



# NATIONAL SERVICES POLICY REVIEW

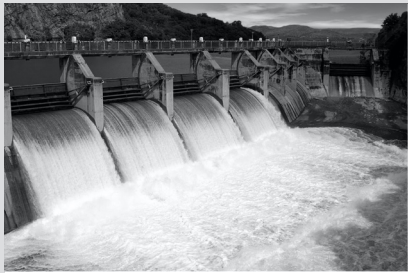


# KYRGYZSTAN





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## FOREWORD

The Accra Accord, adopted at UNCTAD XII in 2008, stated that “the services economy is the new frontier for the expansion of trade, productivity and competitiveness, and for the provision of essential services and universal access.” With a view to strengthening the capacity, efficiency and competitiveness of the services sectors of developing countries and countries with economies in transition, and to increasing their participation in global services production and trade, the Accra Accord calls upon UNCTAD to assist these countries in establishing regulatory and institutional frameworks and cooperative mechanisms, including by “providing support in national services assessment and policy reviews”. UNCTAD has developed its tailor-made national Services Policy Reviews in response to the Accra Accord.

The services sector in Kyrgyzstan has gradually assumed a greater role in the country’s economy. Services account for 51.1 per cent of GDP today, having grown from a level of 43.1 per cent in 2001. This compares with a 67 per cent share for services in world GDP, and a 57 per cent share for services – on average – in the GDP of transition economies. The Services Policy Review of Kyrgyzstan provides a strategic vision for the development of the services sector, and focuses on two future growth areas within the services sector, namely tourism and energy services.

During the course of preparing the Services Policy Review, a broad group of national stakeholders from government, industry, academia and civil society identified challenges and opportunities in the Kyrgyz services sector in general, and in the tourism and energy services sectors in particular. With the technical assistance of UNCTAD, the stakeholders examined a range of important issues key to the development of these sectors, including (a) national development objectives; (b) effectiveness and weaknesses in the current sectoral policy frameworks; (c) regulatory and institutional challenges inhibiting sectoral development; (d) prospective policy options to strengthen domestic supply capacity and the competitiveness of small and medium-sized enterprises (SMEs); and (e) potential impacts from services trade liberalization on FDI, SMEs, efficiency, employment, and universal access to basic services in these sectors, as well as access to foreign markets.

Recommendations for enhancing Kyrgyzstan’s tourism services sector that have emerged through the consultations with stakeholders include focusing tourism on the local or community level, in order to increase the contribution of tourism to poverty reduction; enhancing the income gained from trekking and mountaineering tourism; and introducing health and wellness tourism.

Recommendations for the energy services sector include improving the administration and management of energy companies, improving the performance of the energy sector by creating an independent regulatory body endowed with wide-ranging powers, and increasing the attractiveness of the sector to investment by improving the tariff policy.

I trust that this Review will serve as an important step towards the articulation of a comprehensive services development strategy in Kyrgyzstan, which will help the country to derive development benefits from services and trade in services.



Supachai Panitchpakdi  
Secretary-General of UNCTAD

## **ACKNOWLEDGEMENTS**

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Part I contains a report prepared by UNCTAD to support Kyrgyzstan’ NSPR entitled “Strategies for advancing development of the services sectors of the Kyrgyz Republic. It was prepared by a team led by Mina Mashayekhi, Head, Trade Negotiations and Commercial Diplomacy Branch. The main contributors were Deepali Fernandes, Alberto Gabriele and Robert Hamwey. The report draws on the ongoing substantive work of UNCTAD in the services sector.

Part II and III were prepared by a national team of experts including Ms. Jipara Aibasheva, Dr. Ularbek Mateev and Dr. Timor Burzhubaev. Ms. Aibasheva is a trade policy expert and former Adviser to the Plenipotentiary of Kyrgyzstan on Economic Problems. Dr .Mateev is President of Kyrgyzaltyn, a management consulting company, and former Vice Prime-Minister of Kyrgyzstan and former Director of the State Energy Agency of Kyrgyzstan. Mr. Burzhubaev is Chief Economist at Bearing Point Inc., a consulting firm, and former Chief of the Macroeconomic Forecasting Division of the Ministry of Finance of Kyrgyzstan. Inputs were also made by Ms. Anarkan Rahmanova, Head, Trade Policy Department, and Ministry of Economic Development who served as the national focal point for the NSPR, and Mr. Muktar Djumaliev, Permanent Representative of Kyrgyzstan to the United Nations in Geneva.

The views expressed herein are those of the authors and do not necessarily represent those of the Government of Kyrgyzstan or those of UNCTAD.

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**ABBREVIATIONS**

<b>ADB</b>	Asian Development Bank
<b>CIS</b>	Commonwealth of Independent States
<b>CCI</b>	Chamber of Commerce and Industry
<b>CDS</b>	Country Development Strategy
<b>CPC</b>	Central Product Classification
<b>EurAsEC</b>	Eurasian Economic Community
<b>FER</b>	Fuel-energy resources
<b>GATS</b>	General Agreement on Trade in Services
<b>GDP</b>	Gross Domestic Product
<b>HPPS</b>	Hydro-electric power station
<b>ISO</b>	International Organization for Standardization
<b>JSC</b>	Joint Stock Company
<b>MIEFR</b>	Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan
<b>MEDT</b>	Ministry of Economic Development and Trade of Kyrgyzstan
<b>MFN</b>	Most Favoured Nation
<b>NBKR</b>	National Bank of Kyrgyzstan
<b>NISM</b>	National Institute of Standards and Metrology
<b>QFD</b>	Quasi-fiscal deficit
<b>SCME</b>	State Committee on Migration and Employment
<b>SDRFEI</b>	State Department on Regulation of Fuel-Energy Industry under Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan
<b>WTO</b>	World Trade Organization

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# I

## **STRATEGIES FOR ADVANCING DEVELOPMENT OF THE SERVICES SECTORS OF KYRGYZSTAN**

*A Report by UNCTAD*

## A. BACKGROUND

A vast body of analytical and empirical research undertaken by UNCTAD clearly demonstrates that a thriving services sector is vital for all countries. High rates of investment and economic growth associated with services can contribute to poverty alleviation and human development when the right policies are in place to overcome supply constraints and ensure economy-wide development gains from services and services trade. For developing countries, new domestic services supply and services export opportunities therefore need to be supported and facilitated by national policies and multilateral agreements relating to services trade, with an emphasis on creating an enabling environment for small and medium-sized enterprises (SMEs), which account for the bulk of developing country firms in the services sectors.

The recent expansion of global trade in services has provided broad economic gains to a relatively small set of developing countries that have developed, over the past decade, modern economies orientated toward high-value-added services. By virtue of an early mover advantage, these countries are now well positioned to benefit from growth in the key services sectors they have developed, as distant service providers in global outsourcing markets, and as emerging services hubs in regional markets. Examples are the outward oriented service economies of India, Hong Kong (China), Singapore and the United Arab Emirates. Other countries just steps behind these leaders include Mauritius, Jordan, Tunisia and Cost Rica. Among the key growth sectors are tourism, information technology-enabled services, business process outsourcing, transport and logistics services, financial services and multimedia services.

Empirical evidence indicates that national governments, in consultation and coordination with the private sector and civil society, have played a formative role in the development of service economies in both developed and developing countries. This has been achieved directly, through the development of human, capital and institutional infrastructure, and the design and implementation of supportive policy frameworks and financial incentives. It has also been achieved indirectly, by demonstrating the political will needed to drive the development of services sectors, a record of macroeconomic and political stability, good governance, transparency and rule of law. All of these factors are essential to create the environment needed to attract and sustain investment in the services sectors. However, while all are necessary for the development of a vibrant export-oriented services economy, they are certainly not sufficient; liberalized markets and high levels of foreign demand for services remain *prima facie* requirements.

Given the enabling and driving role that government plays in the development of service economies, it is useful for policymakers to devise national services export strategies. Moreover, to ensure buy-in and support, as well as to generate desirable spill-in and spill over effects among related economic sectors, strategy development should take place through participative consultations at the national level with all key actors, including parastatal institutions, potential foreign and domestic investors, the private sector, labour groups and academia. The inclusion of the latter two stakeholder groups is particularly relevant for the development of service strategies given the need to ensure adequate labour transformations and enhanced levels of human capacity needed to support growth of the services workforce.

Kyrgyzstan currently seeks to enhance national experience in developing national services export strategies through multi-stakeholder consultations, and to subsequently own and drive these strategies with necessary government actions. The exercise at hand thus aims to survey some of the achievements Kyrgyzstan has already made in developing the tourism services sectors and to examine what remains to be done to further enhance its development. This may include regulatory, institutional and trade policy reform and the identification of other service sectors that may be the best candidates for future development, with particular attention given to the information technology and computing (ITC)-related and education service sectors.

## B. ECONOMIC PANORAMA

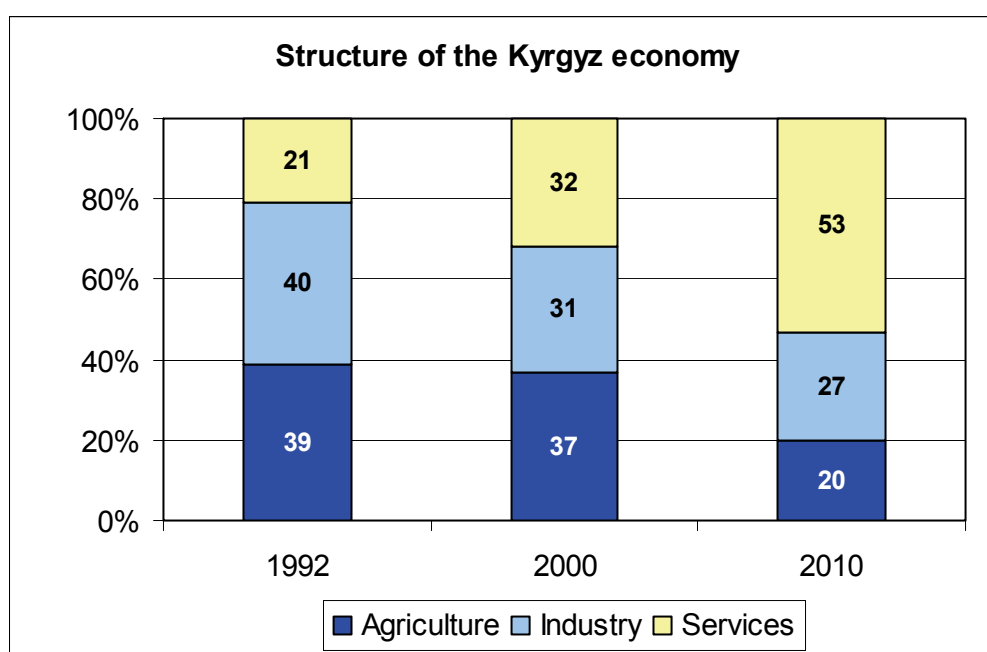
Kyrgyzstan, a landlocked country, has a continental, high mountain climate. Winters are cold and summers are generally warm. The country is split by several high mountain ranges, which has meant that links between the north and the south of the country have been tenuous. Of the 5.4 million population at the end of 2011, two thirds lived in rural areas.

To a large extent, Kyrgyzstan remains an agricultural economy. Although its percentage share of gross domestic product (GDP) has declined since the mid-1990s, agriculture remains an important component of GDP, accounting for a fifth of gross value added in 2010. Much of the country consists of high-altitude steppe that is used mainly for grazing. Grain production is concentrated in the lower valleys. Subsistence

agriculture is common. Agriculture remains heavily subsidized. The fact that agriculture also continues to be a major economic sector increases the economy's vulnerability. However, as shown in figure I.1, dependence on agriculture has lessened since the mid-1990s, with the dramatic growth of the services sector from only 21 per cent of GDP in 1992 to 53 per cent in 2010. Figure I.2 shows the sectoral contribution to GDP in Kyrgyzstan. The dominance of services' contribution to GDP is clearly discernible.

Much of the structural shift in the economy was influenced by reforms introduced in the early 1990s to support Kyrgyzstan's transition to a market economy. These reforms included trade liberalization with Kyrgyzstan's accession to the World Trade Organization (WTO) and adoption of a convertible currency in 1993. After initial economic instability caused by reforms, in 1996 macroeconomic stability was restored and growth recovered, leading to a period of economic stability that persisted until political uncertainties in 2005 caused further perturbations to the economy, which were short lived.

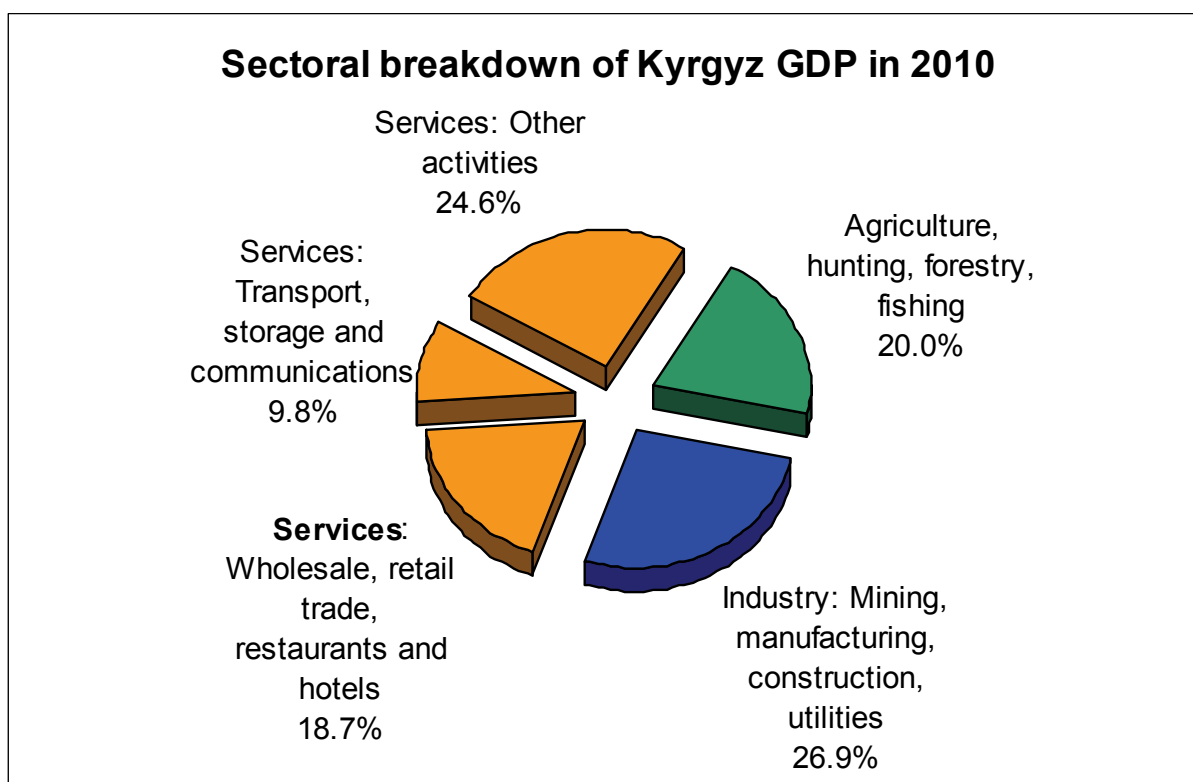
**Figure I.1. Structure of the Kyrgyz Economy in 1992, 2000 and 2010**



Source: UNCTADStat.

The post-independence decline of the manufacturing sector has resulted in a sharp fall in the industrial sector's share of GDP in recent years: by 2010 mining, manufacturing and utilities contributed only 21 per cent of gross value added, down from close to 31 per cent at the start of the decade. Gold output has become a mainstay of the Kyrgyz economy since the start of production at the Kumtor mine in the Tien Shan Mountains – one of the largest gold deposits in the world. In 2005 the gold sector accounted for around 40 per cent of total industrial production. Gold mining remains the main contributor to industrial output. Manufacturing is concentrated mainly in Bishkek and the Chui region, with pockets in the few other urban areas, notably Osh. Gold and antimony mines are located in remote mountain areas.

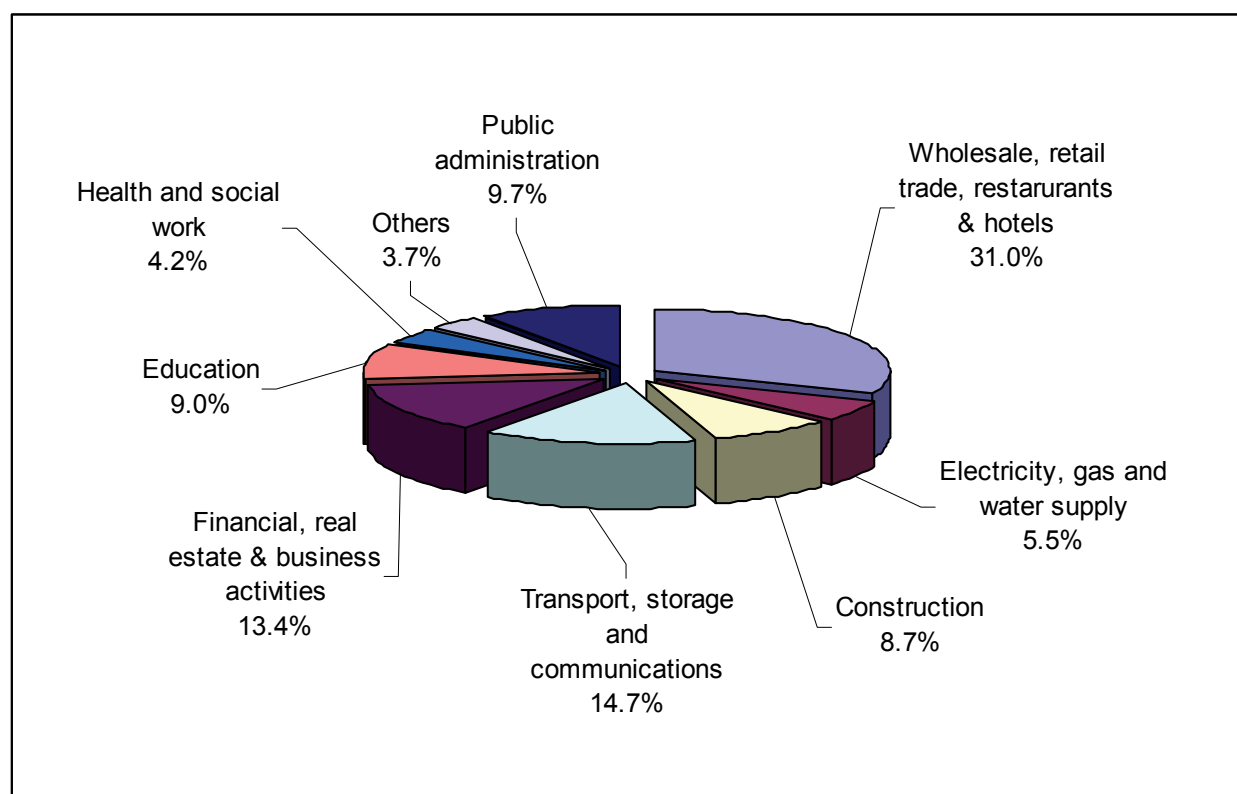
Figure I.2. Sectoral Composition of Kyrgyzstan's GDP in 2010



Source: UNCTADStat.

Services have overtaken agriculture as the main contributor to the Kyrgyz economy, accounting for 53 per cent of GDP in 2010, compared with 32 per cent in 2000. At an average growth rate of over 8.1 per cent from 2000 to 2010, it was the fastest-expanding sector in the Kyrgyz economy. Much of the sector's contribution comes from retail trade and restaurants and hotels, which is mostly made up of small private enterprises. In particular, the Government's policy of economic liberalization has created a myriad of family-run enterprises concentrated almost entirely in the retail trade, restaurants and hotels sector.

