial sector and civil society.

For example, Russian goods have become very popular in Kyrgyzstan, which is located well within the spheres of influence of Russian mass media (see *Chapter 3*). This represents the results of a successful cultural and political campaign waged by various business structures in Russia that is based on the slogan "Buy only domestic products!". Due to the weak corporate identity of local manufacturers and retailers, it has not yet been possible to conduct similar marketing campaigns for goods and products produced in Kyrgyzstan.

One of the most critical areas of cultural policy is preventive development (see *Chapter 3*). This refers to policies of conflict prevention in areas where interethnic relations are influenced radically by factors of a cultural nature and origin. Well-planned and constant measures should be taken not only to destroy dangerous prejudices and stereotypes. Even more important are efforts to promote the precedence of individuality over any other characteristics that are beyond an individual's direct control, whether they be race, sex, age, or social status.

The economic and political spheres of society are areas that should function sufficiently independent of the state, as they are best regulated by free market laws and objective rule of law, respectively. Both sectors, however, are dependent on the development of cultural systems and institutions. In this regard, the state can and should play a significant role. It is not enough, though, to rely simply on the vertical, mostly top-down processes of the state. To achieve social agreement, it is necessary for a variety of organizations and individuals to cooperate along horizontal processes.

Another important feature of cultural policy involves the promotion of competition. Active influence on the formulation of new cultural norms does not require strict ideological control. Rather, in a free system of information and communication, several different approaches should be allowed to compete, the most competent and professional of which will succeed on their own merit.

In modern conditions many traditional components of civil society undergo deep-rooted changes. This happens in part as a result of changes in the type of information technologies available for improved communication and interaction between people. Opportunities for productive social exchanges have increased dramatically over recent decades due in large degree to the spread of computer networks. Forecasts call for even greater opportunities in the near future. Through these new and expanding technologies, many social organizations, including political parties and professional associations, are able to operate beyond the borders of nation states to form new, pan-national groups of people joined by their common interests, values and preferences.

These changes can have a positive influence on the development of society as it becomes more open and dynamic. On the other hand, it is also quite plausible that significant development complications will arise. In principle, these processes of change cannot be controlled. To take into consideration all new resulting influences that can act on the public consciousness for better or for worse is not possible. In this case, the only legal and just option is to develop an active policy of cultural values supported by both the state and society. ***A stable system of positive cultural values represents the only guarantee for sustainable human development.***

This problem is particularly significant for Kyrgyzstan as it stands at the crossroads of several different cultural influences. Events taking place in Batken during the late summer of 1999 have forced people to think seriously about the dangers of an Islamization of the country. Simultaneously, many people are concerned by the rapid “westernization” of value systems and a disappearance of many traditional priorities important for the self-determination of the country. For these very reasons, the role of the state in the formation of cultural policy has become very important.

The formation of new values is associated closely with purposeful ideological activity. During the eight years of Kyrgyzstan’s independence, only one such large-scale attempt was made in this regard with the formation of the “Manas Principles”, which outline basic social rules of conduct and behavior based on traditional Kyrgyz values. Although an initial step in the right direction, clearly this level of activity is insufficient. When such principles are not supported by any creative approaches designed to arouse real emotional responses from society, they take on only a declarative nature. In addition, in a multi-ethnic environment such as Kyrgyzstan, a national ideology cannot be imposed rigidly from above while making reference to only one historical source of motivation. The Manas Testaments should continue to be supported, but only as one of many value orientations held by various ethnic cultures.

A simple formulation of national value priorities represents a necessary step, but more is needed to form a productive ideological foundation. In general, a system of values and norms becomes attractive and accepted by society through recognition and acknowledgement of its best representatives: national heroes, historical statesmen, and other outstanding national role-models. These examples should be clear, familiar, and psychologically close to the heart of the country’s citizens. They should also become the subject of films, teledocumentaries, plays, novels and poems.

Little if any of these types of activities are taking place, due in large part to the financial constraints associated with such projects. Nevertheless, these activities are essential. Many different actors could become partners of the state in these efforts,

including groups from the private commercial sector. A well-considered law on charitable activities and other forms of civil sponsorship could serve as the stimulus for a revival of cultural life in the republic.

Unfortunately, one of the consequences of the Soviet period of the country's development is a natural suspicion towards the very use of the word "ideology" and towards all activities ascribed by this concept. It is time, though, for a rehabilitation of the concept of ideology and its use. During this important historical stage in the development of the republic, it is not suggested that the state control the process of ideological formulations or issue its own strict interpretation of the "right" cultural values to be followed by society. Rather, the state has an opportunity and responsibility to assist in the coordination and stimulation of positive cultural processes, or at the least in efforts to combat certain destructive tendencies.

## CONCLUSIONS

The 2000 NHDR is the last Report of the second millenium. As such, its preparation has taken on a special mandate. In addition to presenting an analysis of recent development activities and trends, efforts have been made to offer a discussion of future development prospects, and to initiate a search for new development agendas.

*Globalization, human security, and preventive development* are the three main themes presented in the Report. Through an introduction of these themes, it has become possible to do more than provide a simple analysis of important events taking place in Kyrgyzstan in the year 1999. Several important issues have been raised. The country's future human development through the beginning of the new century depends on the meaning, interpretation, and attention given to these concepts.

The development of human potential can be characterized as a process of broadening human opportunities for growth. Certain positive aspects of *globalization* have increased the number and quality of these opportunities. At the same time, however, global processes have also led to a series of problems with which people never before were forced to deal. Differences between countries with respect to this very broadening of human capacity are growing rapidly.

Difficulties arising in traditional systems of state governance have also led to a considerable increase in the risk of both local and regional military conflict. This in turn has led to a new understanding of the meaning of *security*. The greatest priorities in efforts to address the issues encompassed by this concept clearly involve a focus on issues of *human security*. This refers to a complex set of living conditions under which threats to basic human existence are brought to a minimum and opportunities for human development are no longer restricted.

As a result of the need to take into consideration numerous factors associated with human security, the new demands and requirements of globalization, and the unpredictability of current political and economic processes, a new development approach has emerged known appropriately as *preventive development*. This approach offers a model for all activities related to the development of human potential. As such, preventive development can be viewed more as a new ideology used to determine which measures are the most useful and practical in any given situation from the perspective of both current and future development priorities.

No matter what the specific nature of themes to be presented in future NHDRs, they all will undoubtedly be tied closely with those aspects of human development that have been reflected in this year's Report. Kyrgyzstan already is beginning to develop its own positions on the processes of globalization and is changing its approaches to problems of security. These activities give shape to a unique understanding and formulation of preventive development policies. It is hoped that the ideas presented in these pages will lead to an ongoing open policy dialogue, and in so doing support combined efforts to ensure the country's sustainable human development.

## **ANNEXES**

- Annex 1: Kyrgyzstan in Statistics*
- Annex 2: Calculation of Human Development Indexes*
- Annex 3: Regional Profiles*
- Annex 4: The Economic Aspect of Development*