A more detailed examination of services output (figure I.3) reveals the importance of the retail trade, restaurants and hotels. A substantial extent of such services can be equated with tourism services. As a landlocked country, transport services are relatively less important than many developing countries with similar income levels and access to the sea. Other major service categories in Kyrgyzstan are electricity supply and education.

**Figure I.3. Sectoral Breakdown of Kyrgyzstan's Services Output in 2011**

Source: UNdata.

The private sector in the Kyrgyz economy now accounts for 75 per cent or more of GDP and about 80 per cent of national employment. The agricultural and service sectors are overwhelmingly private, with over 90 per cent of output in agriculture and in key service subsectors such as trade, repairs, hotels and restaurants accounted for by the private sector. But the state sector remains significant in industry and dominant in infrastructure due to delays in the implementation of privatization plans. Almost all of infrastructure remains fully or majority state owned.

Exports of goods and services as a percentage of GDP rose strongly in the late 1990s with the opening of the Kumtor gold mine, and since then they have accounted for around 61 per cent of total GDP in 2011.

Industrial exports account for over 90 per cent of total merchandise exports. They are concentrated with non-ferrous metals (essentially gold). The share of exports of electrical energy has fallen significantly from 18 per cent in 2000 to 6.3 per cent in 2011. The share of exports of processed foods and the lighting industry has grown, while that of machinery has tended to decline. Merchandise exports to regional markets (for example, the Russian Federation, the Republic of Kazakhstan, Uzbekistan and China) account for 69 per cent of exports in 2011. Extra regional exports are dominated by gold exports to Germany and Switzerland. Excluding gold, the country's exports are very narrowly concentrated to just four countries.

Exports have been an important source of GDP growth in recent years, accounting for almost 55 per cent of GDP from 2007 to 2011. Much of the increase in exports has been to neighbouring countries including the Russian Federation, Kazakhstan and China. However, the economy remains to more fully exploit opportunities arising from high import demand growth in regional markets and to access new markets elsewhere. Economic diversification is an important prerequisite towards improving overall export performance. For example, agricultural exports used to constitute about 10 per cent of total exports but their share has declined to about 5 per cent in recent years, indicating the importance of new non-traditional exports.

Remittances from Kyrgyz workers overseas, estimated to amount to about \$1.5 billion in 2011, and growing significantly through 2000s, remain important in balancing Kyrgyzstan's overall economy and financing increasing volumes of imports. With rising private consumption and imports in recent years, Kyrgyzstan's current-account deficit reached about 14 per cent of GDP in 2008, largely due to increasing

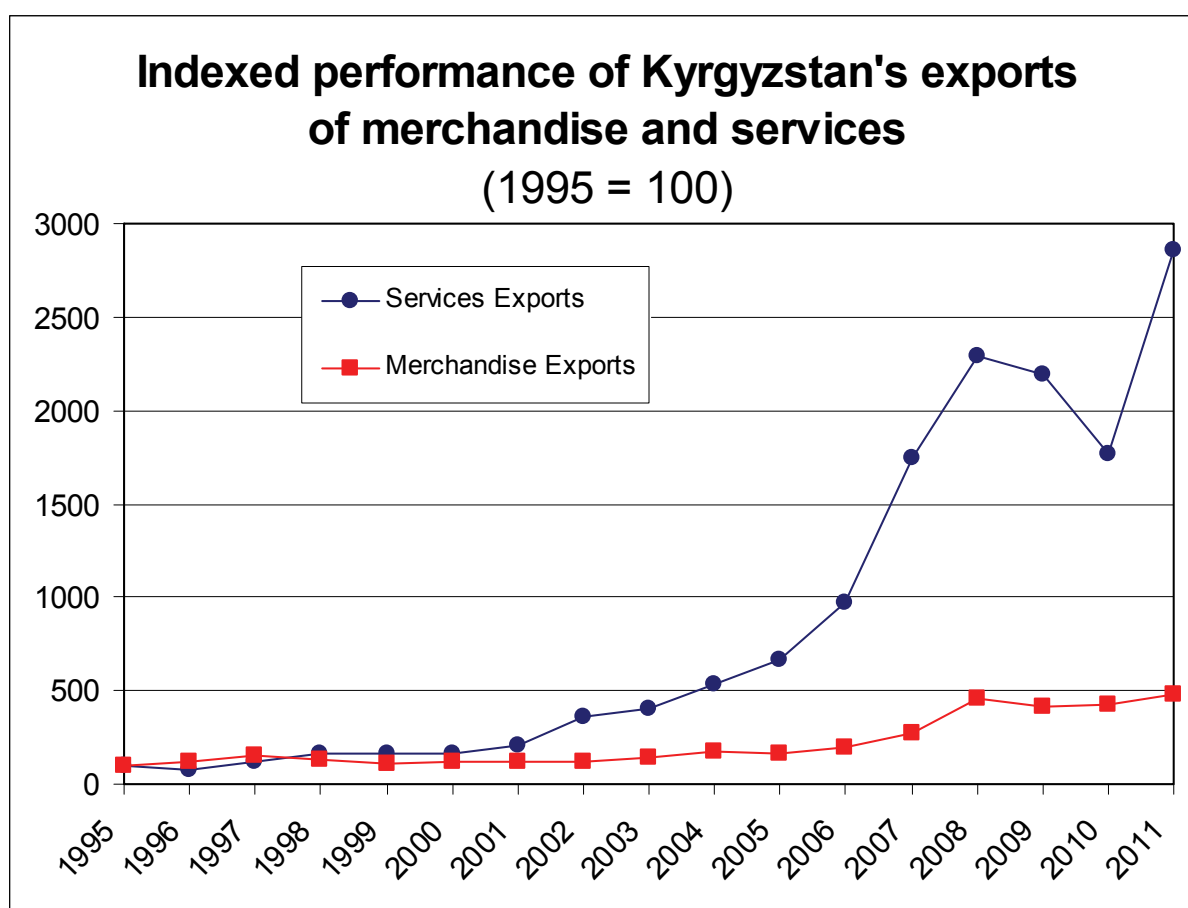


costs for fuel imports, before falling back to 4 per cent of GDP in 2011. The current-account deficit would be much wider if not for strong inflows of workers' remittances.

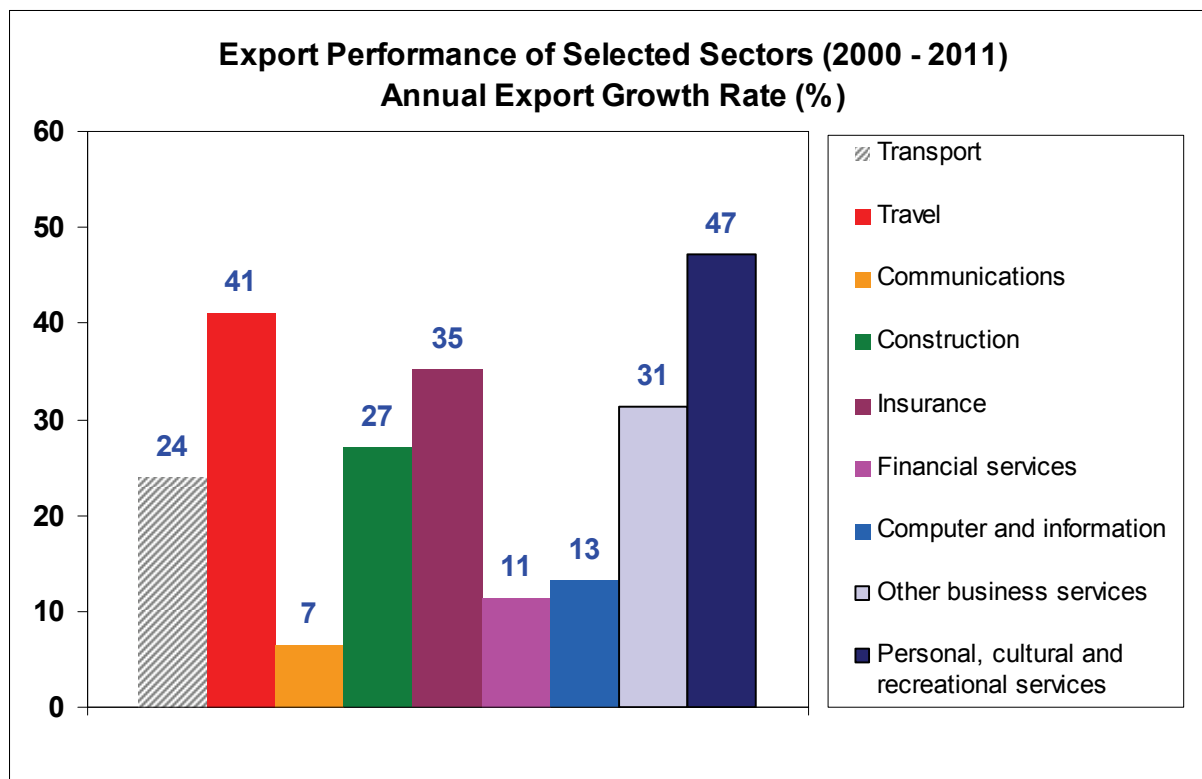
One sign of progress towards greater economic diversification has been the increasing share of services in Kyrgyzstan's total goods and services exports. Figure I.4, showing the relative performance of merchandise and services exports, indicates that services exports have out-performed merchandise exports by a factor of nearly 7 to 1. Average annual growth over the 1995–2011 period for services exports was 27 per cent, but only 10 per cent for merchandise exports.

Looking more closely at services export components, figure I.5 shows that all major services sectors in Kyrgyzstan are exhibiting positive export growth. Among the services sectors, the best export performance is revealed for the travel, insurance, other business, personal, cultural and recreational services sectors. Exports from these sectors are growing faster than exports from the services sector as a whole, which expanded by an average annual rate of 30 per cent.

**Figure I.4. Relative Performance of Kyrgyzstan's Services and Merchandise Exports over the Period 1995–2011 (1995 = 100)**

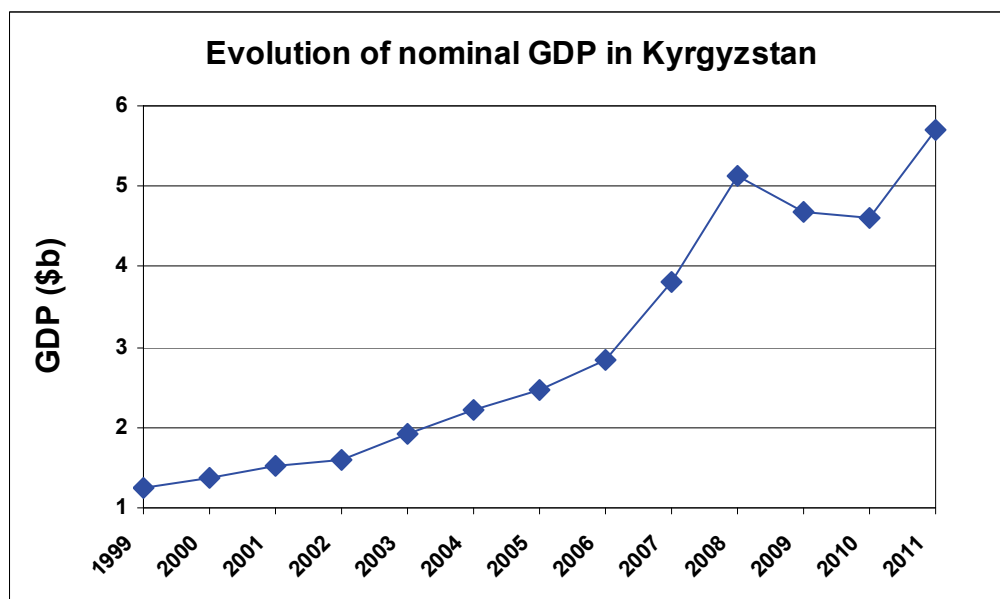


Source: UNCTADStat.

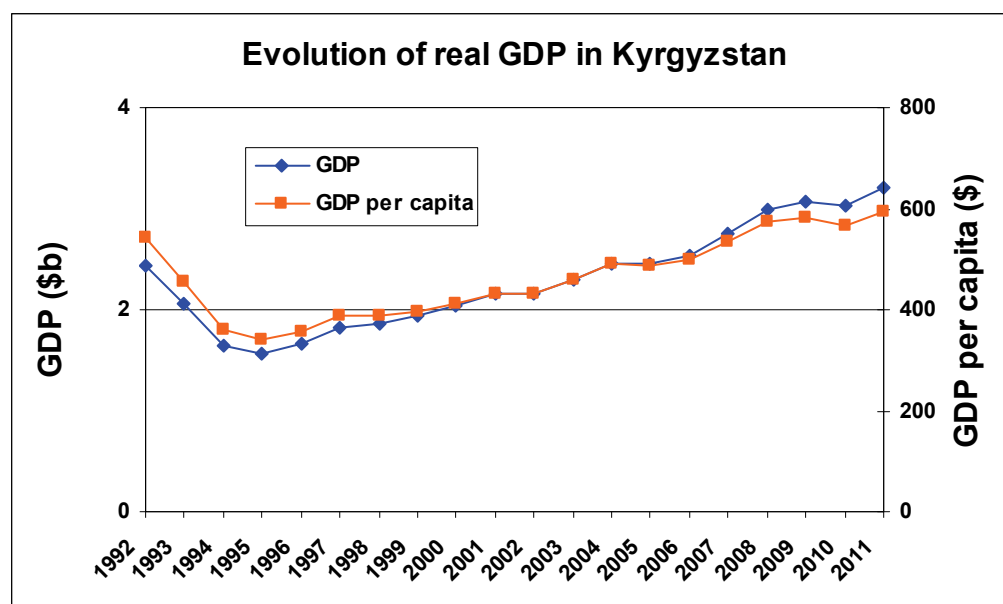
**Figure I.5. Export Performance of Selected Commercial Services Sectors over the Period 2000–2011**

Source: UNCTADStat.

It is important to examine the impact of increased output and trade on national economic and social development. Although over the decade preceding 2006 nominal GDP growth has been sustained (figure I.6), over the longer term in real terms GDP growth declined significantly from 1992 to 1999. Following these initial transition years, the lost ground was recaptured somewhat in the 2000s (figure I.7).

**Figure I.6. Evolution of Kyrgyzstan's Nominal GDP 1999–2011**

Source: UNCTADStat.

**Figure I.7. Evolution of Kyrgyzstan's Real GDP and Real GDP Per Capita from 1992 to 2011**

Source: UNCTADStat.

Although recorded wages remain low, many families supplement their incomes with the rising inflow of remittances sent from relatives working abroad and with additional incomes earned in the informal economy. By 2004 average real wages had recovered to levels recorded in the early 1990s and monthly wages continued to rise relatively strongly. However, workers in the agricultural sector earn less than one half of the national average. This exacerbates regional disparities – particularly between the agricultural south and the more industrialized north. Poverty in the southern regions remains particularly high.

## Progress in Meeting MDGs

Kyrgyzstan has a mixed track record in its progress towards achieving the national MDGs. Progress has been achieved in reducing poverty. However, available information also indicates that significant challenges remain if Kyrgyzstan is to achieve its targets for improving universal basic education, gender equality and various health-related goals. Poverty reduction progress has been achieved through jobs created as the economy returned to growth since the mid-1990s. However, while Kyrgyzstan enjoys economic growth, progress in delivering the benefits of economic growth to poor people needs to be accelerated.

Official figures indicate that unemployment has remained high at around 8 per cent in recent years (2005–2008). The number of people living below the poverty line has fallen sharply since the late 1990s. Nevertheless, it is estimated that around 34 per cent of the population lived below the national poverty line in 2010. The need to rekindle strong economic performance is key to generating jobs for a population that is relatively young, with almost one third of Kyrgyz nationals aged 14 years or below in 2005 and a labour force that is currently expanding at 1–2 per cent per year. Improving Kyrgyzstan's business climate is an important precondition for ramping up national economic performance.

## New Strategic Directions for Stimulating the Business Activity

The Government now seeks to achieve greater integration in the world economy by developing a more diversified economy to accelerate export growth, based on the priority development of SMEs and industries where the country has considerable comparative advantage potential, such as in energy, mining, processing industries, agro-industry and key service sectors such as tourism and energy services. Technological innovation will be an important measure in improving productivity and competitiveness.

## **Improving the Business Climate**

Substantial improvements in the investment and business environments are critical to stimulate private sector development and increased domestic and foreign investments. These include deepening financial services liberalization to mobilize domestic savings and increase intermediation, reducing taxes, countering corruption by reducing the scope of state intervention in market mechanisms, and improving the legal environment. Included also is the improvement of public governance and, by decentralisation, the conferring of greater powers to local authorities. Efforts to accelerate delayed privatization programmes are also expected. The share of the state in industrial output remains significant in certain sectors.

The World Bank report Doing Business 2008 found that Kyrgyzstan ranked 94th out of 178 countries in ease of doing business. The country's overall ranking is creditable, but the real issue is whether this is sufficient to enable Kyrgyz enterprises to attain levels of productivity and international competitiveness necessary to attract foreign direct investment (FDI) and to achieve vigorous export growth. A summary of the 2008 World Bank report for Kyrgyzstan is presented in table I.1 below.

**Table I.1. Summary of Indicators for Kyrgyzstan from the World Bank Report Doing Business 2009**

## Summary of Indicators - Kyrgyz Republic

<b>Starting a Business</b>	Procedures (number)	8
	Duration (days)	21
	Cost (% GNI per capita)	8.8
	Paid in Min. Capital (% of GNI per capita)	0.5
<b>Dealing with Licenses</b>	Procedures (number)	20
	Duration (days)	291
	Cost (% of income per capita)	555.4
<b>Employing Workers</b>	Difficulty of Hiring Index	33
	Rigidity of Hours Index	40
	Difficulty of Firing Index	40
	Rigidity of Employment Index	38
	Nonwage labor cost (% of salary)	21
	Firing costs (weeks of wages)	17
<b>Registering Property</b>	Procedures (number)	4
	Duration (days)	4
	Cost (% of property value)	4.1
<b>Getting Credit</b>	Legal Rights Index	5
	Credit Information Index	3
	Public registry coverage (% adults)	0.0
	Private bureau coverage (% adults)	1.6
<b>Protecting Investors</b>	Disclosure Index	8
	Director Liability Index	1
	Shareholder Suits Index	9
	Investor Protection Index	6.0
<b>Paying Taxes</b>	Payments (number)	75
	Time (hours)	202
	Profit tax (%)	3.0
	Labor tax and contributions (%)	23.7
	Other taxes (%)	34.7
	Total tax rate (% profit)	61.4

<b>Trading Across Borders</b>	Documents for export (number)	13
	Time for export (days)	64
	Cost to export (US\$ per container)	2500
	Documents for import (number)	13
	Time for import (days)	75
	Cost to import (US\$ per container)	2450
<b>Enforcing Contracts</b>	Procedures (number)	39
	Duration (days)	177
	Cost (% of claim)	22.0
<b>Closing a Business</b>	Time (years)	4.0
	Cost (% of estate)	15
	Recovery rate (cents on the dollar)	15.6

A number of surveys and studies by Kyrgyz business associations reveal the main concerns of businesses. They all identify the same key impediments to market entry and exit and business operations posed by extensive and cumbersome requirements and procedures in the system of business registration, licensing and permits, technical, building and environmental standards. Excessive inspections and often arbitrary interpretation of laws and standards lead to extensive official corruption.

The Kyrgyz authorities have introduced a wide-ranging programme aimed at improving the investment climate and business environment. Dialogues and consultations with the business sector and civil society have resulted in a number of collaborative policies, such as a comprehensive investment climate matrix of reforming the business climate. These efforts, however, tend to have unrealistic objectives and deadlines and are not well prioritized, sequenced or related. The effectiveness of reforms has been significantly undermined by legal ambiguities and uncertainty, poor implementation and lack of appropriate enforcement mechanisms. Weak institutional capacity in public administration, characterized by very low levels of civil service salaries, insufficient training of personnel, weak leadership, political patronage and extensive corruption is a major cause of poor implementation. The regulatory burden is also made heavier by numerous and frequent revisions, inspections and audits.

The regulatory burden is heavy for Kyrgyz businesses. Despite some progress in streamlining the enterprise registration process, a host of administrative barriers continue to consume a large amount of entrepreneurs' effort and time. The proliferation of inspections has meant that their total number together with the average number of days spent by businesses in dealing with them are considerably above those reported for several other countries in the region. These problems stem in part from inherent institutional weaknesses in public agencies which often have unclear and duplicative functions as well as poor transparency and accountability, with off-budget funding creating moral hazards for corruption. These problems appear to be most serious in key agencies such as tax administration, labour and social security (social fund) and sanitation. The issuance of licences and permits is similarly a major constraint for businesses. Ambiguities, inconsistencies and contradictions in laws and regulations on licences and permits engender arbitrariness and corruption in their issuance.

These constraints can also be attributed to weaknesses in the country's legal and regulatory framework. Among these, the most important are:

- The lack of legal consistency and certainty due to the lack of a clear hierarchy of legal and normative acts in the legal system;
- Inadequacies in the quality, depth and reach of legal reforms, with new laws and regulations being over ambitious and unrealistic;

- An insufficient institutional setting for implementation, with too many institutions responsible for overseeing implementation and most bodies lacking skills, capacity and resources to carry out their functions;
- An overall lack of capacity across implementing agencies to adopt relevant legal and regulatory changes, and a distinct lack of easily available information on legal, regulatory and judicial issues as well as lack of an appropriate monitoring and evaluation system for the overall reform process.

Weaknesses and abuses within the judiciary have undermined confidence in the legal system, with 65 per cent of enterprises surveyed indicating that they do not believe the judicial system would uphold contracts and property rights in business disputes.

## C. ENHANCING GROWTH AND PERFORMANCE IN THE SERVICES SECTOR

A thriving services sector is vital for all countries. High rates of investment and economic growth associated with services can contribute to poverty alleviation and human development when the right policies are in place to overcome supply constraints and ensure economy-wide development gains from services and services trade.

Given the enabling and driving role that government plays in the development of services economies, it is useful for policymakers to devise national services development strategies. To ensure buy-in and support, as well as to generate desirable spill-in and spill over effects among related economic sectors, strategy development should take place through participative consultations at the national level with all key actors, including parastatal institutions, potential foreign and domestic investors, the private sector, labour groups and academia. Resulting from the national consultation process is a “master plan” that outlines not only national strategies, but also defines a process and series of practical steps through which strategic objectives can be pursued.

### 1. Building a Master Plan

A master plan to promote trade and investment in the services sectors is elaborated through multi-stakeholder consultations at the national level. Far from being a static instrument, it is a dynamic tool whose purpose is to guide the long-range development of services sectors in the national economy. However, to begin the process an initial draft master plan must be prepared for consideration by national stakeholders. National consultations will then refine and adjust the master plan according to their shared perspectives and goals. Specifically, a master plan serves the functions outlined in table I.2.

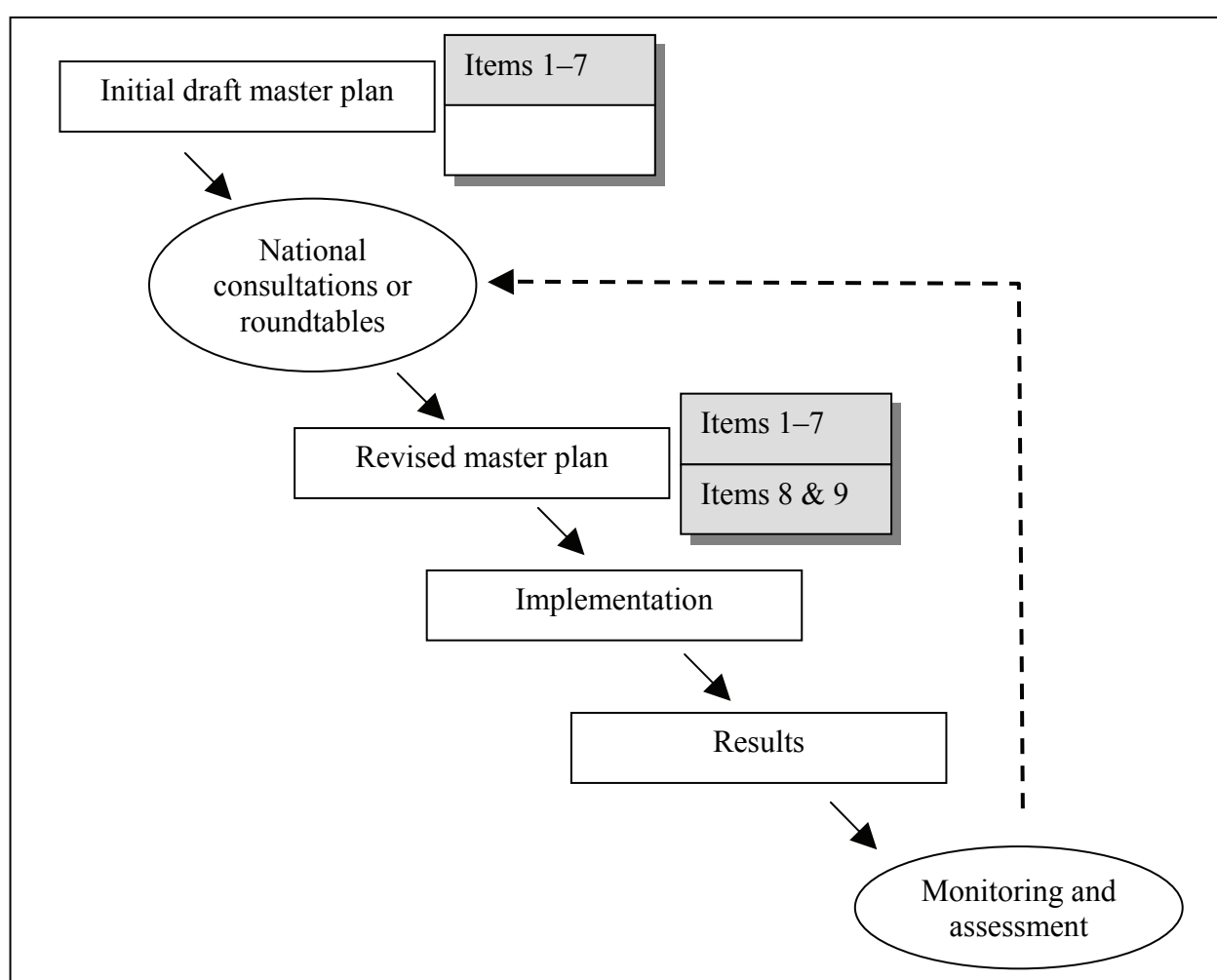
**Table I.2. Main Functions Served by the Master Plan**

Item	Functions
1	Defines a national vision for the long-range development of services sectors and expectations for the objectives that can be achieved
2	Consolidates available economic data on national services sectors to identify trends, opportunities and constraints related to their future development
3	Highlights the expected positive and negative economic and social impacts of privatization and trade liberalization of national services sectors
4	Presents options for trade liberalization of services sectors – bilateral, regional, interregional and multilateral – and examines their respective economic and social implications
5	Examines potential synergies, as well as potential threats, that arise as services sectors develop
6	Projects how trade liberalization of services may stimulate and support merchandise trade
7	Identifies areas where improved policies are needed to advance sectoral objectives, including in the areas of providing support to SMEs, streamlining national regulatory frameworks, and enhancing trade and investment

8	Defines policy reforms to be introduced and a timetable for their introduction
9	Provides clear and practical steps that various stakeholder groups should take to advance agreed objectives for the future development of key services sectors

An initial draft master plan is prepared addressing items 1–7 from table I.2. It is used to launch national consultations. Based on decisions taken following these national consultations, a revised master plan is prepared that includes revisions to items 1–7 as well as an elaboration of items 8 and 9. The revised master plan is subsequently implemented. As implementation of the revised master plan proceeds, results are monitored and assessed by stakeholders. They may decide to refine the master plan further to improve results. The entire process is shown schematically in figure I.8.

**Figure I.8. The Process for Master Plan Development**



## 2. Strengthening the Services Sectors

For a national services development strategy to be effective, it must support the development and/or expansion of services sectors by identifying ways to maintain and enhance their performance. In this section we review some of the constraints facing the two major export-oriented tourism services sectors and explore ways in which their performance may be enhanced. Ideally, a master plan would be elaborated by national actors to promote ways forward.

### The tourism Sector – Further Diversification to Sustain Growth

The Kyrgyz authorities have selected tourism as a major service subsector to be promoted. Tourism remains largely underdeveloped in Kyrgyzstan. Although it has grown at a high annual average rate of 41



per cent in recent years, growth is from a small base: in 2011 the sector earned only \$640 million and accounted for 11.2 per cent of GDP. In Kyrgyzstan, tourism is relatively well linked to other sectors in the national economy. Thus, increasing international tourism activity in the country would deliver significant gains to not only tourism but also other linked sectors, including agriculture, manufacturing (including a large handicrafts and garment industry) and other services sectors such as retail, financial, health and recreational services.

In 2005, the Government singled out tourism as a key sector in the country's development strategy for 2006–2010, with the aim of increasing the share of tourism in GDP to 6 per cent by 2010. As a part of this strategy, the Government aims to boost tourism activity levels in the country by 50 per cent over this 4-year period and national authorities are increasing public investment in the sector. Emphasis is being placed on promoting higher-value tourism, accompanied by a progressive privatization of some state-owned tourism enterprises.

Kyrgyzstan's mountains and lakes make the country an attractive tourist destination – Lake Issyk-Kul and the Tian Shan Mountains are among the most popular. In addition to natural assets, Kyrgyz culture is rich, providing another important factor favouring tourism. Based on nomadic traditions, many Kyrgyz farmers live in yurts (distinctive large oval wooden-framed tents) with herds of sheep, goats, horses and yaks. Kyrgyz women produce a variety of handicrafts created out of felt, including slippers, bags, wall hangings, traditional hats (kalpaks) and colourful carpets (shyrdaks), all of which are extremely popular with international tourists.

Despite these unique attractions, the tourism industry remains largely underdeveloped in Kyrgyzstan, growing slowly due to very limited private investment, rudimentary transport infrastructure and the absence of a service culture.

Tourism services can stimulate development through employment generation and foreign exchange earnings. In addition, the industry has a high multiplier effect and positive spill over effects. The industry also generates a high proportion of employment for women and youth. In Kyrgyzstan's case, tourism also has the potential to aid rural development and contribute towards preservation of historic, natural and cultural sites. Tourism policy in Kyrgyzstan is promulgated by the State Agency for Tourism, which was recently established in April 2007. The Agency fulfils administrative and regulatory functions, including the implementation and pursuing of uniform public policy in the sphere of international and domestic tourism. The main goals and functions of the State Agency for Tourism are:

- Development of the machinery providing coordination of policy in the sphere of tourism at state and regional levels;
- Keeping of unified state register for the entities engaged in tourism activities and tourism industry objects;
- Establishment of a positive image for Kyrgyzstan as a tourism state in traditional tourist markets in countries of the Commonwealth of Independent States (CIS) and on a wider international level;
- Promotion of artisan production and handicrafts development for the purposes of tourism development;
- Determination and regulation of policy in the sphere of development of the market providing tourist, excursion, hotel and accompanying services, including control over entry and exit tourist flows;
- Coordination of governmental and non-governmental agencies, private organizations and industry entities in the sphere of tourism;
- Development of the concepts for governmental and national programmes on tourism development.

Kyrgyzstan's tourist source markets remain extremely concentrated in a few neighbouring countries, suggesting a strong potential to boost incoming tourist volumes from new as yet untapped global markets. Tourism statistics for years 2005–2008 presented in table I.3 indicate that Kyrgyzstan attracts most (82 per cent) of its tourists from nearby countries such as Kazakhstan, Uzbekistan and the Russian Federation. Moreover, growth in arrivals from these three countries is also higher than growth from other source countries. Tourists from Kazakhstan constitute the biggest proportion of foreign tourists in Kyrgyzstan, comprising nearly 70 per cent of all international arrivals in 2007. Tourists from countries other than Kazakhstan, Uzbekistan, the Russian Federation, China and Turkey account for only 6 per cent of

international tourist arrivals to the country, although this number has been increasing at about the same rate as Turkish arrivals, due largely to new regular flight connections between Istanbul (a major international hub with connections to Europe and the Americas) and Bishkek.

**Table I.3. International Arrivals to Kyrgyzstan**

Origin	2005	2006	2007	2008 (1st 9 months)	Growth (annual percentage)	Percentage share in 2007
Kazakhstan	150 904	479 119	1 125 214	795 982	79	68
Uzbekistan	49 376	95 091	283 396	370 203	104	17
Russian Federation	32 001	83 438	118 614	117 263	53	7
China	15 747	18 681	20 201	n/a	13	1
Turkey	9 362	9 981	17 065	n/a	35	1
United States of America	11 727	12 772	13 775	10 830	-2	1
Other	50 186	66 768	75 824	127 332	34	5
Total	319 303	765 850	1 654 089	1 421 610	69	100

Source: Kyrgyzstan State Agency for Tourism.

Catering to tourists from outside the traditional source countries is a very small niche market in Kyrgyzstan. Incoming tourists from non-traditional markets generally seek ecotourism and adventure tourism. The lack of knowledge in the rest of the world about Central Asia in general and Kyrgyzstan in particular has also inhibited the growth of tourism. Moreover, even when potential tourists from non-traditional source markets consult the Internet to learn of tourism possibilities in Kyrgyzstan, they find very little information because the vast majority of websites for hotels and other tourism facilities in the country have Russian language-only websites.

Key impediments to the growth of tourism are:

- A poor tourism infrastructure (low quality of tourist accommodation, telecommunications and transportation);
- Perceived high security risks (sometimes influenced by government-issued travel advisories in developed countries);
- A bureaucratic and unfriendly visa, border control and customs system and procedures (although this is improving);
- Poor international marketing of the country as a tourist destination by both government authorities and private entrepreneurs (for example, limited diffusion of information in languages other than Russian aimed at non-traditional source markets).

There are only about 200 private tourist firms (tour operators, hotels, tourist recreational facilities) in the country and some 20 entities operating in the informal sector. Access to finance is a key constraint for

tourist firms due to legislation imposing a maximum interest rate of 8 per cent in commercial bank lending to such firms, compared to normal commercial rates of 15 to 20 per cent. This limit makes it unattractive for banks to lend to tourist firms.

Lake Issyk-Kul, located at an altitude of 1,608 metres and one of the largest alpine lakes in the world, is the predominant destination for international tourists in Kyrgyzstan. While no official statistics are available, government estimates indicate that 60–70 per cent of international tourists visit one of Issyk-Kul's resort villages. Despite the large geographical area of the lake (180 kilometres long by 70 kilometres wide), only a handful of the many lakeside villages are engaged in tourism. The total capacity of the approximately 300 hotels and guest houses in these villages accounts for 75 per cent of the country's hotel capacity, and most of the remaining capacity is located in Bishkek. There are only a handful of hotels in the remainder of the country.

The peak tourist season for Lake Issyk-Kul is narrowly concentrated in the short two-month summer period, July and August, when occupancy rates are close to 100 per cent. Given Issyk-Kul's high northern latitude and its high altitude, summer warm weather conditions favourable for swimming exist only during these two months. During the remainder of the year the occupancy rates fall under 10 per cent and many hotels, restaurants and associated tourist attractions close. However, there are a few facilities, primarily health facilities (referred to as sanatoriums locally), that remain open in the off-season period.

As the main attraction for tourism in Kyrgyzstan, it is not surprising that Lake Issyk-Kul is the target for most of the tourism-related FDI inflows, followed by Bishkek. The hotel sector in Bishkek is relatively small and has an average annual occupancy rate of only 60 per cent. But these rates have been increasing lately, prompting new investors to enter the market. As a result, many new hotels and guest houses have been opened in the past few years and FDI has contributed to this. Outside the Issyk-Kul and Bishkek areas, other tourism destinations and facilities are extremely limited. These are generally found in picturesque mountainous areas like Arslanbob and Ala-Archa (near Bishkek) as well as some wilderness areas which have recently begun attracting trekkers and other outdoor and adventure tourists.

As shown in table I.4, Kazakhstan is the largest source of total tourism-related FDI inflows. It was the source for two thirds of all such flows in 2007. Annual growth in FDI inflows to the sector from Kazakhstan is also high, with dramatic progression in 2007. Levels of investment from other CIS countries remain rather low (less than 4 per cent of total). Levels of FDI from non-CIS countries account for 30 per cent of all inflows in 2007, but now show clear upward trends.

**Table I.4. Inward FDI to the Tourism Sector of Kyrgyzstan**

Source	2003	2004	2005	2006	2007	Growth (annual percentage)	Percentage share in 2007
CIS countries	1 832	2 542	2 336	3 442	11 366	48	70
Kazakhstan	354	1 777	1 557	2 962	10 656	108	66
Non-CIS countries	4 587	–	4 895	7 781	4 808	~0	30
Total	6 419	7 841	7 231	11 223	16 174	25	100

Source: National Statistical Committee.

## Challenges and Opportunities

Kyrgyzstan's tourism sector's prospects continue to be negatively affected by many internal factors such as insufficient infrastructure, lower levels of quality and lack of a culture of tourism in the country. In addition, many external factors are also important for the growth of the tourism industry, including FDI through mode 3 services trade under the WTO General Agreement on Trade in Services (GATS). Despite

the fact that the tourism sector attracted more commitments by member States than any other services sector in the GATS, significant restrictions still remain.

Raising international tourist volumes is an important challenge. Attracting tourists from new non-traditional markets such as Europe and the Americas, and introducing new travel destinations and themes in Kyrgyzstan are key objectives. Also, there is a need to increase and improve winter tourism options to extend tourism activity beyond its current concentration in the summer season. Raising the quality of national tourism remains an important challenge for the industry and efforts to establish degree programmes and university courses in hotel, travel and tourism management need to be accelerated.

There is also a need to review legal and trade provisions affecting the tourism industry to make them more investment friendly for both domestic and international investors. This applies not only to attracting investment in tourism restaurants and hotels, museums, cultural sites and natural sites, but also to securing finances needed to upgrade tourism infrastructure and facilities, particularly older run-down hotels, roads, buses, energy and water supply, and communications.

Efforts to raise the awareness of tourism as a major national economic sector among local tourism providers and communities have only just started. This remains an important requirement for helping to build a tourism culture. Raised awareness can also help motivate and empower local actors to preserve tourism assets and build linkages between tourism and local economic activities.

### **Diversifying the Tourist Base (Geographical Origin)**

The pool of potential tourists can be readily increased by attracting tourists from non-traditional markets. Stronger efforts could be made to attract tourists from Europe, particularly as new air links to Istanbul have recently emerged. China should also be viewed as a large potential tourist source market given its proximity and the increased incomes of Chinese families in recent years, which has greatly increased their propensity to travel.