**ANNEX 1  
KYRGYZSTAN IN STATISTICS**

<b>General Information on Kyrgyzstan</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Area, thousands of km <sup>2</sup>	199.9	199.9	199.9	199.9	199.9	199.9	199.9
Population density, people per km <sup>2</sup>	23	23	23	23	23	24	24
Resident population at year end, millions of people <sup>1</sup>	4.5	4.5	4.6	4.7	4.7	4.8	4.9
Children and teenagers, %	37.9	38.0	38.0	38.0	38.0	38.0	37.4
People of retirement age, %	9.3	9.2	9.2	9.2	9.2	9.2	9.1
Rural population, %	64	64	65	65	65	65	65
Urban population, %	36	36	35	35	35	35	35
Men, %	49	49	49	49	49	49	49
Women, %	51	51	51	51	51	51	51
Kyrgyz, %	58.6	59.7	60.3	60.8	61.2	61.6	64.9
Russians, %	17.1	16.2	15.7	15.3	14.9	14.6	12.5
Uzbeks, %	13.8	14.1	14.2	14.3	14.4	14.4	13.8
Ukrainians, %	1.8	1.7	1.6	1.5	1.5	1.4	1.0
Tatars, %	1.3	1.2	1.2	1.2	1.1	1.1	0.9
Dungans, %	0.9	0.9	1.0	1.0	1.0	1.0	1.1
Uigurs, %	0.9	0.9	0.9	0.9	0.9	0.9	1.0
Turks, %	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Koreans, %	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Germans, %	0.8	0.6	0.5	0.4	0.3	0.3	0.4
Other nationalities, %	3.9	3.8	3.6	3.6	3.7	4.1	3.3
Infant mortality (per 1000 births)	31.9	29.1	28.1	25.9	28.2	26.2	22.7
Child mortality (number of deaths under age 5, per 1000 births)	44.6	41.9	41.3	36.4	42.1	40.7	35.6
Natural population growth (thousands of people)	82.3	73.0	80.4	73.4	67.5	69.6	71.2
Migration outflow (thousands of people)	-120.6	-51.1	-18.9	-11.7	-6.7	-5.5	-9.9
Able-bodied population as of the end of the year (millions of people)	2.4	2.4	2.4	2.5	2.5	2.5	2.6
Employed people (millions)	1.7	1.6	1.6	1.7	1.7	1.7	1.7
Registered unemployment level as of year end (%)	0.2	0.7	2.9	4.3	3.1	3.1	2.9
General unemployment level as of year end (%)	1.7	4.1	5.7	7.8	5.7	5.9	7.4

<sup>1</sup> Changes have been made in population figures over a period of several years have occurred as a result of retrospective calculations based on data from the First National Population Census in 1999. Relevant data in the following tables (figures per 100 and 1000 people) has been re-calculated according to these revised population figures.

<b>Human Development Index</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Life expectancy at birth in years	67.3	66.0	66.0	66.6	66.9	67.1	67.0
Adult literacy rate (%)	97	97.3	97.3	97.3	97.3	97.3	98.7
Combined enrolment ratio (% of population age 7-24)	66	62	63	64	66	69	69
Real GDP per capita (PPP, US \$)	2330	1890	1850	2101 <sup>1</sup>	2264 <sup>1</sup>	2299 <sup>1</sup>	2374
Life expectancy index	0.705	0.683	0.683	0.693	0.698	0.702	0.700
Education attainment	0.867	0.855	0.859	0.862	0.869	0.879	0.888
GDP index	0.526	0.490	0.487	0.508 <sup>2</sup>	0.521 <sup>2</sup>	0.523 <sup>2</sup>	0.529
Human development index	0.699	0.676	0.676	0.688	0.696	0.701	0.706

<sup>1</sup> Data changed according to final international comparisons for 1996.  
<sup>2</sup> Recalculated due to changes in per capita GDP by PPP.

<b>Profile of Human Development</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Life expectancy at birth in years	67.3	66.0	66.0	66.6	66.9	67.1	67.0
Maternal mortality rate per 100000 live births	45	43	44	32	63	34	42
Population per doctor	302	308	306	297	313	319	330
Scientists and technicians (per 1000 people)	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Enrolment ratio for all educational levels (% of population age 7-24)	61	61	60	65	71	71	69
Tertiary full time equivalent gross enrolment ratio, total	12	16	20	28	34	43	44
Women enrolment	62	52	51	51	51	51	50
Daily newspapers (copies per 100 people)	18	34	35	44	46	23	22
Televisions (per 100 people)	17	16	14	12	11	12	10
Real GDP per capita (PPP \$)	2330	1890	1850	2101 <sup>1</sup>	2264 <sup>1</sup>	2299 <sup>1</sup>	2374
GDP per capita (US \$)	850	610	690	580 <sup>2</sup>	480 <sup>2</sup>	350 <sup>2</sup>	300

<sup>1</sup> Data changed according to final international comparisons for 1996.  
<sup>2</sup> Changes in data related changes in calculation methods.

<b>Profile of Human Distress</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
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Poverty index (% of the population) <sup>1</sup>	45.4	...	57.3	43.5	42.9	54.9	55.3
Unemployment rate (%), total	0.2	0.7	2.9	4.3	3.1	3.1	2.9
Youth unemployment (age 16-29), (as a percentage of economically active population of the same age group)	0.2	0.9	3.3	5.0	3.1	3.1	2.8
Female wages (as % of male wages)	...	...	73	73	71	72	64
Average annual inflation rate (% of previous December)	1029.9	162.1	132.1	134.8	113.0	116.8	139.9
Years of life lost due to premature death	23	20	21	24	24	20	20
Injuries from road accidents (per 100000 people)	86	76	78	86	79	72	68
Reported cases of rape (per 100000 women aged between 15-59)	28	31	26	28	24	20	21
Emissions of sulfur and nitrogen (kg NO <sub>2</sub> and SO <sub>2</sub> per capita)	11.7	7.4	7.3	7.5	6.4	6.8	5.7

<sup>1</sup> Findings of World Bank research on poverty; for 1996 – spring 1996 research data; for 1997 – autumn 1996 research data. Changes in the indicators for 1996-1998 occurred due to recalculation of the poverty line, which included changes in the structure food expenditures. The need for these changes is related to the economic crisis of 1998. The crisis directly affected the consumption structure due to an increase in food expenditures and a corresponding decrease in other expenditures.

<b>Trends in Human Development</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Life expectancy at birth in years	67.3	66.0	66.0	66.6	66.9	67.1	67.0
Tertiary full-time equivalent gross enrolment ratio (%)	82	75	76	63	61	57	61
Real GDP per capita (PPP US \$)	2330	1890	1850	2101 <sup>1</sup>	2264 <sup>1</sup>	2299 <sup>1</sup>	2374
GDP per capita (US \$)	850	610	690	580 <sup>2</sup>	480 <sup>2</sup>	350 <sup>2</sup>	300
Total educational expenditure (as a % of GDP)	4.8	6.3	7.1	5.4	5.2	5.2	4.1
Total health expenditure (as a % of GDP)	3	3.9	4.3	3.4	3.5	3.2	2.6

<sup>1</sup> Data changed according to final international comparisons for 1996.  
<sup>2</sup> Changes in data related changes in calculation methods.

<b>Female-Male Gaps (women – men, %)</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Life expectancy	114	115	115	114	114	113	113
Population	103	103	103	103	103	103	103
Adult illiteracy <sup>1</sup>	...	271	...	...	...	...	271
Gross enrolment at all levels (%)	106	104	104	103	101	102	102
Secondary enrolment	103	89	102	93	97	99	99
Secondary graduates	102	112	108	102	101	124	104
Full-time university or equivalent enrolment	122	124	162	157	120	115	111

Natural and applied science enrolment	257	225	213	260	234	215	223
Labor force	103	96	96	87	87	87	85
Unemployment	230	155	146	138	141	148	126
Wages	...	...	73	73	71	72	64
<sup>1</sup> 1999 First National Population Census and 1994 Socio-Demographic Research data.							

<b>Status of Women</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Life expectancy at birth in years	71.7	70.7	70.4	71.0	71.4	71.2	71.1
Average age at first marriage	21	21	21	22	22	22	22
Maternal mortality rate (per 100000 live births)	45	43	44	32	63	34	42
Infant mortality rate (per 1000 births)	31.9	29.1	28.1	25.9	28.2	26.2	22.7
Child mortality rate (per 1000 births)	44.6	41.9	41.3	36.4	42.1	40.7	35.6
Secondary enrolment ratio (%)	63	70	71	72	71	72	69
Secondary graduates (as % of females of normal graduate age)	70	69	65	63	61	65	63
Tertiary full-time enrolment	55	55	66	63	55	60	53
Tertiary natural and applied science enrolment (as % of female tertiary)	31	23	25	32	22	28	26
Women in labor force (as % of the total labor force)	51	49	49	46	47	47	46
Administrators and managers (as % of women)	35	36	36	35	32	36	32
Parliament (% of seats occupied by women)	6	...	5	4	4	3	5

<b>Demographic Profile</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Total fertility rate	...	...	3.1	2.7	2.6	2.6	2.6
Fertility rate over time (as % of 1990)	89	85	90	81	76	76	70
Dependency rate (%)	70	70	70	70	70	70	70
Population over 65 years age and older (%)	5.3	5.4	5.5	5.5	5.6	5.6	5.5
Life expectancy at age 60 in years:							
Men	15.3	14.4	14.4	14.4	14.9	14.9	14.9
Women	19.5	18.6	18.7	18.6	19.1	18.5	18.5
Total population in millions (as of the end of the year)	4.5	4.6	4.6	4.7	4.8	4.8	4.9
Annual population growth rate (%)	-0.7	0.6	1.5	1.4	1.5	1.6	1.3

<b>Health Profile</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Years of life lost due to premature death	23	20	21	24	24	20	20
Deaths from widespread diseases (as a % of the total)	47	48	47	48	48	49	52
Deaths from malignant cancer (as a % of the total)	9	8	8	8	8	8	9
Cases of AIDS <sup>1</sup> (per 100000)	-	-	0.04	0.04	0.04	0.13	0.21
Alcohol consumption (liters per adult)	3.4	3.5	3.6	3.7	3.9	4.1	4.2
Tobacco consumption (kilograms per adult)	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Population per doctor	302	308	306	297	313	319	330
Health bills paid by public insurance (%)	26	10.5	7.9	5.4	6.1	5.4	5.5
Public expenditure on health (as of total public expenditure)	11.2	14.8	13.6	14.1	14.6	13.2	12.4
Total expenditure on health (as % of GDP)	3	3.9	4.3	3.4	3.5	3.2	2.6
<sup>1</sup> <i>Changes occurred in data due to inclusion of foreign citizens to numbers of ill people Previously only Kyrgyz citizens were included.</i>							

<b>Educational Profile</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Enrolment ratio for all levels (% age 7-24)	61	61	60	65	71	71	69
Full-time secondary graduates (%)	89	90	87	88	83	94	94
Full-time secondary technical graduates (as a % of the total upper-secondary)	31	35	38	33	34	31	26
Number of universities	18	22	32	39	43	41	39
Full-time tertiary enrolment (%)	65	75	75	63	61	57	61
Tertiary natural and applied science enrolment (as a % of total tertiary)	11	9	7	7	5	6	7
Expenditure on tertiary education (as a % of the total)	8.9	10.3	7.6	13.1	15	18.3	19.8
Public expenditure on tertiary students (million som)	20.4	77.8	87.5	166.7	238.4	248.9	268.6
Total expenditure on education (% of GDP)	4.8	6.3	7.1	5.4	5.2	5.2	4.1
Public expenditure on education (% of GDP)	4.2	6.1	6.6	5.2	4.9	4.9	3.9

<b>Human Capital Formation</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Total proportion of students at all educational levels (% age 7-24):							
Both sexes	66	62	63	64	66	69	69
Men	64	61	62	63	66	68	69

Women	68	63	64	65	66	70	70
Number of public organizations (excluding political)	500	552	661	821	1131	1551	2280
Scientists and technicians (per 1000 people)	0.9	0.8	0.8	0.8	0.8	0.7	0.7
R&D scientists and technicians (per 100000 people)	51	46	52	48	50	35	36
R&D expenditure (as % of GDP)	0.1	0.2	0.3	0.2	0.2	0.2	0.2
Secondary graduates (as a % of the population of normal graduate age)	50	49	45	45	58	59	61
Tertiary graduates (as a % of the population of normal graduate age)	13	11	10.4	13.4	10.9	16.7	18.6
Science, engineering and mathematics graduates (as a % of total graduates):							
Total	32	34	28	27	32	26	21
Men	20	20	13	15	18	14	26
Women	12	14	12	12	14	12	17

<b>Employment</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Labor force (as % of total population)	38	39	39	39	39	39	36
Percentage of the labor force in: <sup>1</sup>							
Agriculture	39	42	47	47	48	49	52
Industry	21	19	17	15	14	13	12
Services	40	39	36	38	38	38	36
Future labor force replacement ratio	191	191	191	191	191	191	191
Number of working hours per week (per person in manufacturing)	35	35	36	36	36	36	36
<sup>1</sup> <i>Changes in indicators occurred due to recalculation using the new methodology. Labor force includes all employed people who are paid or otherwise derive income from their labor activities, as well as unemployed.</i>							

<b>Unemployment</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Number of officially unemployed (thousands of people):							
Total	2.9	12.6	50.4	77.2	54.6	55.9	54.7
Men	0.9	4.9	20.5	32.5	22.7	22.6	24.1
Women	2.0	7.7	29.9	44.7	31.9	33.3	30.6

Youth	0.9	5.0	20.3	33.1	20.3	20.6	19.8
Males	0.3	1.7	8.9	15.0	12.1	8.3	8.5
Females	0.6	3.3	11.4	18.1	8.2	12.3	11.3
Official unemployment rate (%), total	0.2	0.7	2.9	4.3	3.1	3.1	2.9
Total unemployed, including those actively seeking employment (thousands of people)	29.4	70.6	100.0	140.0	103.0	106.4	136.8
Duration of official unemployment (as % of total):							
Up to 6 months	73	73	74	58	51	48	38
From 6 to 12 months	23	19	17	25	24	30	32
More than 12 months	4	8	9	17	25	22	30
Ratio of unemployment rate (as % of total unemployment):							
Males	30	39	41	42	41	40	44
Females	70	61	59	58	59	60	56

<b>Military Expenditure and Resource Use Imbalances</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Military expenditure (as % of GDP)	0.7	0.9	1.6	1.3	1.6	1.4	1.7
Military expenditure (as % of combined education and health expenditures)	10.6	9.2	14.8	16.1	19.3	18.6	26.8
Armed forces per 1000 people	...	...	...	...	...	...	...
per teacher	...	...	...	...	...	...	...
per doctor	...	...	...	...	...	...	...

<b>Natural Resources Balance Sheet</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Land area (thousands of km <sup>2</sup> )	199.9	199.9	199.9	199.9	199.9	199.9	199.9
Population density (people per km <sup>2</sup> )	23	23	23	23	23	24	24
Arable land and permanent cropland (as % of total land area)	7	7	7	7	7	7	7
Permanent grass lands (as % of total land area)	1	1	1	1	1	1	1
Forest and wooded land (as % of total land area)	7	7	7	7	7	8	8
Irrigated land (as % of total arable area)	65	64	64	65	65	66	66
Internal renewable water resources per capita (1000 m <sup>3</sup> per annum)	2.7	2.6	2.7	2.4	2.5	2.5	2.5

Annual fresh water withdrawals (as % of water resources)	95	94	95	87	77	70	61
per capita (m <sup>3</sup> )	2546	2425	2426	2070	1826	1744	1482
Number of reserves and natural parks	5	7	7	8	11	11	11

<b>National Income Accounts</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Agricultural production (as % of GDP)	39	38.3	40.6	46.2	41.1	35.9	38.2
Industrial production (as % of GDP)	25.1	20.5	12.0	11.1	16.5	16.3	18.3
Services (as % of GDP)	25.8	31.5	34.0	30.1	30.3	34.7	32.2
Consumption:							
Private (as % of GDP)	75.7	78.4	75.0	82.1	68.9	88.3	88.9
Public (as % of GDP)	20.3	18.9	19.5	18.5	17.3	17.8	18.1
Gross domestic investment (as % of GDP)	11.6	9.0	18.4	25.2	21.7	15.5	12.4
Gross domestic savings (as % of GDP)	12.5	6.7	9.3	3.4	14.3	-8.2	...
Tax revenue (as % of GDP)	14.9	14.7	15.1	12.6	12.5	14.2	12.4
Central government expenditure (as % of GDP)	22.9	23.4	28.6	22.2	21.8	21.4	18.7
Export (as % of GDP)	33.5	33.8	29.5	30.7	38.3	35.2	41.8
Import (as % of GDP)	41.1	40.1	42.4	56.5	46.2	62.1	62.3

<b>Trends in Economic Development</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Consumer price index (December, % of previous December)	1029.9	162.1	132.1	134.8	113.0	116.8	139.9
Tax revenue, (% of GDP)	14.9	14.7	15.1	12.6	12.5	14.2	12.4
Direct taxes as % of total taxes	61.3	57.3	50	45.1	43.2	41.7	37.9
Overall budget surplus / deficit (% of GDP)	-7.1	-7.7	-11.5	-5.4	-5.2	-3.0	-2.5
Broad money (M2), <sup>1</sup> million Soms as of the end of the year	706.4	1545.1	2754	3340.8	4188.2	4910.0	6574.5
Banking interest rate <sup>2</sup>	260.5	89.1	46	45.9	23.5	32.9	55.1
Trade balance, million US \$	-87.6	23.1	-113.4	-332.3	-105.5	-327.9	-145.9
State securities issued, million Soms	33.6	271.9	200.7	366	733.5	888.5	351.1 <sup>3</sup>

<sup>1</sup> The Broad money (M2).