The major challenge remains to increase awareness of Kyrgyzstan among the millions of potential tourists interested in nature, authentic culture and in venturing to new, less-travelled destinations. A television advertising campaign may be needed for this purpose (as has been successfully used by other developing countries such as Angola, India, Kenya, the Maldives and South Africa over the past few years). Tourism-related firms in Kyrgyzstan need to publish their websites in other languages (for example, English, Chinese, French, Spanish, German, Turkish) to help attract tourists to the country.

### **Diversifying Product Offerings in the Tourism Market**

Although the main selling point of tourism in Kyrgyzstan is focused on swimming at Lake Issyk-Kul in the summer season, the opportunity to substantially diversify this theme remains largely unexplored. There is growing recognition within the sector of potential demand for new and additional tourism products such as trekking and adventure tourism, including ecotourism, sports and cultural tourism. Although some of these types of tourism packages are now being offered it is being done at the margins and would benefit from a thrust into the very centre of the Kyrgyzstan tourism industry. Many operators aim to market these new products to tourists originating in Europe and other global markets. New tourism products being promoted or considered for promotion include real estate, wellness, cultural and community tourism; however, “meetings, incentives, conferences, and exhibitions” (MICE) tourism could also be considered in the future as capacity develops. Diversifying into these new tourism themes would provide significant opportunities for employment and enterprise development not only in the hotel, restaurant and personal transport sectors, but also in the business, personal, cultural, recreational and retail services sectors.

Mountains and good winter snow cover make Kyrgyzstan an ideal country for skiing. Establishing ski areas in the Lake Issyk-Kul region could extend the very short tourism season towards a year-round pattern. Infrastructure at the two major alpine ski areas in the country – Chimbulak and Norus, both located near Bishkek – need to be substantially upgraded. Currently, these areas fail to attract large numbers of international tourists because infrastructure is poor. For example, at Chimbulak there is very limited lift capacity, only partial trail grooming, no active avalanche control, only one rental shop that offers substandard equipment, a single hotel and only two restaurants. Certainly, much remains to be done to improve the quality of ski resorts in Kyrgyzstan.

In addition to its natural assets, Kyrgyzstan has numerous cultural and religious sites for tourists interested in cultural tours. An example of this is the Silk Road tours that are now growing in popularity. Cultural

tourism operators are now emerging in the localities of cultural tourism sites. Examples include Sulamain-Too Sacred Mountain, an Islamic and pre-Islamic religious World Heritage Site near the city of Osh, and Burana Tower and the remains of Balasagyn, an important trade city on the Silk Road in Kyrgyzstan.

Another example of cultural tourism in Kyrgyzstan is jailoo tourism. Jailoos (mountain pastures) are situated in the high mountains at altitudes of 2,500–3,000 metres above sea level. Jailoo tourism is part of a new approach to developing Kyrgyzstan's tourism industry, a strategy centred on cultural tourism. Cultural tourism emphasizes the interaction and communication of tourists with authentic culture and the everyday life of local people, while encouraging multinational cooperation and cross-cultural interaction. By taking tourists into the remote jailoo regions of the country to spend time in the yurts of Kyrgyz nomads, the guests have a chance to experience Kyrgyz nomadic life. The approach is also focused on community-based tourism, helping local people benefit from the tourism industry while still living in remote villages. Kyrgyz nomads learn to offer a unique service to tourists, while gaining extra income during the summer, and participating in the economic development of their country.

## **Strategic Options for the Sector**

A first step might be to launch a national awareness-raising campaign on the importance and benefits of tourism for the Kyrgyz economy and on the Government's plans to promote tourism. This is a central requirement for helping to build a tourism culture so that the sector in Kyrgyzstan is well positioned to succeed in the future.

A national programme to raise the quality of tourism needs to be put in place. As a part of this programme stakeholders could discuss ways to ensure quality through certification, professional requirements, national and other industry standards, training and education programmes, government incentives for sustainable management of tourism facilities, and the like.

Increased coordination is required between hotels, airlines, tour operators and other tourism service suppliers to undertake marketing studies. Such studies can determine how to best design and price vacation packages so that source tourist markets, and tourism themes and locations in Kyrgyzstan can be diversified and the current two-month summer tourism season be extended to other seasons. Studies could also assist with the identification of opportunities to strengthen linkages to support diversification of product offerings in the sector.

The industry could look towards ways to decrease costs through e-tourism. Providing increased opportunities for tourists to book vacation packages online, in a one-stop shop regrouping a wide range of tourism service providers, could allow Kyrgyzstan's tour operators to greatly reduce leakage (the share of tourist receipts paid to foreign agents), thus allowing them to offer lower cost packages to consumers.

At this relatively early stage of development of the sector, greater attention could be given to reducing the negative environmental impacts of tourism in Kyrgyzstan. Achieving this objective will ensure long term stability of biodiversity in the country upon which the success of the sector currently rests, and will also ensure that local populations continue to have access to high quality residential, recreational and agricultural sites. Additionally, there is a need to continue improving transportation infrastructure in the country. Except for highways linking Bishkek and Lake Issyk-Kul, many other roads in the country are secondary, of lower capacity and variable quality. Furthermore, intercity transportation services are limited. Efforts to improve domestic road infrastructure are helping, but cross-border improvements are required in neighbouring countries such as Kazakhstan, Uzbekistan, Tajikistan and China if full advantage is to be gained from domestic investments for international road-based tourism. Box I.1 summarizes the strengths, weaknesses, opportunities and threats for the Kyrgyzstan tourism industry.

**Box I.1 Tourism Industry: Strengths, Weaknesses, Opportunities and Threats**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Natural assets</li> <li>• Cultural richness</li> <li>• Religious sites</li> <li>• Acquired image as an adventure and cultural theme tourism destination</li> <li>• Expanding air access to major markets</li> <li>• Relatively strong inter-sectoral linkages established in the tourism sector</li> <li>• Government commitment to developing the tourism sector</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• No culture of tourism yet established</li> <li>• Hotel capacity limited and too concentrated in Bishkek and certain villages of Lake Issyk-Kul</li> <li>• Lower quality service provided by many hotels, restaurants and guesthouses</li> <li>• Infrastructure limitations</li> <li>• Road network limitations</li> <li>• Limited access to new investments and financing</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Tourism largely undeveloped, many opportunities abound for new destinations and themes</li> <li>• Strong potential for ecotourism</li> <li>• Initially successful community-based tourism</li> <li>• Restored in-country stability, safety and security</li> <li>• Restored political stability</li> <li>• Improving tourism and transportation infrastructure and service</li> <li>• New tourism themes to make Kyrgyzstan a year-round tourist destination: cultural tourism, winter sports tourism, business and conference tourism</li> <li>• Real-estate tourism, already started in the Lake Issyk-Kul region</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Environmental degradation in high-traffic areas</li> <li>• Increasing incidence of theft and violence targeting tourists</li> <li>• Global economic crisis</li> </ul>

Required spill-ins from other sectors: improved supply of services from the transport, financial, information and communications technology (ICT), recreation, healthcare, utilities and security services sectors

Anticipated spillovers into other sectors: improved markets for services from the transport, recreation and healthcare sectors, improved conservation and land management-related environmental benefits, expanded offering of infrastructure in tourism zones, and propagation of quality standards to other sectors

Key stakeholders: Relevant government ministries and parastatals; tourism sector enterprises – hotels, restaurants; transport firms – airlines, taxis, car rental; local communities; labour unions; recreation and sports firms and interest groups; advertising agents and e-tourism suppliers

## **The energy Services Sector – a Need to Transcend Limitations**

The Central Asian region is rich in energy-related resources but the distribution of these resources is very uneven. Kyrgyzstan and Tajikistan have abundant hydropower potential but negligible amounts of fossil fuels, in contrast to Kazakhstan which has large reserves of oil, gas and coal. Uzbekistan and Turkmenistan have substantial gas reserves. Surprisingly, although two bilateral treaties on shared water use in relation to hydropower are in force, no regional energy cooperation arrangement exists. Instead, each country uses its energy and water resources domestically even though a joint use and trade of these resourced would yield greater mutual economic benefits.

Local hydroelectric energy and imported gas and oil form the basis of the primary energy balance of Kyrgyzstan. Approximately 90 per cent of Kyrgyz electricity is produced at hydroelectric power stations



and about 80 per cent of the republic's fuel energy resources are imports, including up to 59 per cent of coal and 98 per cent of gas and petroleum products. The country also has good potential for renewable energy sources such as solar, wind, geothermal and biomass energy.

Any assessment of Kyrgyzstan's energy services sector must recognize the absence of oil and gas reserves in the country, the central role of hydroelectricity and the dependencies downstream countries in the region have on Kyrgyzstan as a source of regional water supply. Without access to domestic oil and natural gas resources, Kyrgyzstan requires large amounts of water to generate electrical power. Water resources and energy considerations are closely related in Kyrgyzstan due to the barter agreement under which Kyrgyzstan supplies Uzbekistan with water in summer for irrigation in return for gas and electricity in winter. Therefore, ensuring effective energy supply to the Kyrgyz economy requires not only the promotion of more efficient energy production and use but also careful management of the country's water resources and strengthened cooperation with its regional neighbours on water and energy management issues.

The Government has identified energy sector development as a national priority, noting its potential to be a major export commodity. Currently, only about 30 per cent of Kyrgyzstan's hydropower potential is currently being utilized. The remaining 70 per cent has never been exploited, in many cases because it has not yet been made accessible. During the summer when water flows copiously from Kyrgyzstan to neighbouring countries where it is used for irrigation, Kyrgyzstan generates a surplus of hydropower, allowing it to export its electricity to neighbouring Kazakhstan and Uzbekistan. During the winter, however, hydropower generation is below even national consumption requirements; electricity supply cuts are frequent (often programmed as rotating blackouts) and fuel must be imported to generate electricity (and hot water for the district heating systems in large cities). Hydropower generation remains well below its potential during the winter due to forced limitations on water flow. The high water flow volumes necessary to meet national electricity consumption requirements in winter are not possible as they would result in flooding of low plains in neighbouring countries.

The power sector currently accounts for nearly 5 per cent of GDP and 16 per cent of industrial output. It provides 10 per cent of total state revenue. Energy loss from thefts and transmission inefficiencies amount to some 40 per cent of output. These losses were persistent from 2002–2007. In 2005 the state collected only 74 per cent of payments for actual energy consumed.

The state dominates the energy sector. An important measure in the restructuring of the sector was made in 2001 when the vertically integrated energy generation and distribution monopoly, Kyrgyz Energy (Kyrgyzenergo), was restructured along functional lines into seven state-owned companies: generation, transmission, district heating for Bishkek and four distribution companies.

Following restructuring, the main producer of electric and heat energy in Kyrgyzstan is the Open Joint Stock Company Electric Stations. It is a consolidation of eight power stations with a total installed power capacity of 3,640 megawatts (MW) and with a 94 per cent stake under the state property. With a total installed capacity of 3,400 MW, hydroelectric capacity accounts for about 80 per cent of the total 15.6 billion kilowatt-hours of annual electricity production of Kyrgyzstan. The remaining is combined heat and power (CHP) capacity of about 700 MW from Bishkek and Osh coal- and gas-fired power plants. In recent years, however, dependence on hydroelectricity has reached almost 90 per cent since the current capacity of the CHPs is down to less than 200 MW. There are four regional distribution companies, Severelektro, Vostokelektro, Oshelektro and Jalalabatelektro. Transmission of electricity from generating companies to distribution companies is implemented by the National Electric Network of Kyrgyzstan, a power transmitting company comprising six local enterprises which exploit the national electrical grids, with a 94 per cent stake of these firms under state ownership.

When formed by the state, it was intended that the electricity firms in Kyrgyzstan were to be privatized in the future. However, over the almost 10-year period since the launch of the Programme of Denationalization and Privatization the objectives of reforming and restructuring of the power industry in the Kyrgyz Republic have not been achieved. In particular, little progress has been made in privatization mostly due to political objections.

Other reform objectives, including the reduction of energy use by removal of state subsidies (implying, therefore, a greater cost to the consumer), the promotion of the financial health of utility companies through better billing practices, and the removal of tariff subsidies, have been and will continue to be gradual. The last objective is considered important as many, though not all, of the individuals currently provided with electricity subsidies genuinely require subsidy support, and as such universal access remains an issue at the heart of subsidy reform. In Kyrgyzstan, affordability is a serious concern, as the real cost of energy for socially vulnerable segments of the population can be as high as 15–20 per cent of

income. According to statistics, 98 per cent of residents have access to energy, with the main exclusion occurring in remote mountain areas.

In addition to adopting an overriding policy for tariff calculation and the setting of new tariffs, another current area of reform involves introducing private participation in the distribution companies with the first privatization of an electricity distribution company.

The State Energy Agency, created in 1997 to regulate the industry, was abolished in 2006 and its functions transferred to the Anti-monopoly Committee (see the Decree No. 448 of the President of the Kyrgyz Republic of 10 October 2005). This resulted in legislation authorizing small (mini) hydropower plants and private energy distribution companies to enter the market. However, this measure did not improve the efficiency and financial performance of the industry because of incomplete restructuring and privatization, the failure to adapt to a market or commercial orientation in management, and operations and weaknesses in the legislative and regulatory framework.

The authorities' stated long-term objective for the energy sector is to eradicate losses and achieve energy security by 2025. Achieving this objective, however, will require improving institutional efficiency, recapitalizing and restructuring the industry, reform of corporate governance and introducing modern market and commercially-based management methods. In addition, adding new capacity will require a significant level of investments, which will require mobilizing financing. It will also require massive private investment. By 2010, the Government hopes to attract \$100 million from private investors for the construction of new privately owned power plants, which combined would provide 100 MW of new capacity. Attracting investments for the installation of technologies that generate renewable energy for sale to the distribution networks at a profitable price can serve as an attractive basis for the development of private power producers.

Regulation, necessary to balance stakeholder interests in Kyrgyzstan's energy, has six main functions: licensing, tariff setting, dispute settlement, investments, competition and control over standards. The State Department's Regulation of Fuel and Energy Complex serves as regulator. It is part of the Ministry of Industry, Energy and Fuel Resources and does not have the status of an independent body.

## **Challenges and Opportunities**

The main goal of the Government in the electricity sector is to create conditions for a balanced and integrated development of the sector and energy security for the country in the long term. It is recognized that the following challenges must be addressed within the framework of achieving this goal:

- Ensure a reliable and uninterrupted supply of energy, particularly to domestic consumers;
- Establish the institutional and legal frameworks needed to complete the structural reforms commenced in 2001;
- Transfer to concession, or privatize electricity distribution companies by 2009;
- Identify and evaluate assets and the costs of the electricity sector with the assistance of independent auditors under supervision of government officials.

Particular attention should be paid to the policies and measures that bring about an improvement in corporate governance of energy sector players. These may include a strengthening of commercial and financial discipline in the sector, the achievement of profitability by sector players along with an increase in revenue by improving collection of bills receivable and the involvement of an independent, professional audit of oversight mechanisms and institutions. A set of institutional, tariff and investment policies have been designed to meet the various challenges noted above. However, careful monitoring of the evolution of the sector and the effectiveness of these policies on stimulating desired impacts will be required.

Additionally, with its Central Asian neighbours, Kyrgyzstan could more intensively explore options at the regional level to elaborate a comprehensive regional energy cooperation agreement. Indeed, the same group could also work towards negotiating a regional services trade agreement as many developing-country regions have already done. Such agreements could provide Kyrgyzstan with important economic benefits. For example, the country is currently exporting electricity to Kazakhstan and Uzbekistan during the summer. By bringing more hydropower capacity online in the future, electricity export volumes to these



countries could be increased and exports to other Central Asian countries could begin. Box 1.2 summarizes the strengths, weaknesses, opportunities and threats to Kyrgyzstan's electricity sector.

### Box 1.2 Electricity Sector: Strengths, Weaknesses, Opportunities and Threats

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Abundant hydropower resources</li> <li>• Geographical proximity to high demand electricity markets</li> <li>• Newly introduced access by independent power producers to national electricity transmission and distribution networks</li> <li>• Educated and trained workforce with know-how in the hydropower sector</li> <li>• Strong and comprehensive institutional organization in both public and private sectors</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Slow and drawn-out privatization process</li> <li>• Cumbersome administrative and planning procedures, which are the main limitation to sector development and increased private participation</li> <li>• Limited availability of finance and investment for capital refurbishing and replacement</li> <li>• Dependence on import of power resources (coal, oil, gas) for producing electricity and heat in winter</li> <li>• Lack of expertise in the marketing of electricity</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• High and growing levels of unmet electricity demand from national and regional markets</li> <li>• Increased exports of electric power by developing the hydroelectricity capacity</li> <li>• Building stronger cooperation and improved agreements on energy cooperation with regional partners (Azerbaijan, Tajikistan, Kazakhstan, Uzbekistan, Turkmenistan)</li> <li>• Ownership and control of new power plants can now be entirely private</li> <li>• More effective partnerships between private firms and government, including through public-private partnerships</li> <li>• Potential for improved demand-side management (DSM) to extend the utility of existing power generation capacity</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Emergence of new generating capacities in the region and subsequent competition from firms in neighbouring countries for the regional market</li> <li>• Aging infrastructure</li> <li>• Macroeconomic dependence of republic from energy sector having the capability to influence the state budget</li> <li>• Potential for continued opposition to privatization programme by interest groups</li> </ul>

Required spill-ins from other sectors: Investment from private industry, improved access to hydropower resources by the public sector, engineering expertise from universities and technical institutes, new technologies for DSM (for example, compact fluorescent lamp lighting) and rural electrification (for example, mini-renewable power systems)

Anticipated spillovers into other sectors: Improved productivity in other economic sectors, technology enhancements, stimulation of renewable energy sector, improved road access to remote areas

Key stakeholders: Relevant government ministries and parastatals, sectoral firms, consumers, labour groups, professional associations

## 3. National Efforts and Policies to Support SMEs in the Services Sectors

Despite their small individual size, taken together SMEs in Kyrgyzstan's export-oriented services sectors provide a major engine of employment and growth. Ensuring the success of SMEs is thus critical to sustained economic growth in Kyrgyzstan.

Empirical evidence indicates that SME clusters are fundamental to the success of SMEs in most economic sectors in countries throughout the world. A cluster is defined as a sectoral and geographical concentration of enterprises that benefit from common external economies such as shared suppliers of technological inputs, shared pools of workers with sector-specific skills, and similar demands for tourism and energy services products designed to meet the needs of sectoral firms. Clusters not only allow for sharing of upstream inputs, but also of downstream buyers and agents who build and sell packages of goods and services to distant markets and who provide information on trends, clients and demand in foreign markets.

Although SME clusters are traditionally viewed as a mechanism benefiting industrial producers of goods, the potential of developing clusters to enhance the competitiveness and facilitate the growth of SME service providers warrants further exploration. SMEs can capture a wide range of economic benefits by cooperating with other SMEs located in the same area and active in the same or closely related sectors. Rather than viewing their peers as competitors, in clusters SMEs are encouraged to collaborate with their peers as partners in many shared business functions to jointly reduce costs, improve efficiency, attract investment and access new markets.

There are many ways in which clusters can help member SMEs achieve these objectives, including by facilitating joint purchases of goods and technologies used in the sector's business, by sharing administrative and marketing operations, and by forming consortia to attract both domestic and foreign investment. Clusters also allow SMEs to greatly enhance their export capacities by encouraging inter-firm collaboration in responding to large foreign orders that would otherwise exceed the capacity of any one member.