<sup>2</sup> Discount rate of the National Bank of the KR.

<sup>3</sup> Decrease related to absence in 1999 of auctions for 12-month state treasury bonds and decrease in number of 6-month state treasury bonds.

<b>Weakening Social Structure</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Convicted people (per 100000, age 14 and older) <sup>1</sup>	500	478	580	569	627	571	535
Convicted juveniles (as % of total prisoners)	8	6	7	6	6	6	5
Premeditated murders (per 100000 persons)	13	14	12	11	8	7	7
Suicides (per 100000 people) both sexes	12	13	13	10	11	11	12
Men (per 100000 people)	20	22	21	17	18	18	9
Women (per 100000 people)	5	4	6	4	4	4	4
Reported cases of rape (per 100000 women aged between 15-59)	28	31	26	28	24	20	21
Total number of crimes	42495	41155	41008	39623	37262	34287	39951
Drug-related crimes	2145	2544	2623	2922	3103	3295	3459
Economy-related crimes	2899	2324	2647	3207	3447	3412	3457
Crime detection rate	53	60.2	61.1	69.8	76.3	81.4	81.3
Number of emigrants	143619	71197	37302	27584	19538	15671	17818
Registered refugees as of the end of the year	...	6360	13311	16707	15276	14560	10849
Asylum applications received:	...	6360	7617	4813	3108	1290	664
Of which asylum granted	...	...	...	3668	1013	704	372
Number of refugees removed during the year	...	...	...	272	2444	1420	4083
Divorces (% of marriages contracted)	20	21	22	25	25	24	24
Illegitimate births (%)	17	17	19	21	24	27	29
<sup>1</sup> Changes in data related to recalculation of numbers of sentenced out of population 14 and older (rather than out of all age groups as previously calculated). Recalculations related to changes in the Main Code of the KR.							

<b>Wealth, Poverty and Social Investment</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Real GDP per capita (PPP US \$)	2330	1890	1850	2101 <sup>1</sup>	2264 <sup>1</sup>	2299 <sup>1</sup>	2374
GDP per capita (US \$)	850	610	690	580 <sup>2</sup>	480 <sup>2</sup>	350 <sup>2</sup>	300
Share of industrial GDP (%)	25.1	20.5	12	11.1	16.5	16.3	18.3
Income share <sup>3</sup> : ration of highest 20% to lowest 20%	5.8	6.2	7.2	8.0	8.3	9.9	10.3
Social securities benefits expenditure (as % of GDP)	0.6	0.1	0.1	0.1	0.1	0.1	0.1
Total education expenditures (as % of GDP)	4.8	6.3	7.1	5.4	5.2	5.2	4.1
Total health expenditure (as % of GDP)	3	3.9	4.3	3.4	3.5	3.2	2.6
Average income per capita (som)	48.3	143.4	192.82	248.01	338.5	354.2	391.4
Income in 20% of the poorest households (som per capita in the group)	16.74	44.46	69.91	74.06	91.1	96.1	132.6

Food expenditure (% of the total household expenditure)	53.9	49.3	49.9	49.2	48.3	44.8	44.6
<sup>1</sup> <i>Data changed according to final international comparisons for 1996.</i>							
<sup>2</sup> <i>Changes in data related changes in calculation methods.</i>							
<sup>3</sup> <i>Data for 1994, 1998 changed as a result of clarifications.</i>							

<b>Communication Profile</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Alleviation of Internal and External Isolation</b>							
Radios (per 100 people)	16	15	13	12	11	12	10
Televisions (per 100 people)	17	16	14	12	11	12	10
Annual cinema attendance (per person)	1.1	0.3	0.1	0.1	0.1	0.1	0.1
Annual museum attendance (per person)	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Registered library users (%)	0.3	0.3	0.4	0.3	0.2	0.2	0.2
Daily newspapers (copies per 100 people)	18	34	35	44	46	23	22
Number of books published (per 100000 people)	9	7	9	7	6	9	9
Printing and writing paper consumed (metric tons per 100 people) <sup>1</sup>	19	5	5	5	5	...	...
Letters posted (per capita)	3	2	1	1	1	1	1
International telephone calls (number of calls per capita)	7	7	6	7	8	8	9
Telephones (per 100 people)	8	8	8	8	8	8	8
Motor vehicles (per 100 people)	4	3	4	4	4	4	4
<sup>1</sup> <i>1994-1997: only the Akyl JSC data.</i>							

<b>Energy Consumption</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Commercial energy consumption: total (billion kg of oil equivalent)	3.9	4.1	3.1	3.9	3.5	3.4	3.5
per capita (kg of oil equivalent)	858.5	896.7	673.4	827.4	734.5	713.3	715.7
Commercial energy efficiency (energy consumption in kg of oil equivalent per US \$100 GDP)	236.6	367	207.2	213.9	196.3	209.4	288.3
Annual changes in commercial energy consumption (%)	-24.1	3.5	-24.9	24.7	-10	-1.4	1.8

<b>Urbanization</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Population in the biggest cities – Bishkek and Osh (as % of urban)	53	54	55	56	57	58	58
Population in the cities of more than 1 million (as % of urban)	-	-	-	-	-	-	-
Major cities with the highest population density (Bishkek):							

Population density per km <sup>2</sup>	5350	5420	5560	5720	5880	6090	6130
Urban population (as % of total)	38	36	36	36	36	35	35
Urban population annual growth (%)	-3.8	-0.6	0.8	0.9	1.0	1.5	0.8

<b>Environment Pollution and Protection</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Emissions of sulfur and nitrogen (thousands of metric tons of SO <sub>2</sub> and NO <sub>2</sub> )	52	33	33	35	30	32	28
Emissions of sulfur and nitrogen (kg of sulfur and nitrogen dioxides per capita)	11.7	7.4	7.3	7.5	6.4	6.8	5.7
Pesticide consumption (metric tons per 1000 people)	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Nuclear waste	...	...	...	...	...	...	...
Annual hazardous and special waste resulting from production (metric tons per km <sup>2</sup> )	1.8	1.0	2.4	3.1	31.4 <sup>1</sup>	29.6 <sup>1</sup>	30.4 <sup>1</sup>
Urban waste (kg per capita)	278	250	201	237	195	...	...
Waste recycling (as % of consumption):							
Paper and cardboard	...	0.3	0.3	0.27	...	...	...
Glass	...	0.06	0.06	0.063	...	...	...

<sup>1</sup> *A significant increase in the data occurred due to the start of Kumtor gold mining company's commercial operation.*

## ANNEX 2 CALCULATION OF HUMAN DEVELOPMENT INDEXES

### Calculation of HDI of the Kyrgyz Republic for 1999

The Human Development Index is meant to reflect the level of potential human development of a country from the point of view of three basic indicators: longevity, reflecting the overall health of the population, level of education, and standard of living. Longevity is measured by life expectancy at birth. Level of education is determined by a composite index measuring adult literacy<sup>42</sup> and the percentage of total children and young adults enrolled in the educational system.<sup>43</sup> Living standard is based on real per capita GDP in US dollars, adjusted to domestic prices (purchasing power parity – PPP). For each of these indexes a minimum and maximum level is established, based on which the relative level of a country's development can be calculated for each index falling somewhere between the minimum and maximum. The formula for HDI, not including the per capita GDP index, is as follows:

$$\text{Index} = \frac{(\text{Real value} - \text{minimum value})}{(\text{Maximum value} - \text{minimum value})}$$

Up until 1999, the per capita GDP Index was calculated using the above formula with the difference that per capita GDP values exceeding the average world value, including the maximum value of 40000 USD, were discounted according to the Atkinson income utility formula. Since 1999, as recommended by UNDP experts at a special work session dedicated to the calculation of human development indexes, a formula based on the difference of natural logarithms is used:

$$\text{Index} = \frac{(\ln(\text{real value}) - \ln(\text{minimum value}))}{(\ln(\text{maximum value}) - \ln(\text{minimum value}))}$$

Previously, having a per capita income lower than the world average effected overall HDI values through a linear relationship. Now, as a result of the change in calculation, per capita income values carry a corresponding exponential relationship to overall HDI values. As such, the per capita GDP index increases in the poorest countries. According to 1999 data, the per capita GDP index for the Kyrgyz Republic calculated using the new methodology is 1.44 times higher than the GDP per capita index calculated using the old methodology.

The Education Attainment Index is calculated based on the average adult literacy index and gross enrolment (combined share of those studying) with a weight of 2 and 1, respectively. HDI is calculated as the average index of life expectancy, education levels and real per capita GDP. The initial data and interim index for calculation of the HDI for the Kyrgyz Republic are listed in the following *Table*.

	1999 <sup>44</sup>	Minimum	Maximum	Index
Life expectancy at birth ( <i>years</i> )	67.0	25	85	0.700
Per capita GDP ( <i>PPP US \$</i> )	2374	100	40000	0.529
Adult literacy (%)	98.7	0	100	0.987
Gross enrolment (%)	69.0	0	100	0.690

<sup>42</sup> People aged 15 years and older.

<sup>43</sup> People between the ages of 7-24.

<sup>44</sup> Data for 1999 is preliminary or estimated.

Education attainment				<b>0.888</b>
<b>Human Development Index</b>				<b>0.706</b>

Thus, the preliminary HDI value for the Kyrgyz Republic in 1999 is 0.706.

### Calculation of GDI of the Kyrgyz Republic for 1999

In calculating the Gender Development Index, the same data is used as for calculating the HDI. The only difference is that in determining GDI, average values for longevity, education and per capita income indexes are adjusted in accordance with the difference for these indicators between men and women. The formula used to derive this value is:  $(\sum w_i x_i^{(1-\varepsilon)})^{(1-\varepsilon)}$ , in which the weight parameter  $\varepsilon = 2$ , i.e. the average indicator for men and women adjusted according to the corresponding ratio of men and women in the general population.

This formula follows:

$$\left\{ \left[ \text{Share of the female population} \times (\text{index for women})^{-1} \right] + \left[ \text{Share of the male population} \times (\text{index for men})^{-1} \right] \right\}^{-1}$$

As a result, index values are calculated taking into account uniform distribution by gender. Minimum and maximum adjustment values for men and women of (22.5; 27.5) and (82.5; 87.5), respectively, are used to calculate the life expectancy index by gender.

The calculation of the income index requires a number of additional operations. Proportional shares of male and female income are obtained using data on the average income of women and men and their relative share in the economically active population.<sup>45</sup> The products of the respective proportional income shares and per capita GDP are the values of total female and male GDP. Gender indices of GDP per capita are computed in the same way as in the HDI calculation. The value final GDI is an equally-weighted average of the three obtained sub-indices.

Initial data for calculating GDI, the values of primary GDI components, and final GDI values for 1996-1999 are provided in the following *Table*.

	1996	1997	1998	1999 <sup>46</sup>
Adjusted real GDP per capita, USD	2101	2264	2299	2374
Percentage share of total population				
Males	49.3	49.3	49.4	49.4
Females	50.7	50.7	50.6	50.6
Life expectancy (years)				
Males	62.3	62.6	63.1	63.1
Females	71.0	71.4	71.2	71.1
Adult literacy rate, %				
Males	98.6	98.6	98.6	99.3
Females	96.2	96.2	96.2	98.1
Combined primary, secondary and tertiary gross enrolment ration, 7-24 years, %				
Males	63	66	68	69
Females	65	66	70	70

<sup>45</sup> A more thorough description of this calculation is provided in the Kyrgyzstan National Human Development Report for 1998.

<sup>46</sup> Data for 1999 is preliminary or estimated.

Percentage share of the economically active population				
Males	53.6	53.4	53.4	54.1
Females	46.4	46.6	46.6	45.9
Ration of female average wage to male wage	73	71	72	64
Equally distributed life expectancy index	0.693	0.699	0.702	0.701
Equally distributed educational attainment index	0.863	0.869	0.879	0.890
Equally distributed per capita GDP index	0.498	0.510	0.513	0.512
<b>GDI</b>	<b>0.685</b>	<b>0.693</b>	<b>0.698</b>	<b>0.701</b>

### Calculation of GEM of the Kyrgyz Republic for 1999

The Gender Empowerment Index is calculated by using a variety of sub-indicators involving opportunities of women in political, administrative, professional and economic life.

The first two indicators reflect the percentage of men and women in administrative and managerial positions and in positions of specialized and technical staff. The third indicator represents the share of men and women working as deputies in legislative bodies at the national and regional levels. To determine the value for each of these first three sub-indicators, the GEM formula is applied, according to which the "equally distributed equivalent percentage" (EDEP) is derived for both genders together. The EDEP is divided in half. Then the average is calculated for the first two sub-indicators.

To determine relative economic potential of women, the income index is applied. It is calculated in the same way as is the GDI, except that the usual linear promotion index is used according to minimum and maximum values.

Lastly, the equally weighted average of the three sub-indexes, reflecting opportunities in administrative and professional, political, and economic sectors of society, are calculated.

The initial GEM data, values of main sub-indicators, and the final GEM values for the republic from 1996-1999 are provided in the following *Table*.

	1996	1997	1998	1999 <sup>47</sup>
Adjusted real GDP per capita, <i>PPP US \$</i>	2101	2264	2299	2374
Percentage share of total population				
Males	49.3	49.3	49.4	49.4
Females	50.7	50.7	50.6	50.6
Percentage share of legislative representation				
Males	89.9	89.9	89.9	88.7
Females	10.1	10.1	10.1	11.3
Percentage share of administrative and managerial positions				
Males	64.5	68.5	67.1	68.2
Females	35.5	31.5	32.9	31.8
Percentage share of professional and technical positions				
Males	55.7	56.0	58.3	58.0
Females	44.3	44.0	41.7	42.0
Percentage share of economically active population				
Males	53.6	53.4	53.4	54.1

<sup>47</sup> Data for 1999 is preliminary or estimated.

Females	46.4	46.6	46.6	45.9
Ratio of average female wage to male wage, %	73	71	72	64
<b>Parliamentary representation index</b>	<b>0.359</b>	<b>0.360</b>	<b>0.360</b>	<b>0.397</b>
Administrative and managerial representation index	0.912	0.859	0.879	0.864
Professional and technical representation index	0.985	0.984	0.971	0.973
<b>Combined administrative, managerial and professional, technical representation index</b>	<b>0.949</b>	<b>0.922</b>	<b>0.925</b>	<b>0.918</b>
<b>Equally distributed per capita GDP index</b>	<b>0.050</b>	<b>0.054</b>	<b>0.055</b>	<b>0.057</b>
<b>GEM</b>	<b>0.453</b>	<b>0.445</b>	<b>0.447</b>	<b>0.457</b>

### Calculation of HPI-1 for the Kyrgyz Republic

To calculate the poverty index of a population for a developing country (HPI-1), the quantitatively defined measurements of deprivation in three of the most important elements of human life are considered: longevity, education, and standard of living. The first indicator is based on basic survival rates and is represented by the percentage of people expected to die before they reach the age of forty ( $P_1$ ). The second indicator reflects the degree of isolation with regard to reading and communication abilities. It represents the percentage of adults who are illiterate ( $P_2$ ). Deprivation, from the point of view of standard of living, is reflected in the composite index ( $P_3$ ). This indicator is itself based on three other values: the percentage of the population without access to safe drinking water ( $P_{31}$ ); percentage of people without access to health services ( $P_{32}$ ); and percentage of fatally or severely malnourished children under the age of five ( $P_{33}$ ).