Inter-firm cooperation to facilitate technology transfer may be of particular interest to firms in Kyrgyzstan's tourism and energy services sectors. It can be focused not only on reducing costs for capital equipment that can be shared collectively among firms, but also on increasing the potential to attract financing needed for firm growth and acquisition. The combined assets, cash flow and liability of two or more firms greatly reduce the risk of defaults on borrowed capital and correspondingly enhance attractiveness for loans. In addition, closely cooperating competitive firms forming an export consortium often attract the interest of large international enterprises seeking to invest in new services industries in developing country markets, thus providing SMEs with the potential to attract FDI. It is otherwise extremely difficult for an individual SME to attract FDI.

Developing country SME clusters that have been successful in attracting FDI are those in economies such as Kyrgyzstan that benefit from a comprehensive programme of financial reforms, including privatization of dynamic sectors, floating currencies, tax- and duty-free industrial zones, sectoral trade liberalization and a substantial lowering of limitations to the free flow of cross-border capital. In Kyrgyzstan, transparent regulations and policies, and accessible information on national institutions, should attract the interest of prospective investors in the private sector. Taking into account limitations on foreign ownership set forth in Kyrgyzstan's schedule of GATS commitments, FDI can take place either through the direct entry of foreign firms through multinational joint ventures with domestic firms, or simply through foreign equity participation in existing domestic firms. In either case, the investing firm or consortium retains significant control of, and earns dividends on, its investments. Recipients benefit from foreign investment in sectoral infrastructure and facilities and from long-term technical cooperation.

Cooperation among Kyrgyz SMEs in services sector clusters can provide many of the above economic benefits. Inter-firm cooperation could also allow Kyrgyz firms to learn from each other through mutual exchanges of sector-specific information and trends relating to business techniques, financing and foreign markets, thus supporting collective learning curves that are significantly faster than those achievable by individual firms. However, although many of the benefits of clustering appear self-evident when viewed from outside, from the perspective of an SME considering its participation in a cluster there is often considerable reluctance to engage in cooperative approaches to its business. Negative perceptions include the potential loss of trade secrets, resourceful employees and captive clients to other cluster members. Perception barriers may need to be overcome through national sectoral dialogue.

National dialogue should also examine what scope exists for the Government of Kyrgyzstan to further advance an enabling environment for cluster development. This may be through supportive policies and incentives, streamlining of administrative regulations, and by serving as a cluster facilitator. For example, the Kyrgyz Government may seek to direct FDI to clustered SMEs in specific services sectors through a number of policy instruments, such as sector-specific investment guarantees, tax rebates, grants, and subsidies.

National dialogue in Kyrgyzstan should aim to increase awareness of private sector decision makers and government policymakers of opportunities to enhance SME competitiveness by, respectively, participating more fully in, and actively supporting, cluster development. Participation in sectoral SME clusters should also be of interest to academic officials seeking to enhance coordination between the private sector and both technical schools and universities to increase human capacity and technology transfer in national services industries. In their development of improved loan and credit instruments, financial institutions may also pay consideration to identifying difficulties faced by SMEs in meeting capital requirements for start-up and technology acquisition, in order to develop tailored financial instruments to respond to market needs.

## **4. National Trade Policies for the Expansion of Key Services Sectors: The WTO GATS**

### **Kyrgyzstan's GATS Commitments**

Since 1995, the entry into force of the Uruguay Round Agreements has facilitated an increase in trade and investment for the services sectors in many countries which undertook specific GATS commitments to open their services economies. These commitments were undertaken as part of the first round of GATS negotiations – an integral part of the Uruguay Round – which commenced in 1986. Kyrgyzstan assumed a large number of specific commitments under the GATS in 1999 upon accession to the WTO, including commitments to open its tourism and energy distribution services sectors. The GATS agreements have stimulated considerable investment in the Kyrgyz economy; locked-in key national policy reforms needed to ensure the competitiveness of the sectors, and helped promote higher levels of export of these sectors. The liberalized tourism sector has witnessed substantial growth in Kyrgyzstan over the past 4 years. Recently, the tourism and energy services sector have demonstrated year-on-year growth.

Kyrgyzstan made significant GATS commitments on most services, including telecommunications and financial services, during WTO accession in 1999. It made no most favoured nation exemptions. The Government indicated that out of 99 sectors and nearly 600 subsectors covered by the United Nations Central Product Classification, Kyrgyzstan undertook commitments on 545 subsectors and activities during accession, including no market access or national treatment restrictions under almost all sectors and modes of supply (except for a small number of strategic services and mode 4). Delegations withdrew initial market access requests in the Doha negotiations mainly in recognition that the Kyrgyz Republic had already made extensive liberal commitments on accession. The authorities indicated that Kyrgyzstan could not further liberalize market access commitments on services under these negotiations.

Generally, Kyrgyzstan has extended liberal market access for services imports through its horizontal commitments under the GATS. The country has also committed that supply of services by an existing foreign supplier will not be made more restrictive than they were at the time of its accession to WTO. This commitment reflects that Kyrgyzstan has agreed not to make the regime more restrictive than at present. However, movement of natural persons has been made unbound or restrictive except in the categories of services sales persons, intra-corporate transferees, managers, executives and technical specialists. Kyrgyzstan is also committed to providing national treatment without any limitation. No limitation has been placed in respect to consumption abroad. In respect to all modes of services trade, no limitation on national treatment has been specified.

Regarding specific commitments for services trade under the GATS, Kyrgyzstan has made commitments in a wide range of major services categories, including business, real estate, other business, communication, audio-visual, construction, distribution, education, environmental, health, tourism, recreational, cultural and sporting, and transport services. Specifically, in tourism services, no reservations to national treatment and market access are made for modes 1–3, and in mode 4 reservations are made only based on horizontal commitments. In energy services, for electricity distribution, market access and national treatment remain unbound.

### **Liberalization of Trade in Services under Regional Agreements**

Services and services infrastructure are very important for the development of a transition economy country such as Kyrgyzstan. The global welfare effect of services liberalization is deemed to be roughly of the same order of magnitude as that associated with full liberalization of barriers to trade in merchandise (Organization for Economic Cooperation and Development (OECD), 2002). Moreover, it was found that developing countries stand to gain relatively more than industrial countries for liberalizing their services

trade (Chadha, 1999). Similarly, it is argued that mode 4 liberalization could generate global gains ranging from \$150 million to over \$300 million per year (OECD, 2003). These findings clearly indicate that regional trade agreements on services could have major benefits for a country like Kyrgyzstan.

It is argued that specific commitments in a country's GATS schedule constitute a minimum standard at which foreign firms will be able to enter a country's market. The extent to which this stability and certainty attracts FDI is debatable because there are many other factors that influence the decision to invest. Indeed, there is no empirical evidence to link any significant flows of FDI into developing countries with the conclusion of the GATS. Finally, as with goods there are also negative consequences that can arise from incorrectly planned liberalization. Indeed, there is still no consensus as to whether certain critical services such as health and education should be subject to liberalization at all. Hence, in undertaking liberalization, LDCs need to pay close attention to sequencing, pacing and ensuring that the appropriate regulatory frameworks are in place (UNCTAD's background notes on services provide further discussion of key requirements for regulatory and institutional frameworks).

Unlike many developing countries, however, but like many other transition economy countries in Central Asia, Kyrgyzstan has yet to conclude regional trade agreements for services. More generally, aside from the WTO agreements, Kyrgyzstan participates in relatively few bilateral and regional trade/economic cooperation agreements. These are limited to the CIS, the Economic Cooperation Organization Trade Agreement and the Eurasian Economic Community at the regional level, and at the bilateral level the Kyrgyzstan–Armenia, Kyrgyzstan–Kazakhstan, Kyrgyzstan–Republic of Moldova, Kyrgyzstan–Russian Federation, Kyrgyzstan–Ukraine and Kyrgyzstan–Uzbekistan agreements. All of these agreements were concluded in the 1990s.

## **General Discussion of Policy Options for Kyrgyzstan**

Recognizing the stance taken by the Government and major parastatal and private stakeholders in key services sectors to increase private participation in and to liberalize key services sectors, all must now agree on the best way forward to advance the liberalization process, regionally through existing or entirely new economic cooperation agreements, and/or multilaterally through the GATS. Whether, how and with whom Kyrgyzstan should pursue services liberalization remain crucial decisions that need to be taken carefully and on the basis of national economic, social and developmental objectives and circumstances. The challenge for Kyrgyzstan will be to ensure coherence between its national development policies on the one hand, and regional, interregional and multilateral trade negotiations on the other.

Trade liberalization options are varied yet clear: multilateral, interregional, regional, bilateral or autonomous. National stakeholders must examine which options, or combinations thereof, have the greatest potential to meet agreed objectives. Each option has its advantages and disadvantages, some of which are briefly outlined in the following points:

- Opening services sectors to a global market under multilateral liberalization under the GATS may provide the greatest opportunities for investment and employment, but will limit opportunities for ownership and control, and potentially introduce significant competitive shocks that, if they occur too abruptly and/or in the absence of adequate flanking policies, may negatively impact national SMEs and consumers. Moreover, GATS liberalization will expose Kyrgyz firms to considerable foreign competition, particularly from developed country firms, and it is legally binding and very difficult to reverse. Pursuit of multilateral liberalization should thus include carefully designed restrictions on market access and national treatment that include performance requirements and economic needs tests where necessary to ensure development gains.
- Interregional (and bilateral) options may be difficult to manage administratively and may not provide sufficient levels of competition among foreign entrants.
- In the absence of a complementary multilateral agreement, bilateral, regional and interregional agreements may reduce the number and diversity of potential market entrants.
- Regional liberalization has the advantage of involving more similar economies. However, opportunities for foreign investment from regional markets would be more limited than under multilateral liberalization. At the same time, options for Kyrgyzstan within the agreements it is currently a party to do not currently have integral services trade agreements, and advancing these existing agreements, or developing entirely new agreements with other parties, will take time to initiate, negotiate and conclude.
- Hybrid solutions should also be considered. Regional liberalization (for example, within the context of CIS) could complement liberalization at the multilateral level and provide a number of export

opportunities. Liberalization at the regional level could also serve as a stepping stone towards liberalization at the multilateral level, whereby, after generating regional supply capacity and trade in certain services sectors, particularly sensitive sectors, Kyrgyz service suppliers would possess a strengthened ability to venture into global markets.

- Autonomous liberalization could be effected quickly through national reforms and laws, but national stakeholders may resist such moves, and autonomous (reversible) reforms would not send a strong signal to foreign investors that Kyrgyzstan's liberalization commitments are firm, and for all practical purposes, irreversible and permanent. Without sufficient confidence, foreign investors may be less willing to make investments in liberalized sectors.

Which liberalization option(s) is (are) best for Kyrgyzstan? Does the best way forward depend on the sector in question? What practical considerations must be assessed: timing, sequencing and administrative burden? Any assessment of how to best liberalize a services sector must be considered against the aims of the liberalization process. For each sector for which liberalization is being considered, several important questions need to be answered:

- Is Kyrgyzstan seeking to enhance export opportunities or improve prospects for inward investment?
- On the domestic front, is Kyrgyzstan seeking to simply replace current public-sector providers or rather to encourage growth in the sector by providing incentives for new private services providers to enter targeted sectors of the market alongside the public-sector players in public-private partnerships?
- Is Kyrgyzstan seeking to attract investment from regional players from other developing countries, international players from developed countries, or both?
- Is Kyrgyzstan seeking to encourage players from select countries (that is, from country X, Y or Z) to enter its market as investors, or rather a much larger and varied mixture of players that would enter the market under more competitive conditions?
- How important is it for Kyrgyzstan to demonstrate that it will not backtrack on its market opening commitments?
- What sequencing of market opening is desirable based on future expectations for the sector, both in Kyrgyzstan and in the South Asian region more generally?

Consideration of these questions should be made against the set of shared aims defining the country's stance in developing the tourism and the software and IT services sectors:

- To encourage growth in the sector by providing incentives for new services providers to enter targeted sectors of the market alongside public-sector players in public-private partnerships;
- To attract investment from top international players from both developing and developed countries;
- To encourage the most competitive players from a large, varied mixture of players to enter the market;
- To demonstrate that market opening commitments are firm and permanent to encourage investment;
- While opening national markets first to encourage inflows of investment, to subsequently expand services activities, including through outward investments in regional markets, as a regional services hub;
- To be able to move quickly in order to, first, ensure these sectors open fast enough to generate national employment opportunities lost in declining sectors (such as agriculture and textiles/clothing), and, second, secure an early mover advantage in these sectors (relative to other countries in the region) to establish Kyrgyzstan as a regional hub for each of these emerging sectors.

UNCTAD works with Kyrgyzstan through UNCTAD's project on Assistance to Developing Countries on Services, Development and Trade Negotiations to assess approaches and options for regional and multilateral services trade liberalization, including through a comprehensive questionnaire-based study. Such assessments can assist each country to determine which approaches to liberalization are best suited to meeting national development objectives and generating gains from trade in each of the sectors selected for liberalization and in the wider national and regional economies.



## Planning and the Wider Policy Framework for Services Development

The story of the growth of the tourism and energy services sectors in Kyrgyzstan, and more broadly the recent growth of the economy as a whole is consistent with results from a recent multi-country study of trade liberalization in these sectors. The results provide econometric evidence that openness in services influences countries' long run growth rates by improving efficiency in national economies. Specifically, the study shows that countries with fully open services sectors grow up to 1.5 per cent faster than other countries.

However, not all countries liberalizing these sectors experienced increased growth. In this context, UNCTAD's work to assess the impacts of trade liberalization in developing countries finds that not only the quantity but also the quality of opening is important – that is, it needs to be assessed how various elements of complementary national policy measures can influence entrepreneurship, ease of entry, labour recruitment and investment in liberalized sectors. Specifically, UNCTAD finds that:

The issues of the pace and sequencing of reforms and the impact of regulatory frameworks on the final outcome of trade liberalization have received increased attention as they seem crucial for assuring development gains from services trade liberalization. There is also a need to identify flanking policies to strengthen domestic capacities in services. Trade liberalization alone does not guarantee that services needed for growth and development will automatically emerge in developing countries.

In this context, UNCTAD further emphasises:

While analysis of such experiences is increasing, to date there is still a lack of understanding about the functioning of the various policies, and there is even less understanding about the ways in which these options may play out in different economic and social scenarios. In order for privatization and liberalization to deliver their expected benefits, there is a need for more analytical work on types of flanking policies (which are in themselves not cost free), their pros and cons, the range of situations in which they produce desirable results, and their potential for failure (their costs and who pays the costs). Finally, relying on flanking policies to make privatization and liberalization work may – in certain cases – foreclose the more fundamental question about whether or not private-sector and foreign operators' involvement is the most suitable option in the first place. Even in developed countries there are sensitivities, particularly in respect of health, education and water services. All these complex issues need to be taken into consideration prior to deciding on whether or not privatization is the best option.

The current round of market access negotiations under Article XIX of the GATS, launched in 2000, aims to achieve progressively higher levels of liberalization of trade in services through the reduction or elimination of the adverse effects of measures on the trade in services in order to provide effective market access. These negotiations provide developing countries with an opportunity to achieve commercially meaningful market access commitments in sectors and modes of interest to them and a progressive opening market access consistent with their development situation. This includes the flexibility to open fewer sectors and liberalize fewer types of transactions (that is, modes 1–4). Key objectives for developing countries, including Kyrgyzstan, should be not only to maximize flows of services exports but also to ensure developmental gains from increased services trade to contribute to building a competitive services sector and to maximize the overall level of development at the national level.<sup>25, 27</sup> Accordingly, of the sectors where further liberalization is currently possible under the GATS, those selected for further liberalization should contribute to:

- Strengthening of the sector itself by introducing competition, efficiency and transfer of technology;
- Strengthening other goods and services sectors (producer services);
- Expansion of exports of goods and services;
- Infrastructure building (telecommunications, transport and financial services);
- Attracting FDI where no or only limited service capacity presently exists – FDI attracted through the opening of commercial presence with appropriate limitations and performance requirements could contribute to domestic capacity building;
- Developing sectors in which the country has achieved considerable capacity and competitiveness;

- Locking-in the process of domestic reform.

Each liberalized sector in Kyrgyzstan should be screened against the above benchmarks by stakeholders. This process also needs to be accompanied by the identification of potential regulatory barriers associated with major trading partners which may prevent greater outsourcing or delocalization of services of export interest to developing countries. Moreover, supportive SME policies providing financial incentives – including government-sponsored mechanisms providing start-up financing on attractive and easily accessible terms – to firms in the sector could be designed and put in place to facilitate SME entry into the new candidate sectors.

## **D. RECOMMENDATIONS FOR NATIONAL CONSULTATIONS**

National dialogue and consultation on how to proceed in developing the new candidate services sectors discussed has been undertaken in Kyrgyzstan. However, additional dialogue and consultation is now needed to support the negotiation of objectives and strategies for the current round of GATS negotiations. All relevant stakeholders from government, parastatals, the private sector, labour groups, civil society and academia should work together to elaborate a national master plan for development of the services sector (for details see Section III.A). In national stakeholder consultations to develop a master plan, stakeholders should seek to cooperatively address the following questions (an illustrative list only):

- Is there too much, or not enough, opening in the tourism and energy services, as well as other liberalized sectors? Does Kyrgyzstan's offer in the WTO Doha Round reflect these perspectives?
- Were regulatory frameworks for the tourism and energy services markets sufficiently robust before these sectors were opened up through the GATS?
- To what extent was additional regulation needed and how quickly was it developed and implemented?
- Have openings made in other sectors such as the financial, insurance, environmental, education and healthcare services sectors helped to build synergies with export development efforts in the tourism and energy services sectors?
- What have been the development advantages and disadvantages of liberalizing services such as environmental, education and healthcare services?
- What positive linkages with services and merchandise trade are anticipated with tourism sector development?
- What are the positive and negative interactions existing between liberalized services sectors?

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# II

## **NATIONAL ENERGY SERVICES POLICY REVIEW**

## **A. THE ROLE AND EFFECTIVENESS OF THE ENERGY SECTOR IN THE NATIONAL ECONOMY**

Society's demands for energy are determined by consumption by the population on the one hand, and by enterprises on the other. Energy is necessary for the population first of all for satisfying their essential needs and secondly for maintaining production and entrepreneurial activities as a source of income required to provide welfare and access to services.

Until recently the Kyrgyzstan power industry's share in GDP was 5% (table 1.2), 16% of industrial production volume, 10% of State budget income (1990–2000) and approximately 2% (table 1.3) of employment in the sector. Furthermore, this sector is a multiplier since it provides production processes across related sectors. According expert estimates one of the reasons for the rapid development of the clothing sector and the increase in employment over recent years has been the availability of cheap electric power.

Electric power plays a very important role in developing the country's economy, supplying industrial production needs and the population's needs in terms of energy, and bringing hard currency from exports. Furthermore, the energy sector has an important role to play in social welfare.

In macroeconomic terms the country depends to a very significant degree on the energy sector which impacts the State budget due to (1) its high proportion in budget receipts from taxes and duties, (2) needs in budget grants and subsidies, the presence of debts for State budget, high levels of operating costs, and finally (3) the high proportion of State debts falling to this sector of the economy with its resulting financial risks.

As noted in the Country Development Strategy (2009–2011) for the last 5 years, the Kyrgyzstan power industry has stagnated. Improvement measures for power generating enterprises have not yielded the required results. The sector operates with the power production capacity cumulated over the last century. Since 2001 the consumption level has been kept at the rate of 2% of GDP per year, however, in recent years increases in demand have led to shortfalls in power production.

The energy sector together with other sectors in the country's economy has decreased in recent years. The sector share of production and distribution of electric power, gas and water fell as part of GDP from 6.4% in 2000 to 2.2% in 2008 and was even negative for that period (table 1.4). The growth of the value-added cost of energy in 2005–2008 was zero.