Aggregated ( $P_3$ ) is calculated as the average of these three sub-indicators. The HPI formula is written:

$$HPI-1 = [1/3(P_1^3 + P_2^3 + P_3^3)]^{1/3}$$

	1996	1997	1998	1999 <sup>48</sup>
$P_1$	9.6	10.2	9.6	9.6
$P_2$	2.7	2.7	2.7	1.3
$P_{31}$ <sup>49</sup>	18.7	17.4	18.3	14.1
$P_{32}$ <sup>50</sup>	11.8	8.3	15.9	14.4
$P_{33}$ <sup>51</sup>	9.3	5.7	8.9	7.3
$P_3$	13.3	10.5	14.4	11.9
<b>HPI-1</b>	<b>10.26</b>	<b>9.06</b>	<b>10.9</b>	<b>9.50</b>

Initial data and final value of HPI-1 in the Kyrgyz Republic for 1996-1999 are given in the *Table* above. Deprivation indicators in terms of standards of living are calculated on the basis of results of the Survey on Monitoring of Poverty in Kyrgyz Republic conducted by the National Statistic Committee.

<sup>48</sup> Data for 1999 is preliminary or estimated.

<sup>49</sup> Share of population using river, spring and canal water for drinking and cooking.

<sup>50</sup> Share of population not using full medical care due to its high cost or remoteness of medical care institutions.

<sup>51</sup> 1-6 year old children malnutrition rate, %.

## ANNEX 3 REGIONAL PROFILES<sup>52</sup>

<b>BISHKEK</b>				
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999<sup>53</sup></b>
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	7482	9872	11712	...
US\$ (PPP)	3662.6	3761.9	4231.4	4340.0
<b>SOCIAL INDICATORS<sup>54</sup></b>				
Life expectancy, years				
Men	61.1	60.0	63.4	63.5
Women	72.2	71.2	71.8	71.7
Percentage share of the economically active population				
Men	52.4	52.7	54.5	53.3
Women	47.6	47.3	47.9	46.7
Ratio of average female wage to male wage, %	67	56	73	70
Share of poor population (including extreme poverty), %				
Households	17.9	2.4	17.2	23.1
Population	20.2	3.5	20.9	27.2
Share of extremely poor population, %				
Households	4.4	0.2	4.7	4.7
Population	5.4	0.8	6.5	5.9
Share of population without access to safe drinking water, % <sup>55</sup>	...	...	...	...
Share of population without access to medical services, % <sup>56</sup>	4.8	2.2	6.5	5.7
1-6 years old children malnutrition rate, % <sup>57</sup>	14.1	13.6	9.3	14.5
Number of children not attending school, %	...	0.3	0.2	0.3
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.722	0.728	0.751	0.756
HPI-1	6.9	6.5	6.2	6.5
GDI	0.717	0.712	0.743	0.747
GEM	0.440	0.435	0.446	0.477

<sup>52</sup> Regional profiles provide the information on social and economic development in each region of the country.

<sup>53</sup> *Here and in further profiles*: data for 1999 is preliminary or estimated.

<sup>54</sup> *Here and in further profiles*: indicators of deprivation in terms of standards of living are calculated on the basis of the Survey on Monitoring of Poverty in the Kyrgyz Republic under the Social Safety Net project implemented by the National Statistic Committee with the support of the World Bank.

<sup>55</sup> *Here and in further profiles*: lack of access to safe drinking water means use of water from rivers, springs and canals for drinking and cooking.

<sup>56</sup> *Here and in further profiles*: lack of access to medical services means the lack of possibility to use full medical care due to high cost of services, as well as remoteness of medical care institutions.

<sup>57</sup> *Here and in further profiles*: malnourished children are children suffering from moderate or severe under-weight.

## CHUI OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	8122	9383	10033	...
US\$ (PPP)	3651	3927	3617	3776
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men	60.8	62.0	61.0	63.5
Women	71.8	72.2	71.8	71.7
Percentage share of the economically active population				
Men	54.5	54.8	54.5	54.8
Women	45.5	45.2	45.5	45.2
Ratio of average female wage to male wage, %	79	78	70	54
Share of poor population population (including extreme poverty), %				
Households	29.2	15.5	23.7	20.5
Population	32.3	21.3	31.1	26.8
Share of extremely poor population, %				
Households	10.8	2.7	5.5	8.0
Population	14.0	3.5	8.1	11.5
Share of population without access to safe drinking water, %	0.8	0.5	1.4	...
Share of population without access to medical services, %	7.3	18.4	29.9	22.3
1-6 years old children malnutrition rate, %	10.5	8.0	9.6	11.7
Number of children not attending school, %	...	1.7	1.0	0.6
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.710	0.718	0.714	0.721
HPI-1	7.2	7.9	10.4	9.2
GDI	0.707	0.717	0.711	0.712
GEM	0.551	0.550	0.545	0.578

## ISSYK-KUL OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	3947	8408	9432	...
US\$ (PPP)	1577	2734	3372	3517
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men	60.5	61.2	62.5	62.6
Women	70.0	69.9	70.5	70.5
Percentage share of the economically active population				
Men	55.9	54.5	54.5	55.9
Women	44.1	45.5	45.5	44.1
Ratio of average female wage to male wage, %	69	30	39	40
Share of poor population population (including extreme poverty), %				
Households	47.3	51.8	49.5	33.3
Population	53.7	57.5	58.1	43.5
Share of extremely poor population, %				
Households	20.2	20.4	11.8	10.6
Population	24.0	23.8	16.5	14.6
Share of population without access to safe drinking water, %	11.6	10.9	4.1	1.4
Share of population without access to medical services, %	8.0	7.0	6.1	6.7
1-6 years old children malnutrition rate, %	14.1	3.4	8.9	4.7
Number of children not attending school, %	...	1.2	0.8	0.7
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.665	0.702	0.722	0.730
HPI-1	9.6	8.2	7.0	6.5
GDI	0.662	0.676	0.702	0.709
GEM	0.428	0.397	0.391	0.451

## NARYN OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	4544	6579	6685	...
US\$ (PPP)	1890	2200	2131	2218
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men	63.8	64.0	65.5	65.4
Women	69.7	71.4	71.6	71.5
Percentage share of the economically active population				
Men	54.8	55.5	54.8	56.5
Women	45.2	44.5	45.2	43.5
Ratio of average female wage to male wage, %	71	78	74	68
Share of poor population population (including extreme poverty), %				
Households	53.0	84.3	76.3	44.7
Population	60.7	87.1	83.0	54.1
Share of extremely poor population, %				
Households	24.3	52.9	37.8	11.4
Population	29.0	58.6	42.6	15.0
Share of population without access to safe drinking water, %	22.8	20.3	29.9	16.9
Share of population without access to medical services, %	13.5	2.8	5.5	6.6
1-6 years old children malnutrition rate, %	4.9	5.0	6.4	8.0
Number of children not attending school, %	...	0.4	0.3	0.3
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.683	0.697	0.705	0.711
HPI-1	10.8	9.2	10.5	8.6
GDI	0.681	0.698	0.703	0.706
GEM	0.357	0.349	0.369	0.393

## TALAS OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	4797	6075	5811	...
US\$ (PPP)	1766	1794	1656	1718
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men	65.6	65.5	62.9	62.6
Women	72.6	68.7	70.7	70.6
Percentage share of the economically active population				
Men	51.0	51.1	50.8	55.5
Women	49.0	48.9	49.2	44.5
Ratio of average female wage to male wage, %	80	84	83	68
Share of poor population (including extreme poverty), %				
Households	47.4	47.1	73.0	69.1
Population	55.8	57.8	77.0	72.4
Share of extremely poor population, %				
Households	17.9	17.2	44.1	39.4
Population	22.4	23.0	48.8	41.7
Share of population without access to safe drinking water, %	18.7	17.5	14.2	12.4
Share of population without access to medical services, %	34.5	11.2	20.2	21.5
1-6 years old children malnutrition rate, %	1.8	1.7	2.4	2.2
Number of children not attending school, %	...	0.7	0.3	0.2
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.691	0.689	0.679	0.683
HPI-1	13.0	8.6	9.0	8.8
GDI	0.691	0.683	0.678	0.678
GEM	0.458	0.431	0.454	0.425