Since 2007 due to water shortages and lack of fuel for generating stations, the Government imposed power rationing in 2008. Power production was decreased by 30%. In 2009 the Ministry of Industry, Energy and Fuel Resources suggested limitations at 18% of total consumption. Energy and generation shortfalls impacted industry production resulting in losses across industry and other sectors of the economy. For 5 months of 2009 the volume of production in industry fell by 20.2%. Energy sector problems and increased internal and external demand were the cause of falls in industrial output leading to a slowing-down of growth rates for State-owned enterprises in particular. In particular, the output of construction materials fell from the beginning of 2009 by 63.3%, textile and sewing goods by 42.2%, electronic and optical equipment by 35.1% for the same reasons.

Experts in Kyrgyzstan consider that the problems of the national power system lie partly in inappropriate technological operating procedures.

The country's energy sector is State-controlled. There are some State-owned companies that predominate within it. Despite the presence of energy sources, including hydro-electric power, Kyrgyzstan depends on imported oil, gas and coal.

The energy sector is currently structured along functional lines: power generation, transmission and distribution.

To satisfy both the energy needs of the population and those of industry and eliminate energy sector problems, a system of indicators for the energy services sector determining the directions and parameters for sector development was developed<sup>1</sup>:

1. Power production – 12.3 billion kW. This indicator determines the power output to ensure both a balanced development of the economy and the country's energy security.
2. Export volume – 1,000 million kWh, per annum up to 2011. In terms of electricity output Kyrgyzstan has sufficient export potential to be economically attractive for neighbouring countries in the region. So electricity shortages were due to the sale of electricity abroad to take advantage of higher energy prices enabling domestic electricity subsidies to continue to support the population.
3. Power losses over the distribution grid were as much as 27% in 2011.
4. Collection of payments for electricity consumed will be at 97 % by 2011. These indicators reflect the improved efficiency of the tax system and improvements in the reliability of power supplies to domestic consumers.
5. The tariff for electricity will be 1.66 Som/kWh by 2012. This indicator determines the level of prices for electric power to cover costs. The indicators under points 3-5 are expected to contribute to making the power industry more attractive for investment in terms of financial recovery and profit.
6. Coal production – 1,479,000 metric tonnes for 2009–2011.
7. Gas production – 51,000,000 m<sup>3</sup> for 2009–2011.
8. Oil production – 237,000 tonnes for 2009–2011. These three indicators determine the minimum possible level of production of fuel and energy resources for the country to satisfy consumer needs.
9. Development and adoption of the Government Resolution on energy saving. This indicator will contribute to the effective and rational use of electric power. Here the Government plans to develop a programme to reduce the costs of energy consumption in GDP by 13% through comprehensive energy savings.
10. Introduction of reforms:
  - (a) concession or privatization of electricity distribution companies 2012;
  - (b) establishment of an independent regulatory body for the power industry 2012;
  - (c) development and adoption of a package of rules and regulations on the operation of an energy market.

The reforms are aimed at the economic and financial recovery of the fuel and energy industry, improved sector management and enhanced reliability of power supplies.

To achieve these energy sector indicators an analysis will be carried out on the energy sector, to discover its strengths and weaknesses together with the threats and opportunities facing it.

## **1. The Current Status of the Energy Services Sector in Kyrgyzstan**

Kyrgyzstan has 2% of the energy resources of Central Asia, 50% of the coal reserves and 30% of the hydro-electric resources, of which only a tenth part has been developed. The structure of the energy balance of the country includes imports with more than 50%, which comprises oil products, gas and coal. Table 2.1 shows the structure of energy balance (EB) over recent years and 2 scenarios of its future development.

Table II.1. Energy Balance Consumption within the Country and Forecast until 2025

	Unit of measurement					scenario 1				scenario 2			
		2001	2005	2006	2010	2015	2020	2025	2010	2015	2020	2025	
Electric power	Millions kWh.	6.780	7.095	7.185	10.104	13.074	15.280	18.030	10.262	13.074	18.230	22.640	
Natural gas	Millions m3	675.5	626.9	666	700	710	730	750	525	465	425	375	
Coal	Thousand tonnes	1,123	1,254	1,208	1,770	2,060	2,190	2,405	3,270	5,060	5,190	5,405	
Oil	Thousand tonnes	75.5	80.2	80	99	99.6	105.6	112	99	99.6	105.6	112	
Diesel oil	Thousand tonnes	160	130.3	136.4	176	220	280	340	176	272	320	390	
Motor petrol	Thousand tonnes	194	271	322	350	360	380	420	320	360	410	680	
Fuel oil	Thousand tonnes	77	56.6	60.8	68	70	80	90	68	70	80	90	

Source: National Statistical Committee of Kyrgyzstan, *Energy Balance of Kyrgyzstan 1990-2001 and Energy Balance of Kyrgyzstan (1999, 2001, 2005)*.

What follows is a detailed consideration of each component of the Energy Balance starting with the power industry as the main component. Nuclear technology is not used due to the high level of seismic activity in the country.

## 2. Power Industry

The existing electricity grid provides electricity practically for the whole population except for some summer pasture locations, geological exploration areas and weather stations and other specific consumers with their own independent power supply. Per capita electricity consumption in 2007 was 2,379 kWh.

Hydro-electric power capacity from 252 large and medium rivers is estimated at 18.5 million kWh. The potential of hydro-electric power resources from small rivers and drainage systems comes to 5-8 billion kWh per annum. Currently less than 10% of the existing potential is used.

Today, the electricity industry includes 17 power stations (Figure 2.1) with an overall output of 3.68 million kWh, including:

- (a) 2 power stations generating 0.73 million kWh.;
- (b) 15 hydro-electric power stations generating 2.95 million kWh;
- (c) More than 70,000 power transmission lines carrying voltages ranging from 0.4-500 kV, of which 546 km are lines carrying 500 kV, 1,714 km are lines carrying 220 kV and 4,380 km are lines carrying 110 kV;
- (d) 490 transformer stations carrying voltages ranging from 35-500 kV with an overall power output of more than 8,000 MW.

The restructuring of the State monopoly *Kyrgyzenergo* started in 2001 with the separation of its activity into the receiving and transporting of electricity while retaining the State monopoly on energy distribution. Electricity generation and transmission companies will not be subject to further privatization under Kyrgyzstan legislation. Some 93% of these companies are State-owned and run by a special Government body.

The legislation set up one heat distribution company – JSC *Bishkekteploset* and four electricity distribution companies: JSC *Severelektro*, combining the Chui, Bishkek and Talas Transmission Electricity Stations (TES). The JSC *Severelektro* was also allocated as part of its assets the Kemin small hydro-electric power station. The JSC *Vostokeylektro* combined the Naryn and Issyk-Kul TESSs, the JSC *Oshlektro* and the JSC *Djalal-Abadelektro*. These distribution companies were reincorporated and received the status of open joint-stock companies, prior to future privatization.

Figure II.1 Scheme of Location of Existing and Prospective Power-Electric Stations



In October 2001 the coal and gas fuelled power stations in Bishkek, Osh, the Atbashy hydro-electric power station (HPPS), the cascade serving the Toktogul HPPS, HPPS construction enterprises were separated out from the State conglomerate to establish the JSC *Electric Stations*. Along the same lines the JSC *National Electric Network of Kyrgyzstan* was established to replace JSC *Kyrgyzenergo*. The new company included central support services, high-voltage power lines of 110 kV and higher (and separate areas of electric grids of 35 kV). In January 2002 ownership of 35 kV power lines was transferred to the electric distribution companies.

Restructuring allowed the private sector to be involved in electricity production. The following private companies are currently in operation: JSC *Chakan HPPS*, JSC *Kalininskaya HPPS*, JSC *Issyk-Ata HPPS* and JSC *Kemin HPPS*. The largest is JSC *Chakan HPPS*; it consists of 8 hydro-electric stations with an overall output of 29.78 MWh. The output of the remaining hydro-electric stations is as follows: JSC *Issyk-Ata HPPS*- 1.6 MWh, JSC *Kalininskaya HPPS* - 1.5 MWh, JSC *Kemin HPPS* – 11.2 MWh. Several private companies distribute electricity; however their output distribution does not make up even 1% of total energy. In accordance with the legislation governing the special status of the Toktogul HPPS, the hydro-electric power stations making up the Toktogul HPPS Cascade cannot be privatized. The legislation incorporates the following stations: Toktogul HPPS – 1,200 MWh, Kurpsay HPPS- 800 MWh, Tash-Kumyr HPPS – 450 MWh, Shamaldy-Say HPPS – 360 MWh and Uch-Kurgan HPPS -120 MWh. The high-voltage electricity grids operated by JSC *National Electric Networks of Kyrgyzstan* carrying 500, 220, 110 kV have also been ring fenced from privatisation. However, the legislation does allow the construction of new power stations with no upper output limit as 100% private ventures or involving the private sector to some degree. In particular, the construction of Kambar-Ata HPPS-2 with an output of 360 MWh is currently proceeding as a project jointly financed by the Kyrgyzstan Government and JSC *Electric Stations*. Kyrgyzstan and Russia have also reached agreement on the joint construction of Kambar-Ata HPPS-1 with an output of 1,900 MWh, which will be a private joint-stock company. In 2007 an invitation to tender was announced for the privatisation of the largest electricity distribution company JSC *Severlektro*, Bishkek power station with an installed power output of 690 MWh and the Bishkek power grids as a single package. However, the world financial crisis showed that it was difficult to find investors for such a large

energy enterprise. Work is currently being carried out on an audit and valuation of the remaining distribution companies for the purpose of their being put out to tender for privatisation.

In 2008 the country's power plants generated 11.6 billion kWh of electricity representing a fall of almost 79.5 % compared to the previous year. At the same time underproduction of electric power at stations has been compensated by increase in generation at heat stations which in 2008 made up 1.01 billion kWh or 126% from 2007. The dynamics of the total balance of electric power is shown in table 2.2.

**Table II.2. Energy Balance, in Millions of kWh**

	1991	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Industry	3,509	1,939	1,843	1,784	1,531	1,369	1,222	1,101	1,315	1,311	1,305	1,453	1,576	1,572
Other	1,178	1,147	1,148	1,216	1,262	1,365	1,456	1,597	1,497	642	712	743	802	813
Agricultural consumers	1,986	921	677	661	656	586	526	380	97	68	57	71	56	70
Population total	1,455	2,747	2,573	2,964	3,802	4,455	3,329	3,061	4,077	3,806	3,934	3,772	3,899	3,613
System losses	1,064	4,553	4,371	3,930	3,740	3,839	4,976	4,866	4,996	5,142	3,979	3,813	3,694	2,859
<b>Domestic market</b>	<b>9,192</b>	<b>11,307</b>	<b>10,612</b>	<b>10,555</b>	<b>10,991</b>	<b>11,615</b>	<b>11,509</b>	<b>11,005</b>	<b>11,982</b>	<b>10,969</b>	<b>9,987</b>	<b>9,852</b>	<b>10,027</b>	<b>8,927</b>
Net export	4,292	2,061	1,681	610	1,765	2,833	2,165	1,061	1,709	3,382	2,577	2,441	2,379	543

Source: Ministry of Industry, Energy and Fuel Resources of the KR

### 3. Oil and Gas Products

**Oil and gas.** Forecast geological resources of hydrocarbon raw materials in the Fergana valley stand at 145 – 260 million tonnes. 15 oil, gas and oil-and-gas coalfields are under operation. Extracted oil reserves comprise 11.3 million tons, natural gas of industrial category – 4.8 billion m<sup>3</sup>. Wear and tear on field and technical equipment is at more than 75%. In 2007 oil production increased by 3.7% (71,000 tonnes) and 12.3% (17.3 million m<sup>3</sup>). Natural gas production growth has been reached thanks to contributions from Chinese investors to repair capped wells. In 2008 the level of production of 2007 was maintained through the introduction of the new technology of horizontal drilling and well intensification, and the drilling of new production wells.

The State enterprise *Kyrgyzneftegas* (Kyrgyz oil and gas) has the status of a monopoly for the exploration, production, processing, transportation and storage of oil and gas products and holds shares in joint enterprises, including shared production contracts (shared production agreements). The fee for connection to networks and gas pipelines is determined by the State Department on Regulation of Fuel and Energy Industries (SDRFEI), the value of which is identified by power output (electric power) or volume (natural gas). A company's costs for connection are broken down by years, normally to be paid over ten years, but not exceeding 25 years.

Private sector involvement in exploration, production, collection, transportation and storage is permitted and has no limitations. Private companies and individuals are also allowed to participate in oil transmission, distribution and commercialization.

Oil exploration and oilfield development licenses are issued jointly by the State Agency on Geology and *Kyrgyzneftegas*. Exploration area usage is limited as follows: 1,000 km<sup>2</sup> for two to three years with a minimum level of annual investment in the amount of 50 US dollars per m<sup>2</sup>, or 100 US dollars per m<sup>2</sup> depending on the type of lease. Development licenses are issued for ten years on condition that annual reports are provided.

Oil and natural gas production have small volumes and for 1991 – 2005 it fell by 2.2 times for oil and 3.8 times for gas. The level of natural gas production fell as a result of coalfield exhaustion, equipment wear and tear, and lack of financing. According to forecasts in 2010 and beyond it is planned to produce approximately 30 million m<sup>3</sup> of gas per annum. Two companies conduct oil and gas production operations. They are JSC *Kyrgyzneftegas* and JSC *Batkenneftegas*.

In the long term, further growth is only possible by the exploitation of new coalfields in prospective areas. Forecast reserves are estimated in the Fergana valley at 109 million tonnes of reference fuel (t.r.f.), in the Alay valley – 50 million t.r.f., in the Naryn valley – 75 million t.r.f., in the Issyk-Kul valley – 25 million t.r.f. and



in the Eastern-Chui valley – 30 million t.r.f. The drilling of 174 new development wells together with deep drilling operations was scheduled for the period up to 2010.

**Table II.3. Balance of Oil Products for 1990-2008, Expected for 2009-2010 and Forecast until 2025<sup>2</sup>, in Thousands of Tons.**

	1990	2001	2005	2006	2007	2008	2009	2010	2015	2020	2025
<b>Oil balance</b>											
Resources	162	87.5	90.4	84.1	95.2	103	111	118	118	120	126
Production	155	75.5	77.9	70.6	68.2	78	80	82	82	85	90
Received by import	-	-	5.1	6.1	17	17	17	17	17	17	17
Balance for beginning of year	7	12	7.4	7.4	10.2	8	14	19	19	18	19
Distribution	162	87.5	90.4	84.1	95.2	103	111	118	118	120	126
Consumed domestically	3	75.5	80.2	80	85.2	95	97	99	99.6	105.6	112
Losses	2	-	-	-	2	2	2	2	1.4	2.4	2
Released for export	151	-	-	-	-	-	-	-	-	-	-
Balance for end of year	6	12	10.2	4.1	102	103	111	118	17	12	12
<b>Balance of diesel fuel</b>											
Resources	696	178	173.9	181.4	199.9	192	193	194	293	350	420
Production	-	43.4	31.43	31.2	51.9	33	34	36	40	45	55
Receipt by import	616	95	128.9	136.2	135	145	145	145	230	280	340
Balance for beginning of year	80	39.6	13.6	14	13	14	14	14	23	25	25
Distribution	696	178	173.9	181.4	199.9	192	193	194	293	350	420
Consumed domestically	622	160	130.3	136.4	175.9	170	173	176	272	320	390
Losses	-	0	0.7	0.8	0.7	0.7	0.7	0.7	1	2	3
Released for export	24	0.6	19.1	19.1	1.63	1.63	1.63	1.63	3	4	5
Balance for end of year	50	17.4	23.7	26.1	21.67	19.67	17.67	15.67	17	24	22
<b>Balance of motor petrol</b>											
Resources	737	200.1	305.8	355.5	352	388	390	390	405	430	475
Production	-	45.2	13	11.4	12	18	20	20	25	30	35
Received by import	713	101.9	273.6	324.1	320	350	350	350	360	380	420
Balance for beginning of year	24	53	19	20	20	20	20	20	20	20	20
Distribution	737	200.1	305.8	355.5	352	388	390	390	405	430	475
Consumed domestically	682	194	271	322.5	327	340	345	350	360	380	420
Losses	-	0	6.7	7	-	-	-	-	-	-	-
Released for export	20	0	5.4	6	5	5	5	5	5	10	15
Balance for end of year	35	6.1	22.7	20	20	48	30	35	30	40	40
<b>Balance of fuel oil</b>											
Resources	1184	125.8	100.1	76.8	91.88	81.08	82.288	83.288	90	100	105
Production	-	42.2	41.7	42.1	54.1	48	50	52	54	57	60
Received by import	1006	20.4	14	1.7	20	18	17	16	16	20	25
Balance for beginning of year	178	63.2	44.4	33	17.788	15.08	15.288	15.288	20	23	20
Distribution	1184	125.8	100.1	76.8	92.88	81.08	82.288	83.288	90	100	105
Consumed domestically	1027	77	56.6	60.8	74.1	66	67	68	70	80	90
Losses	1	-	0	0	-	-	-	-	-	-	-
Released for export	-	2.1	10.2	0	2.78	0	0	0	0	0	0
Balance for end of year	156	46.7	33.3	16	15.08	15.08	15.288	14.788	20	20	15

Source: National Statistical Committee of Kyrgyzstan, EB of KR 1990-2001 and EB (1999, 2001-2005), Bishkek 2002, 2006.

Production of oil products in Kyrgyzstan is very minor; there is only one refinery in Djalal-Abad with an output capacity of 250 thousand tonnes per year.

The small volumes given above for the production, import and processing of oil cannot satisfy the growing needs of the country for light oil products. To cover these needs, it is necessary to increase import volumes: gasoline from 286.5 thousand tonnes to 295 thousand tonnes by 2010 and up to 495 thousand tonnes by 2025; diesel oil from 133.4 thousand tonnes by 2010 and up to 350 thousand tonnes by 2025; fuel oil from 17.2 thousand tonnes to 27 thousand tonnes by 2010, and increase in-country oil production and its processing with the corresponding gasoline recovery from 12.9 thousand tonnes in 2005 up to 25 and 55 thousand tonnes by 2010 and 2025; diesel oil from 31.4 thousand tonnes in 2005 to 36 thousand tonnes by 2010 and up to 65 thousand tonnes by 2025.

Structural policy in the oil and gas industry largely depends on improving tax policy and on the regulations governing subsoil use, attracting direct investments for the development and production of new coalfields of oil and gas, and new refinery enterprises. Gas industry development policy will be aimed at creating conditions for providing reliable gas supplies and carrying out market liberalization.



## 4. Gas

Equipment wear and tear – 80%, loss of natural gas reached 110 million m<sup>3</sup> accordingly, or more than 10%. Some 119.4 km of main and 90 km of medium and low-pressure gas pipelines need to be replaced. Approximately 2 billion soms are required to carry out work to improve the reliability of gas pipelines and gas engineering facilities in the north of the country.

## 5. Gas Supply

The supply of natural gas stands at 750 million m<sup>3</sup> per year, including direct contractual supplies of 300 million m<sup>3</sup> provided by JSC *Kyrgyzgas*. Fergana valley natural gas is also piped to Uzbekistan.

Natural gas is transported by main (high pressure) gas pipelines and distributed by low-pressure gas pipelines. There are no gas holders or propane tanks in Kyrgyzstan.

JSC *Kyrgyzgas* is a monopoly. It owns and manages gas transportation and distribution systems. It operates 753 km of main, 657 km of medium-pressure and 1,679 km of low-pressure gas pipelines. The *Kyrgyzgas* Company supplies gas directly to large consumers and companies re-selling gas. It is an authorized monopoly. The anti-monopoly agency establishes tariffs based on cost recovery and profit level, and licenses gas enterprises.

The rise in natural gas import prices has been constant over the last two years. Prices have risen from 45 US dollars per 1,000 m<sup>3</sup> to 145 US dollars in 2008 and up to 240 US dollars per 1,000 m<sup>3</sup> in 2009.

**Table II.4. Gas Balance for 1990-2006, and Forecast for 2010-2025<sup>3</sup>. By Scenario, (in Millions of m<sup>3</sup>)**

	1990	1995	2001	2005	2006	scenario 1				scenario 2			
						2010	2015	2020	2025	2010	2015	2020	2025
Resources	2174	882.3	698.5	736.2	766.3	804	825	850	880	-	-	-	-
Production	96	35.7	32.8	25.1	19.4	20	30	30	30	30	50	60	70
Received by import	2078	846.6	665.7	711	746.9	784	795	820	850	555	485	425	355
Distribution	2174	882.3	698.5	736.2	766.3	804	825	850	880	585	535	485	425
Consumed domestically	2076	856.2	675.5	626.9	666	700	710	730	750	525	465	425	375
Losses	38	26.1	23	109.3	100.2	104	115	120	130	80	70	60	50

Source: National Statistical Committee of the KR, EB of the KR 1990-2001, (1999, 2001-2005), Bishkek 2002, 2006.

According to forecast of natural gas balance for the period until 2025, it is expected that there will be:

- Reduction in gas production from 32.8 million m<sup>3</sup> in 2001 to 30 million m<sup>3</sup> by 2010;
- Growth of consumption (without losses) of natural gas from 624 million m<sup>3</sup> in 2005 to 692 million m<sup>3</sup> by 2010 and up to 750 million m<sup>3</sup> by 2025;
- Import growth from 711 million m<sup>3</sup> in 2005 to 784 million m<sup>3</sup> by 2010 and up to 847 million m<sup>3</sup> by 2025;
- Minor development of imports is connected to the expected growth of prices for natural gas in the world market and the CIS market.

As may be seen from table 2.4 Kyrgyzstan will not be able to provide itself with natural gas in the far future and will be dependent on imports.

The development of the gas supply system will be carried out on the basis of the programme to privatize the country's gas installations, the reconstruction and development of gas pipelines in coordination with planned volumes of gas consumption and improved State regulation.

Currently audits and valuations are being carried out for the purpose of putting the gas company JSC *Kyrgyzgas* and oil company JSC *Kyrgyzneftegas* out to tender for privatization.

## 6. Coal

There are 70 known coalfields in Kyrgyzstan. Overall reserves are 1.3 billion tons. Coal accounts for 9.5% (2005 figures) in Kyrgyzstan's fuel-energy industries. At the same time Kyrgyz coal comprises in total 17.5% of consumption and coal imports are at more than 82%. The coal industry consists of 30 coal companies employing 1,933 people (2007 figures). Coal-producing companies are registered as authorized monopolies and the anti-monopoly agency approves wholesale prices for coal. Unsuccessful efforts to privatize coal coalfields mainly reflect the low level of commercial viability of projects.

Average per capita coal consumption fell from 0.24 tonnes in 2005 to 0.22 tonnes in 2007. This was directly related to the growth in electricity consumption.

Over 90% of the coal industry's equipment is in poor condition. Because of a high level of outstanding receivables, there is a lack of liquidity that affects the quality of repair work on mining equipment, conveyors and delays in carrying out relief operations for preparing coalfaces. The fuel-energy industry is in a state of crisis and needs to move towards solid fuel because of a lack of development in the electricity industry the coal industry should be revived to increase coal output and meet domestic demand. Data over recent years shows that coal consumption nationwide is sufficiently constant. Estimates put potential domestic coal extraction at 1 million tonnes per year.

Current domestic coal production figures are low and account for only a quarter of domestic consumption (2005 – 331.8 thousand tonnes or 23.8 %) and a third is imported (2005-32.7 %).

There are no restrictions on coal imports. There is no requirement for State-owned companies to use local coal.

The city of Bishkek's fuel-energy industry requires 850,000 tonnes per year, 100,000 tonnes of which are provided by domestic producers (70,000 tonnes from Kara-Keche and 30,000 tonnes from Tashkumyr) and 750,000 tonnes are imported. Kyrgyzstan has an opportunity to be self-sufficient in coal in the long term. It is necessary to develop the coal sector privatization programme, create conditions for the involvement of the private sector, develop and introduce market economy mechanisms allowing competition to lower expenditure and thus the cost price.

**Table II.5. Coal figures for Kyrgyzstan for 1990-2008 and Forecast for 2010-2025 by Scenario, in Thousands of Tons**

Years	1990	1995	2001	2005	2006	scenario 1				scenario 2			
						2010	2015	2020	2025	2010	2015	2020	2025
Resources	7,660	1,816	1,645	1,912	1,828	2,466	2,700	2,850	3,050	3,900	5,700	5,850	6,050
Production	3,742	463	512.6	335.8	321.1	462	1,000	1,350	1,700	1,960	4,100	4,350	4,700
Received by import	2,911	499	344	981.3	907.5	1,120	1,010	900	750	1,180	1,010	900	750
Balance for beginning of year	1,007	853	788.5	596.2	600	640	690	600	600	560	590	600	600
Distribution	7,660	1,816	1,645	1,912	1,828	2,406	2,700	2,850	3,050	3,900	5,700	5,850	6,050
Consumed domestically	4,765	1,162	1,123	1,254	1,208	1,770	2,060	2,190	2,405	3,270	5,060	5,190	5,405
Released for export	1,917	170	28,5	8.8	10	100	200	200	200	100	200	200	200
Balance for end of year	957	466	493.4	6,19.7	620	536	437	460	440	528	437	457	441

Source: National Statistical Committee of the KR, EB of the KR 1990-2001, (1999, 2001-2005), Bishkek, 2002, 2006.

In accordance with the coal forecasts for 2010 and the period up to 2025 the following is expected:

Compared to 2005, by 2010 coal mining will have expanded 1.9 times, threefold by 2015, fourfold by 2020 and fivefold by 2025 or from 331,000 tonnes to 1,700,000 tonnes based on the first scenario; according to the second scenario should the Kavak HPPS be built with a capacity 1,200 MW, it will be necessary to accelerate development of the Kara-Keche coalfield bringing its output up to 3 million tonnes of coal per year by purchasing the required mining transport equipment and machinery. As a result of that investment, coal mining growth would be assumed by 2010 to go from the planned 660,000 tonnes to 2.16 million

tons, by 2015 to 4.1 million tonnes against 1 million tons, by 2025 to 4.7 million tonnes against 1.7 million tonnes provided for according to the first scenario with a gradual reduction in coal imports from 1,013 million tonnes in 2005 to 750,000 tonnes by 2025;

Coal exports to China doubled from 100,000 tonnes in 2005 to 200,000 tonnes by 2010 and more by 2025 and smaller volumes to the neighbouring States of Tajikistan and Uzbekistan.

## 7. Technical Regulations and Standards

With regard to national electric facilities, power generation facilities, distribution networks and electric power transmission grids, the standards and rules of the former USSR and Russia<sup>4</sup> apply. In descriptive terms these comply with international standards. The differences are only in quantitative rules, for example frequency errors are made to a greater extent than in European and American standards.

For oil, account is taken only for admixtures; no other standard is applied. (CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub>, paraffin).

Qualitative characteristics of oil are as follows: sulphur content, density, viscosity, paraffin, for example Dubai-type oil corresponding to standard No 9665-76: slightly sulphurous, density 0.857 – 0.870/cm<sup>3</sup>, viscosity index - 27-38, paraffin-5-11 %, sulphurs from 0.21-0.25%, fractional yield at 300C providing 38-42 %, dissolved oil gas methane from 3 to 70 %, ethane from 15 to 25 %, propane from 8 to 22 %, butane from 3 to 11 %.

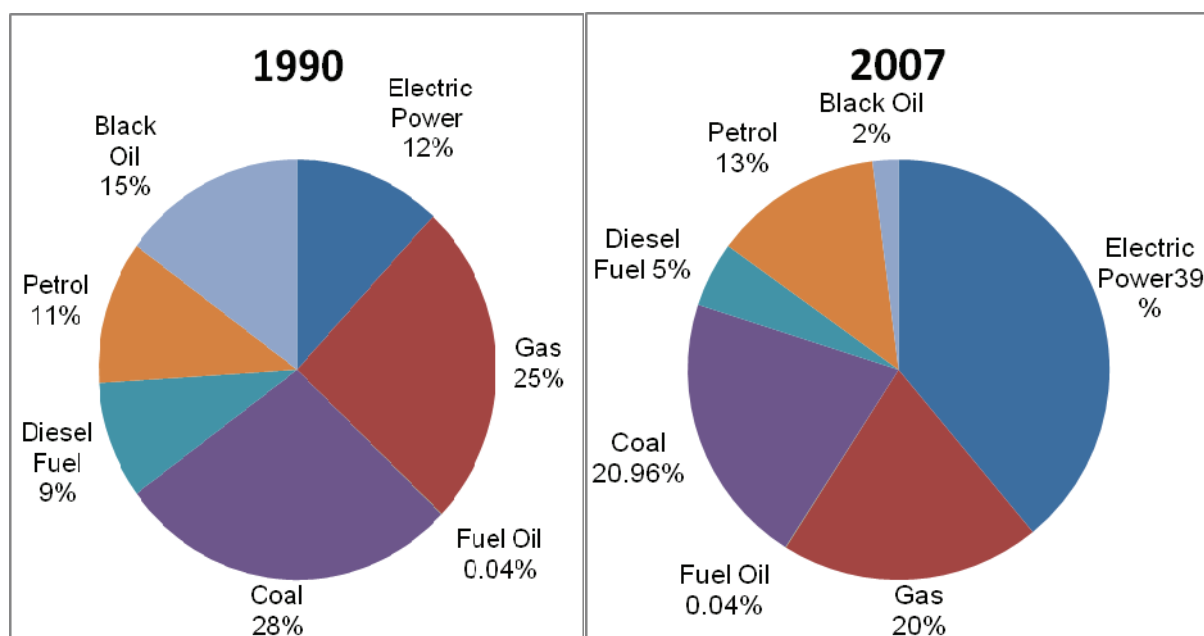
The technical regulations and standards of the former USSR in terms of heating capacity and dryness also apply for natural gas. As Kyrgyzstan is a landlocked country, no facilities and equipment for liquefied natural gas (LNG) are used (e.g. technical specifications for clearance and compression of liquefied natural gas, tanks for storage and tankers for transportation by sea, terminals for shipment and discharge of vessels with liquefied natural gas).

Coal is controlled for heating capacity according to former USSR rules<sup>5</sup>. Ordinary combustion technology is applied. No new technology, including gasification, boiling beds, clean burning technology, etc. is applied.

## B. THE STRUCTURE OF THE ENERGY SERVICES SECTOR MARKET

Currently the largest JSC *Severelektro*, which provides Bishkek city, Chui and Talas provinces with electric power consists of 16 regional electric networks (REN) and 460,066 subscribers, JSC *Vostokelektro* operates 14 REN and has 182,063 subscribers, JSC *Oshelektro* operates 12 REN and has 310,836 subscribers, JSC *Djalalabatelektro* operates 12 REN and has 180,293 subscribers, JSC *Bishkekteploset* (Heating network) which also provides 68 % of housing with heat serving 1,312 domestic houses.

Figure II.2. Breakdown of Fuel-Energy Resources Consumed in 1990 and 2007



In the early 1990s domestic consumption was 16% where 19% was budgeted. Industry, agriculture and commercial consumers accounted for the remaining 65% of electricity. At the same time, coal production was more than 5 million tonnes a year from which 4.5 million tonnes was consumed domestically, natural gas was 2.5 billion m<sup>3</sup>, and fuel oil was 600,000 tonnes.

The breakdown in electricity consumption changed and is now as follows: the population consumes 63% where the budget provided for 12%; industry, agriculture, commercial consumer's use 25%. However total coal consumption is 1,609 million tons, gas is 0.664 billion m<sup>3</sup> and fuel oil 37,000 tonnes.

Today heating, hot water and food provision is fully carried out using electricity, if the 1990 population consumed 1 billion kWh, then this was already 3.6 billion kWh in 2008. There are strong seasonal fluctuations: winter consumption of electricity is in 3.5 times higher than in summer.

Thus, coal consumption by the population has fallen threefold, gas fourfold, black oil 16-fold, but consumption of electricity has increased almost fourfold. Accordingly, as may be seen from Figure 2.2, the general breakdown of consumption of the fuel and energy resources of the country has moved towards an increase in electricity consumption of more than three times, and consumption of coal, gas and mineral oil (except gasoline and crude oil) has decreased.

Energy use in industry also grew. According to the National Statistical Committee of Kyrgyzstan, the importance of electricity and fuel in material production costs since 1992 has grown from an average of 12.02 % (1992) to 23.2 % (2007). Consumption in agriculture has increased by 19.7 % while agricultural products have increased on average by 5 %.

## 1. Shortage of Demand

An analysis of electricity consumption shows that in the near future there may be a shortage of basic capacity. That shortage will grow.

The continuing shift from industrial to household consumption does not mean an increase in income, on the contrary, at low tariffs (lower than cost) for the population, the sector revenues will decrease. In this situation shortfalls in electricity production and limitations on the carrying capacity of high-voltage and low-voltage transmission lines must be expected.

## 2. Equipment Wear and Tear

Failure to estimate basic assets led to incorrect depreciation costs and thus to inadequate funds for investment that brought excessively optimistic prospects of income growth and thereby an underestimation of energy prices. Prices for electric and thermal power have remained almost unchanged. They do not cover actual costs. There has been no thorough analysis and forecasting of the technical and financial state of the power supply system to show what brought the system into decay.

Limitation of the funds allocated for operations and preventive maintenance/repair has resulted in rapid wear and tear on production assets, increased losses in the system, has boosted the cost of production and reduced maintenance reliability.

At the beginning of 2000, the number of substations with voltages of 35 kW and higher, which had been operating for more than 25 years, was 32% but for the beginning of 2001, it was 34.8%.

There is currently no realistic estimate of the cost of investment in worn-out equipment at existing electricity stations and high-voltage transmission lines. Table 2.6 lists the technical State of electric grids as of 1 January 2000.

**Table II.6. Technical State of Electric Grids 0.4-10kW, Across Distribution Companies as of 1 January 2000.**

	Total	Good	Satisfactory	Requires repair	
				km	%
High-voltage transmission line 6-10 kW, in kilometres	26,959	12,163	9,779	5,017	19%
High-voltage transmission line 0.4 kW, in kilometres	27,40	9,556	10,164	8,220	29%
Low-voltage transmission line 6-10 kW, in kilometres	1,387	352	577	458	33%
Low-voltage transmission line 0.4 kW, in kilometres	997	193	505	299	30%
<b>Total range, in kilometres</b>	<b>57,283</b>	<b>22,264</b>	<b>21,025</b>	<b>13,994</b>	<b>24%</b>
Specific weight, percentage	100	39	37	24	
<b>Transformer substation 6-10/0.4 kW, pieces</b>	<b>19,047</b>	<b>7,928</b>	<b>7,835</b>	<b>3,284</b>	<b>17%</b>
Specific weight, percentage	100	42	41	17	

Source: Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan

## 3. System Losses

Every year, the passage from autumn to winter load peaks on both the distribution and infrastructure grids leaving no operational reserves in the system. Grid overflows lead to increased network losses.

It should be noted that 97% of electricity losses occur during the supply of energy to domestic consumers, however the overall losses of electric power per year reach 42%.

## 4. Level of Bill Collection

The level of bill collection is 80-85% of which only 20% is collected as cash. The rest falls under barter operations and mutual settlements.

**Table II.7. Quasi-Fiscal Deficit in the Power Industry for the Period of 2000-2008.**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Generation (MWh)	12,012	11,745	11,079	12,148	11,604	12,041	11,844	11,965	13,220
Losses (MWh)	4,229	4,576	5,506	5,054	4,926	5,133	4,986	4,467	4,257
Level of total losses (%)	35	39	50	42	42	43	42	37	32
Level of excessive losses (%)	28	32	41	31	32	33	34	28	22
Consumption (MWh)	7,782	7,169	6,138	6,986	6,609	6,814	6,855	7,497	8,964
Tariff (cent/kWh)	0.64	0.86	1.15	1.37	1.36	1.45	1.58	1.86	2.21
Tariff (som/kWh)	0.31	0.44	0.38	0.50	0.58	0.595	0.636	0.716	0.852
Total existing rate	0.54	0.73	0.98	1.08	1.13	1.04	1.23	1.56	2.01
Economic tariff (cent/kWh)	2.3	2.3	2.3	2.3	2.3	2.3	2.66	2.8	2.94
Quasi-fiscal deficit (% to GDP)	16.4	13.9	13.5	10.4	8.7	7.6	6.8	5.2	4.1
Quasi-fiscal deficit (in millions of US dollars)	224.2	211.7	215.5	198.8	191.5	185.5	192.8	171.8	153.6
Quasi-fiscal deficit (in millions of soms)	10,716	10,256	10,130	8,689	8,175	7,609	7,749	6,615	5,913
GDP (in millions of US dollars)	1,367	1,525	1,601	1,909	2,203	2,441	2,815	3,290	3,722

Source: Ministry of Industry, Energy and Fuel Resources of the KR and own calculations<sup>6</sup>

Financial instability together with a growing shortage of energy services had an influence on the population's purchasing power making it economically vulnerable. The overall macroeconomic situation of the country depends on reforming the energy sector and carrying out financial reforms.

## **C. REGULATIONS, POLICY MEASURES AND COMMITMENTS ON TRADE LIBERALIZATION INFLUENCING THE ENERGY SERVICES SECTOR**

### **1. Kyrgyzstan's Trade Policy**

For the purposes of forming an open economy, reforms have been carried out which include reform of foreign trade policy proposed as one of the primary tasks. In the field of foreign trade regulation, Kyrgyzstan has moved from tight control by the State over commercial entities to significant liberalization.

Kyrgyzstan's accession to and participation in the WTO has directly promoted reforms in the country. At accession, by the end of 1998, Kyrgyzstan had put into force and adopted the majority of laws and normative acts providing the legal basis for observing the rules and requirements of the WTO. Laws enacted for the purposes of accession to multilateral trade systems have been aimed at establishing a more stable and predictable trade regime for the country.

The revised legislation covered key trade areas such as customs, enterprises, intellectual property, investments and specific sectors such as banking, insurance and telecommunications. The reforming legislation included the elaboration and adoption of a number of basic standard legal documents: the Tax Code of 1996, in 2000 and 2009, the Civil Code which came into force in two phases, in May 1996 and January 1998; the new Customs Code in 2004; the legislation governing foreign investments of 1997 and 2003, the Basic Law on Technical Regulation in 2004 aimed at conformity with WTO rules regarding technical barriers to trade and SPS measures.

Measures were taken to further improve the business climate, customs administration, enhance the independence and sustainability of the judicial system within which unsettled issues had remained.

## Institutional Structure of Trade Policy

The main body coordinating the development of foreign trade policy is the Ministry of Economic Development and Trade of Kyrgyzstan (MEDT) which is responsible for economic policy and foreign trade, the development of entrepreneurship and the creation of an effective system to attract foreign direct investments. In addition, the Ministry is responsible for interaction with the WTO, regulation of regional/bilateral trade and adoption of the relevant policies, including promotion of export development, import replacement and surveillance using tariff and non-tariff measures for the purposes of protection of local producers from unfair competition and technical regulation.