## JALAL-ABAD OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	3873	4810	5352	...
US\$ (PPP)	1470	1424	1380	1421
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men	65.2	65.1	65.8	65.7
Women	71.8	72.4	72.4	72.5
Percentage share of the economically active population				
Men	51.6	50.6	51.1	54.1
Women	48.4	49.4	48.9	45.9
Ratio of average female wage to male wage, %	66	59	64	55
Share of poor population (including extreme poverty), %				
Households	36.5	58.0	54.9	71.6
Population	43.8	65.4	65.2	77.4
Share of extremely poor population, %				
Households	15.7	25.0	22.8	24.7
Population	19.0	30.6	29.3	27.2
Share of population without access to safe drinking water, %	32.0	30.5	34.1	10.0
Share of population without access to medical services, %	1.3	9.6	21.7	27.0
1-6 years old children malnutrition rate, %	7.7	3.4	6.3	6.5
Number of children not attending school, %	...	0.7	0.3	0.3
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.677	0.678	0.680	0.684
HPI-1	10.3	11.0	14.7	10.7
GDI	0.674	0.674	0.678	0.677
GEM	0.381	0.363	0.359	0.391

## OSH OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	3283	3805	3958 <sup>58</sup>	...
US\$ (PPP)	1117	1088	997 <sup>58</sup>	1024
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men	64.0	64.5	63.9	63.8
Women	72.1	72.0	71.2	71.1
Percentage share of the economically active population				
Men	54.2	54.3	54.4	53.5
Women	45.8	45.7	45.6	46.5
Ratio of average female wage to male wage, %	73	73	72	65
Share of poor population (including extreme poverty), %				
Households	47.3	43.5	63.3	60.3
Population	51.6	51.5	70.1	67.7
Share of extremely poor population, %				
Households	22.4	7.5	25.2	25.5
Population	24.4	10.1	31.3	30.4
Share of population without access to safe drinking water, %	40.4	37.0	35.0	38.9
Share of population without access to medical services, %	8.4	6.7	3.8	4.7
1-6 years old children malnutrition rate, %	9.3	7.2	10.6	5.3
Number of children not attending school, %	...	0.1	0.1	0.1
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI	0.662	0.663	0.655	0.661
HPI-1	14.0	12.5	12.3	12.2
GDI	0.658	0.660	0.653	0.658
GEM	0.386	0.410	0.395	0.386

<sup>58</sup> Data for 1999 is preliminary or estimated excluding Batken oblast.

## BATKEN OBLAST

	1996	1997	1998	1999
<b>PRODUCTION PER CAPITA</b>				
Gross regional product				
Soms (current national rate)	...	...	4009 <sup>59</sup>	...
US\$ (PPP)	...	...	1010 <sup>59</sup>	1039
<b>SOCIAL INDICATORS</b>				
Life expectancy, years				
Men			64.4	64.3
Women			72.3	72.3
Percentage share of the economically active population				
Men			54.0	53.1
Women			46.0	46.9
Ratio of average female wage to male wage, %			69	64
<b>HUMAN DEVELOPMENT INDICATORS</b>				
HDI			0.666	0.667
HPI-1			...	...
GDI			0.662	0.664
GEM			0.354	0.364

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<sup>59</sup> Estimation.

## **ANNEX 4**

### **THE ECONOMIC ASPECT OF DEVELOPMENT**

The economic aspect of development has not been analyzed in great detail in the main text of this 2000 NHDR due to its limited size and format. It is hoped that a more detailed review of these issues will be included in the comprehensive long-term strategy through 2010 now being developed in Kyrgyzstan, the Comprehensive Development Framework.

Nevertheless, development of human potential is closely tied to efforts to create conditions in which poverty can be reduced. This idea has been stressed throughout the Report. It is important that strategies for economic growth are developed from this perspective. For these reasons, several basic comments on human-based economic development are provided below.

#### ***The Three Economies of Kyrgyzstan: An Equilibrium of Survival, But Not of Development***

The transition economy of the Kyrgyz Republic can be divided into three overlapping sub-systems operating with very different “rules of the game”.

- The first of these sub-systems includes all economic activity being conducted entirely within the framework of existing tax and administrative norms, representing mostly a harsh refuge for struggling industrial enterprises left over from the Soviet era.
- The second sub-system is characterized by “shadow market” activities that exist somewhere between the first and third sub-systems. They operate within the framework of established economic norms and regulations, but at the same time conduct a majority of their true income-making activities outside the formal economy. Its livelihood relies on compromised officials and the especially lucrative conditions artificially created for their “supervised” enterprises.
- The third sub-system is comprised of strongly competitive “black cash market” operations that work entirely outside the existing system of tax laws and economic regulations. Its activities have a detrimental effect on the first sub-system described above. It is supported in part by off-the-book transfers from the second type of shadow economy.

The existence of these three parallel economic worlds in many transition countries signals unequal growth conditions distorting the free operation of market mechanisms. A competition between free markets and so-called “organized” trade exists. These conditions can be illustrated through an example involving two stores and a bazaar. The first store is managed efficiently, but unable to create favorable relationships with fiscal and controlling bodies. Management of the second store is not entirely efficient, but enjoys good profits, only a portion of which are reported, due to its “useful” contacts. The bazaar is a world in which anything goes, extremely profitable for those who are able to navigate through its unregulated passages.

A majority of consumers choose to do their business at the bazaar, whose tax contributions are purely symbolic. The first two stores can stay in business only through providing their services and goods to a small group of well-off consumers. Bishkek is as an example of an environment in which such stores can survive.

In principle, this *status quo* is satisfactory for all parties. Consumers are satisfied with low prices. Thousands of small traders are happy to make ends meet. Officials are satisfied with their “rent payments”. This situation, in which all parties have found sustainable, although not necessarily ideal, market relations is, termed a Nash equilibrium. Such equilibrium is not always efficient. In the case described above, equilibrium takes the following form: “everyone else gives or takes bribes, so why shouldn’t I?”

The volume of the shadow economy estimated by the National Statistics Committee in terms of GDP continues to grow (see *Table 6.1*). Moreover, these estimates do not include income from purely illegal market activities, or hidden income from legally registered economic activities.

**Table 6.1:** Estimations of shadow economy inputs to GDP in the Kyrgyz Republic, 1996-1999

	1996	1997	1998	1999 (estimation)
Level of hidden, informal economy included in GDP (as a percentage of GDP)	9.4	10.3	11.9	12.3

Source: *National Statistics Committee of KR*.

According to some experts, the real size of the shadow economy in Kyrgyzstan is at least two times larger. The question arises as to whether the existence of such non-transparent systems can facilitate the development of tens of thousands of successful enterprises, whose activity is essential in efforts to make Kyrgyzstan a rich country.

This issue can be understood better through use of another example: shadow economy sewing workshops producing clothes for local and external markets:

- Disadvantages – no tax payments are made since there is no money in their operating budgets; large legal sewing factories enterprises cannot compete with their low prices.
- Advantages – workers survive, owners receive a stable income, and “cooperative” public officials’ symbolic salaries are provided with much-needed supplements.

All market participants are satisfied, with the exception of legal sewing enterprises. This represents a Nash equilibrium of survival, but not of development. Large legal enterprises represent a potential force for industrial development as full taxpayers, but they cannot compete effectively under such conditions.

Dishonest economies based on the principle of having the “right contacts”, rather than on fair and equal economic rules and laws, promote equilibrium characterized by their inefficiency, rent seeking, and distortion of creative market processes. Another negative consequence of “black cash market” activities is the impossibility of

developing proper and adequate relations with financial and credit institutions. Some prosperous enterprises requiring additional operating capital cannot receive credit. A standard review of their “official” books shows a near-bankrupt enterprise with practically no positive balance.

**BOX 6.1**

**LABOR RESOURCES IN KYRGYZSTAN**

According to data from the National Statistics Committee in 1999, the number of people involved in economic activity totaled 1,764,285. There were total labor resources of 2,613,676, with 136,800 unemployed. The economically active population totaled 1,901,085. Results of the First National Population Census show that for the population aged 15 and older, the main sources of livelihood are employment income – 55.1%, ad pensions and allowances – 14.6%. Nearly 25% percent of this population are dependent on other income earners.

According to official statistics, an increase in small and medium businesses has not lead to a corresponding increase in numbers of employed (see *Table 5.1*). In this context one can assume that: a) successful small business owners do not attract new workers, but rather improve their productivity through new technologies, or b) the true number of new small business employees is concealed through the shadow economy.

Such a deformed and unproductive equilibrium can only be changed through the creation of fair and equal conditions for all people involved in the economy.

An example of successful efforts to reform the economy can be found in primary agricultural activities. This sector has become the most dynamic in the national economy following introduction of a simple tax system. Agriculture by itself, however, cannot ensure the long-term development of the country. Its continued growth also depends to a great degree on the successful activities of other sectors.

To stimulate overall economic growth, the state must remove itself from those areas of activity that it cannot undertake properly. At the same time, it must improve the effectiveness with which it performs its remaining duties. Only when these conditions are in place, will the full realization of entrepreneurs’ potential be reached. In this way the national economy will gradually shift to a new equilibrium of fair and productive competition. This represents a necessary condition for improved quality of life.

Another factor affecting the development of private enterprises involves the stability and predictability of the conditions in which they operate. One of the tools that can be used to foster such stability is a system of interrelated strategic planning at every level of management. *An enterprise without a clear and efficient development strategy is not a business, but rather a set of assets burdened with obligations.* Through strategic planning it is possible to compensate for the current difficulties of the economy, its unpredictability and high-risks.

It is important that economic activities not be determined from the “top down”. Entrepreneurs must be given the opportunity to make their own independent strategic decisions best suited to the growth of their enterprises. In this way the strategies of different enterprises can be integrated naturally according to the most productive

market interactions across different regions. Existing Indicative Development Plans cannot serve as a basis for such a system. They do not offer a productive, integrated state policy for economic development. They lack clearly defined qualitative measures for the achievement of realistic, quantitative economic objectives.

Preparation and approval of the CDF as a declaration of long-term objectives and modernization directions, in this context, should have a positive influence on the investment climate. Some areas in which the CDF should be particularly useful as a framework for strategic economic planning follow.

- *Legislation and systems of power.* Stable “rules of the game”, providing a guarantee against deteriorating conditions, and a clear picture of long-term legal and institutional reforms applicable to all.
- *Financial infrastructure.* Development of securities market. Presently, this market is not used effectively for capital inflow and outflow. Current issues of corporate stocks are used for clarifying ownership relations, rather than for the attraction of additional financial resources. There is also an inadequacy in the existing system of commercial banks with respect to the investment requirements of the economy.
- *Corporate finance and taxation.* Achievement of transparency and accurate accounting systems for all enterprises. Development of a tax system that ensures fair competition and efficient state fiscal systems. Creation of a stable, transparent and efficient system for solving problems of enterprise debts, including debts to the public budget sector.
- *Investment policy.* Only through a clear understating of the investment market, its key elements and processes, can the government create an effective program for stimulation of investment activity. Four key players of the stock market can be identified: 1) enterprises that issue stocks, 2) individual investors, 3) institutional investors, and 4) professional stock market players. State investment policy should be directed to the development of activities and infrastructure required by each of these main stock market participants. There does not exist in the economy a more multi-faceted and artificial concept than the investment process. This is why it is so difficult to devise practical measures to develop this sphere of the economy.
- Obstacles to the development of market investment include not only a deficit of capital, but also an absence of investment proposals and basic environment receptive to private investors.

### ***The Problem of Enterprise Debts***

A typical problem for most transition economies involves the large debts that many enterprises face.

Enterprise debts to the national budget of the Kyrgyz Republic, excluding agricultural and small enterprise debts, totaled 450.8 million som over the first seven months of 2000. This is 3.7 times higher than state arrears in payment of pensions, allowances and salaries of public employees.

Accumulated debts represent a barrier for the improvement of market conditions and attraction of investors. At the same time, inefficient efforts towards debt servicing intensify budget problems.

In order to solve the creditor problems, the state can work to establish a transparent and open debt obligations market based on clearly established rules. This system of debt reassignments is a method used throughout the business world for many years. If a company, for example, has budget arrears that are six months overdue, it automatically falls under the effect of a normative act that forces it to issue bonds to be sold on an open debtor's market. Under this system, the state would receive revenues for the budget, as well as higher levels of tax collection. The sale of debt obligations at the market would stimulate economic reforms in manufacturing and provide incentive for the attraction of efficient, motivated business owners capable of reviving and developing their enterprises.

### ***Banks for Development or the Development of Banks?***

At present the banking system functions primarily as a settlement system and not as a catalyst of economic development. There is a need for efficient measures to stimulate the development of the banking sector.

Nearly all transition countries face the problem of restructuring their banking systems. In this regard, there are usually limited options: either the state finds resources to solve the problem itself, or the national banking system is sold to non-residents. Kyrgyzstan must develop a new strategy of banking system intervention through specific development programs in the near future.

Creation of a Kyrgyz Industrial Investment Bank (KIIB), which would channel investments into the real sector, is an idea very near to the hearts of bureaucrats: the more investments residing under their informal "coordination", the greater their power. At present, the KIIB is being established as a pool of credit lines managed by a foreign company, i.e. a more or less typical project structure reflecting to a large degree donor interests.

Alternative development schemes could also take shape. During the first stage of such an alternative approach, the state would develop new banking requirements, focusing on real sector lending through competitive processes and creation of a group of bank partners (in the same way that EBRD and World Bank are implementing their projects.) The state would then issue bonds for shares in the bank. If state bonds prove liquid, the bank would receive recapitalization identical to their hard currency value. Concurrently, bank partners would have the right to participate in all national economic development programs, including the Public Investment Program. The experience of a number of countries offers examples of such schemes, whereby commercial banks are thus temporarily nationalized and then privatized.

Proper institutional and legal environments need to be reformed in order to facilitate development of the banking system. One of the major problems of current restructuring process is the lack of a secondary market for banking debts. A great deal has been done to strengthen administrative and legal control over bank actions through license recall mechanisms, and introduction of interim administration

institutions. Bank liquidation procedures, however, including creation of large-scale competitive creditor and depositor settlements, are very time-consuming. Therefore, it would be reasonable to create specialized companies for the management of problematic bank assets.

### ***Development Financing and Social Insurance Reform***

To some extent problems of inadequately developed capital markets in Kyrgyzstan have features of a vicious circle. It would not be correct to say that the country has no stable operating enterprises with sound management and good prospects – real candidates for capital market financing. A legal base, public regulation bodies and professional players also exist to varying degrees. These market participants, however, do not come to the market because in practical terms the market does not exist. Private investors, in their turn, do not consider corporate shares as a serious object for investment. As such, a strange equilibrium has developed. There are no investors or any normal corporate investment tools. The population makes their savings in foreign currency or deposits in a weak banking system. For these reasons, enterprises do not have access to realistic, long-term banking capital.

In efforts to facilitate the development of capital markets, it is possible to use certain “top-down” state approaches. There are two options in this regard: wait for the natural development of this sector, or speed the process through carefully devised development strategies.

It is difficult to imagine a law that would motivate citizens to put what little savings they have into enterprise shares. Additional tools for such development policy should be linked to the support of specialized investment institutions. A majority of transition countries have followed the same approach, i.e., a gradual transition to the accumulative “Chile” system of social insurance. During the first stage of this approach a mixed model of direct transfer and accumulative systems is used. Payments to pensioners decrease within the framework of a direct transfer system, while a new long-term accumulative system is introduced, either through voluntary or mandatory participation, for new and current workers.

This approach provides opportunities to replenish both investment and insurance fund resources. There are several successful examples of this approach in which a large volume of corporate stocks have entered the domestic market. In Kyrgyzstan a long-term accumulative social insurance system based on real stock portfolio building does not yet exist. Mandatory insurance payments and other allowances are made through a simple, direct transfer of funds from taxpayers to beneficiaries through the state.

In principle, anyone in Kyrgyzstan can invest additional resources into pension funds, but no one is rushing to do this. This problem requires more attention. Existing demographic conditions now favor a fast transition from the transfer to accumulative system of social insurance. During such transitions the state must continue to take responsibility for those people who cannot participate in the new accumulative system. Currently in the republic people who were born during World War II, relatively lower numbers than were born before or after this period, are approaching retirement age. This means a temporary, gradual reduction in the demands on the state pension fund is taking place (see *Figure 6.1*). Moreover, the official retirement age is

being increased gradually. Gaps in the financing of current retirement obligations can be covered partially by expected income from privatization of the largest infrastructure enterprises. The current generation of retirees clearly have earned and deserve more than 5% of the fruits of their labor.

**Figure 6.1:** Population structure by age and gender of the Kyrgyz Republic, 1999