The interaction of Kyrgyzstan with WTO is coordinated by the Interdepartmental Commission on WTO issues which considers multilateral issues related to the fulfilment of WTO Agreements including the implementation of and compliance with related agreements and the preparation of new proposals and commitments.

The development and implementation of trade policy involves the Ministry of Finances (structural and administrative reforms, development of the banking sector), the State Customs Committee of Kyrgyzstan (customs policy, collection of excise and customs duties or payments for import<sup>7</sup>), the State Committee of Kyrgyzstan on Taxes and Duties (collection of domestic taxes), the State Agency on Antimonopoly Policy and Competition Development (antimonopoly policy and regulation of natural and permitted monopolies), the National Institute of Standardization and Metrology (national body on standardization and metrology) and the State Agency for Public Procurement and Material Reserves carrying out Government procurement.

The formulation and implementation of trade-related policy also involves the Ministry of Foreign Affairs, the Ministry of Agriculture, Water Resources and Processing Industry, the Ministry of Industry, Energy and Fuel Resources, the Ministry of Transport and Communications and the National Bank of Kyrgyzstan. The non-Governmental organization Chamber of Commerce and Industry (CCI) promotes the establishment of the legal environment, infrastructure and other conditions for the development of entrepreneurship. The Chamber provides services of trade support, including the issuance of certificates of origin, research of export markets and data collection and the organization of trade fairs. Various associations actively popularize legal, tax, political reforms and public administration reforms.

## Trade Policy Measures

According to the results of the Trade Policy Review conducted in 2006, many revised elements of legislation covering key directions related to trade, customs, entrepreneurship, intellectual property and investment, and concrete sectors – banking, insurance and telecommunications met the provisions of WTO agreements.

The objective of the trade policy of Kyrgyzstan was to achieve a more attractive foreign trade regime, obtaining more access for exports, their diversification and promotion to integrate into the world economy. That objective covered multilateral, regional and bilateral initiatives.

On acceding to the WTO, Kyrgyzstan accepted commitments on tariffs, and other import duties, eliminated differentiated rates of excise tax, used methods of customs valuation and refused to subsidize the export of agricultural products.

### Customs and Excise of Kyrgyzstan

Kyrgyzstan, when importing goods into customs territory, levies the following duties:

- (a) 0.15% - customs duties for customs clearance levied from customs cost of goods cover the cost of provided customs services;
- (b) Import customs duty by rates approved annually in accordance with which, for 2008, the minimum rate of customs duty is 0%, the maximum rate of customs duty is 30 %, with the average rate of customs duty being 5%;
- (c) According to the legislation governing customs duties for the purpose of protecting the domestic market, there is provision for the introduction of seasonal customs duties as required;
- (d) Excise tax – tax for some types of goods such as alcohol and tobacco products by rates approved by legislation annually;
- (e) Value added tax (VAT) at 12%.



Kyrgyzstan provides WTO members with Most Favoured Nation treatment (MFN); it is in the process of negotiations on accession to the WTO on Government procurement and trade in civil aircraft.

As regards the participation of Kyrgyzstan in negotiations under WTO (Doha Round), the country takes the view that new commitments should not infringe sustainable development and should not go beyond existing opportunities.

Within the framework of regional initiatives, Kyrgyzstan actively implements regional trade agreements with all countries of the former Soviet Union (11 countries) in the form of free trade agreements and establishment of customs unions<sup>8</sup>. Those regional agreements are implemented mainly in terms of customs, tariffs, other duties and taxes and transit. The agreements provide for trade without levying customs duties, taxes and duties having equivalent action and quantitative limitation.

Kyrgyzstan is a user of the preferential systems of the European Union (EU), Japan and USA according to the Generalized System of Preferences. And it provides a preferential regime for 47 least developed countries.

Customs valuation is done on the basis of transaction cost. Pre-shipment inspection before transportation is not required.

Application of measures of non-tariff regulation by Kyrgyzstan is also minimal: there is no quantitative restriction on import (quotas only for the import of alcoholic products, bans, permits, requirements on preliminary approval), or other non-tariff measures, contradictory to WTO rules; import restrictions and licensing (except waste and scrap of non-ferrous metals), exist mainly for the purposes of protecting the health and safety of the population and environmental protection according to international conventions.

State-owned and private enterprises decide on trading themselves. They have the right to deal with import-export operations without special registration or restriction, except cases adopted in world practice. Exports are not generally regulated. Exports are not subjected to duties or VAT (except gold).

Public procurement has been liberalized. The legislation specifies the application of price preferences to producers (20% for goods and 10% for works), based on a minimum local composite of 30%.

Currently the main priority of the trade policy of the country is to improve the business climate and promote the strengthening and development of the economic potential of the country. The Government's support of liberal foreign economic activity remains unchanged as Stated in its Country Development Strategy (CDS, 2009–2011). The basic objective for that period was active development of economic relationships with other States, enhancement of competition for the economy and foreign trade, reduction of trade and transport barriers in promoting Kyrgyz goods and services to foreign markets, application of mechanisms of protection in the domestic market.

## **2. Liberalization of the Services Sector: Investment and Business Climate**

After the accession of Kyrgyzstan to the WTO, liberalization had a wide application for such service sectors as telecommunications, transport, production and distribution of energy, all sectors previously closed to foreign investors. Relationships between Government agencies and investors were regulated by the legislation governing foreign investments in Kyrgyzstan, enacted in 2003 which was directed at improving the investment climate in the country. This law provided for an equal and non-discriminatory national regime for foreign investors, providing them with similar legal status and conditions.

Adoption of that law strengthened the investment regime in Kyrgyzstan. It determined the following basic provisions:

- (a) Foreign investors may act alone or in joint enterprises with Kyrgyz or other partners<sup>9</sup>;
- (b) There is no limit on foreign investment and any sector of the economy is open to investment projects, except air transport and the production of alcoholic goods, the foreign direct investment ceiling was only decreased by 49% of maximum foreign ownership in aviation and insurance<sup>10</sup>;
- (c) Preferences (according to State development programmes, investors in priority sectors and in certain areas of the national territory may obtain investment preferences);



- (d) Guarantee of legislative stability for 10 years (this right does not apply to cases involving changes in the Constitution);
- (e) The investor has the right to apply for international arbitration;
- (f) Foreign investors are permitted to own 100% of property;
- (g) Investors may establish subsidiary companies, branches and representation offices;
- (h) Investors can participate in the privatization of Government facilities and public property;
- (i) Foreign officers and employees in foreign enterprises are automatically provided with visas, work and residence permits;
- (j) Legislation guarantees timely payment of adequate and effective compensation in case of expropriation;
- (k) Export of foreign currency for further import or payment of future expenses is guaranteed;
- (l) Investors can keep income in foreign currency; there is no requirement to convert it into local currency;
- (m) Investors can purchase Government securities, shares and other securities of legal entities;
- (n) Foreign and domestic investors should receive production licenses, if required;
- (o) Foreign investors cannot own land, including farm land.<sup>11</sup>

There are no requirements for indicators such as use of local raw materials, labour or minimum export share or local composite use programmes. Local participation is not agreed specially in legislation but expressed in the selection of employees from the region in implementing the investment project, for instance, for construction works, one may select 70% or more employees from that region. There is also a standard that investing companies should share profits by assisting in developing social programmes of local communities, e.g. involvement in construction of schools, stadiums, hospitals or parks. The volume of such assistance is the subject of negotiations with local authorities.

To integrate into the world community and establish a legal base in line with international standards, Kyrgyzstan has concluded intergovernmental bilateral agreements with a number of foreign States with particular regard to the following:

- (a) 24 Agreements on Mutual Protection and Encouragement of Investments (including seven agreements on investment encouragement and protection since 1998);
- (b) Avoidance of Double Taxation;
- (c) Transit Shipments;
- (d) Interstate Convention of CIS countries "On protection of Investors' Rights".

Kyrgyzstan is a signatory to several international conventions such as "New York Convention on Recognition and Implementation of Foreign Arbitration Resolutions". In 1997 it signed the Washington Convention of 1965 "On Procedure of Settlement of Investment Disputes between States and Foreign Investors". The International Arbitration Court is operating under the Chamber of Commerce and Industry of Kyrgyzstan which follows the provisions of the "UNCITRAL Model Law on International Trade Arbitration".

The State body providing support and protection for investors, promotion of investments, and control of implementation of normative legal acts regulating issues of direct investment attraction will be the Ministry of Economic Development and Trade of Kyrgyzstan. There is the Investment Council under the President of Kyrgyzstan (Decree of the President of Kyrgyzstan No. 72 dated 24 February 2007), tasked with producing proposals and recommendations for State bodies on issues of improving the business environment and investment climate in Kyrgyzstan. The Council consists of representatives from Government agencies, multilateral and bilateral donor organizations and foreign and domestic investors.

The new Tax Code of Kyrgyzstan was introduced in 2009 aimed at establishing a favourable tax regime for economic entities.

To improve the business climate and promote private sector development, particularly for small and medium-sized enterprises, it was necessary to eliminate administrative and technical barriers (weak harmonization with international systems of standards) to trade.

On acceding to the WTO Kyrgyzstan entered into a commitment to establish such systems of technical regulations which would more completely meet international rules, regulations and standards throughout the world. In recognition of Article 2 of the WTO Agreement on Technical Barriers to Trade, technical regulations and standards in the country are applied based on a Most-Favoured Nation treatment of goods and services coming from different countries, i.e. based on non-discrimination.

In December 2004, Kyrgyzstan legislation governing technical regulatory basic principles was enacted. According to which the volume of mandatory requirements for technical regulations in the field of human and animal safety, environmental and consumer protection was limited, and standards made voluntary.<sup>12</sup> The Soviet systems of standards have been transformed into market system standards. Within the framework of the existing system, efforts were made to harmonize national standards with international standards such as ISO and IEC and the Codex Alimentarius Commission.<sup>13</sup> About 600 standards of the Russian Federation have been adopted. About 38% of standards have been harmonized in accordance with international regulations. The programme for 2006-2007 concentrated on the harmonization of technical regulations in such areas as transport safety, food products, construction materials, and on drafting 74 national commodity standards. It should be noted that harmonization runs slowly, significantly more slowly than the planned level of harmonization.

The Ministry of Economic Development and Trade is the body responsible for the implementation of uniform policy and the coordination of national activities on developing technical regulations and preparing proposals for international cooperation in that field. It also takes responsibility for the work in bringing standards into compliance with WTO requirements.

Information on technical regulations of the certification system and industrial standards currently in force in the country are available and openly published. They are provided to anyone by MEDT information centres and those under the National Institute of Standards and Metrology (NISM) specifically established for that purpose. The separate division of NISM, the Kyrgyz Centre of Testing and Certification is the Government enterprise responsible for conformity recognition.

Recognition of conformity to standards, and results of tests for mandatory technical rules published by other (foreign) authorities may be recognized in Kyrgyzstan. Recognition may be based on bilateral, multilateral or unilateral agreements on mutual recognition such as the interdepartmental agreement between standardization bodies.<sup>14</sup> Recognition of certificates published by other (foreign) authorities generally depends on the availability of the relevant agreements. Certification, testing rules and procedures are applied similarly with respect to imported and domestic goods.

It may be noted that activities to facilitate trade have been implemented actively since 2007, as a result of which, the number of licenses from relevant agencies has been reduced from 30% to 50%, and currently the work on introduction of the "Single Window" principle for export/import documentation is being implemented.

### **3. Kyrgyzstan's Obligations under the WTO in the Energy Services Sector**

After the restructuring of the State monopoly "Kyrgyzenergo" (2001), its activity was separated into the fields of production and transmission (transportation) of energy and the existing regime (State monopoly) was retained. Distribution companies were provided access to the field of energy distribution in accordance with most favoured nation treatment. Subsequently international tenders were invited for the privatization of the "Severelektro" distribution network. Currently private companies in the energy distribution market have less than one percent of the total energy distribution.

Generating and transmitting energy companies, including operators of power grids in excess of 35 kW, enterprises specializing in water and gas supply, drainage and heating systems, road operation and repair, engineering-technical infrastructure were not subject to further privatization under Kyrgyzstan legislation.<sup>15</sup> Any other type of property could be privatized either based on Government resolutions or by decisions of the State Committee on State Property Administration. Foreign investors can freely participate in privatization (except land purchase). The Government can consider the possibility of using "gold shares" in particular cases for the protection of State strategic interests when transforming State-owned enterprises into joint-stock companies, but this situation has not yet arisen in practice.

According to the Law "On Ratification of the Protocol of Accession of Kyrgyzstan to the Marrakesh Agreement Establishing the World Trade Organization", Kyrgyzstan has accepted the list of commitments in the General Agreement on Trade in Services (GATS) for which there is no restriction both for market access and national treatment for practically any sector and mode of supply (except for a small number of strategic sectors and four modes of supply), i.e. conditions of openness of horizontal and specific commitments. Kyrgyzstan neither accepted commitments on certain modes of supply nor established specific limitations in accordance with the existing regime (Annex 4).

On acceding to the WTO in the energy services sector Kyrgyzstan did not enter into binding commitments on services in the field of power distribution (CPC 887) for all four modes of supply, except the agreed type of commitments in horizontal Mode 4, including the movement of skilled specialists who provide technical and management services, and the movement of semi-skilled and unskilled personnel, for example, for construction purposes and enhancing structures and networks thus far only represented by the presence of foreign highly skilled personnel providing consulting services.

For Kyrgyzstan, among the four types of service supply existing in the GATS, most difficulties occurred in determining commitments with regard to the so-called commercial presence, the Mode 3 of supply, and in the field of movement of physical entities, the Mode 4 of supply (as is known, a relative liberalization in that field was reached only in respect of managerial personnel of companies).

GATS also contains the so-called “built-in program of future work”. Kyrgyzstan has supported the Doha Development Agenda; it mainly participates on issues in the service, non-agricultural market access, and agriculture and trade facilitation spheres.

For services, liberalization concerns the fourth mode of supply and also tourist services and sea transport. Kyrgyzstan recognizes as a priority the provision of adequate technical assistance and capacity building to developing countries.<sup>16</sup> The country’s schedule of commitments is equal to the commitments of the group of recently acceded WTO member countries, and sometimes it is even more liberalized. It has also been mentioned in the special Statement which was disseminated to WTO member countries in document WT/MIN (03)/W/3 dated 26 August 2003 placed before the Ministerial Conference in Cancun.

In accordance with Article 49 of the Ministerial Declaration in Doha which States that negotiations “...shall be conducted with a purpose of providing benefits to all parties and reaching overall balance of negotiating results” this is also the case for Kyrgyzstan. And taking into account the fact that Kyrgyzstan had already committed to a high degree of liberalization beyond that of other WTO member countries its establishment, therefore Kyrgyzstan should be able to refrain from further liberalization of market access for services.

At the Ministerial Conference in Hong Kong in December 2005, Kyrgyzstan requested the equivalent regime to that granted to least-developed countries in recognition of their acceptance of new commitments and, as a landlocked and small income country, to be compared with least developed countries. Kyrgyzstan also wished to obtain benefits from specific provisions included in market access negotiations.<sup>17</sup>

During the Doha Round delegations recognized that Kyrgyzstan had already made substantial commitments on the country’s accession to the WTO.

The letter on Kyrgyzstan’s position on services was sent to the WTO Director-General No 03-1-1/2551 dated 1 June 2005).

It should be noted that the existing WTO Agreements did not include clearly formulated sectors or groups dealing with energy services. Lack of clear classification of an energy services sector led to various interpretations of WTO provisions and free interpretation of its regulations. Currently services regarding the energy sector are spread as component parts over other sectors such as transport, distribution, construction, consulting, engineering and the like, and approaches vary. It is therefore necessary to have:

- (a) comprehensive development of issues of terminology and other technical aspects;
- (b) issues related to energy services in a separate box.

#### **4. Collaboration with International Organizations and Associations**

Kyrgyzstan ratified the European Energy Charter (EEC) in July 1997. It established a legislative basis for promoting long-term cooperation in the power industry field, including encouragement for investment and protection that enabled Kyrgyzstan to fulfil its obligations within the framework of the energy charter. It also provided for the submission of information on energy and market development according to EEC rules.

Kyrgyzstan carries out international collaboration on fuel-energy industry issues with a number of organizations and associations. The collaboration with the former Central Asian Cooperation Organization, which incorporated neighbours in the region, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan, is

technical, economical and political in nature as the energy systems involved are linked by a single ring of 500kW transmission lines.

With the Economic Cooperation Organization (ECO), which Kyrgyzstan joined after the USSR broke up; it collaborates on issues of development of united investment projects in the power industry.

As a Member of the Commonwealth of Independent States (CIS), Kyrgyzstan participates in the work of the CIS Energy Council to provide legal bases for the development of a single energy system, support for the work of existing united energy systems incorporating CIS countries, development of legislative and institutional frameworks for joint energy systems to open energy markets for electricity, natural gas and oil. Kyrgyzstan is also a member of the Energy Policy Council of EurAsEC which mainly duplicates the work of its CIS counterpart.

With the Eastern Europe Regulators' Association (ERRA) and CIS Kyrgyzstan carries out information exchanges on regulatory activity and receives assistance from developed ERRA member countries in training and developing regulatory activities in Kyrgyzstan, including educational training courses and consultations at the request of Kyrgyz authorities.

The National Association of Regulatory Utility Commissioners (NARUC) is a sponsor of ERRA; it carries out consulting activities especially in the selection of partners in the USA for the promotion of regulatory of activities in Kyrgyzstan.

The US Agency for International Development (USAID) provides assistance in drafting energy market rules for the Central Asian region, Washington Utilities and Transportation Commission (WUTC) and other bodies carry out similar assistance to ERRA and NARUC.

## 5. Regional Cooperation in the Energy Services Sector

Experts calculate that the domestic market in the Central Asia region (CA) could be supplied approximately up until 2020 through implementing measures to reduce losses, refurbishing existing power stations and regional trade in small volumes.

However the lack of supplies in winter remains an issue. This could be solved through small-volume cross-border trading, though, for this to happen new generating facilities would be required.

Updating of transmission lines would be required, including North-South lines in Kazakhstan, Afghanistan, Iran and Pakistan to expand intra-regional trade, for that purpose it would be necessary to attract foreign investment. China, Pakistan, Afghanistan and Iran are potential markets for electric power produced in CA. Pakistan and Iran are more attractive because their maximum load falls in summer when there is the largest potential of surplus of energy in CA.

Access to those markets, brings benefits to Kyrgyzstan and Tajikistan in particular as they have the potential for exporting significant volumes of power. Uzbekistan and to some degree Kazakhstan have the potential to export energy from power stations in winter and benefit from their role as prospective transit countries and potential sellers of energy.

Obtaining access to those markets encounters a number of restrictions. Afghanistan has potential demand, but is limited in its capacity to pay. Pakistan's market means transit costs and the related construction of transmission lines through Afghanistan. The growth of supply in China is concentrated on the west coast which is a significant distance from CA. Access to the Russian market will require access to the north-south transmission line passing through Kazakhstan which is still under construction. The completion of construction most likely depends on the Russian JSC *Electric Stations* wishing to purchase supplies. Supplies from Iran to Kyrgyzstan and/or Tajikistan would most probably have to compete with supplies from Turkmenistan, and there would be a need to transit through Afghanistan or Turkmenistan and potentially Uzbekistan. Moreover, access to export markets in many cases will require the conclusion of agreements on the transit of energy between themselves by Central Asian countries.

Currently the World Bank Group has developed a draft for the regional electricity trading scheme CASA 1000, for the export of energy to Afghanistan and Pakistan from the CA region.

Experts have calculated the volumes of regional demand for energy for Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan for the period until 2025 (table 2.8).

**Table II.8. Forecast of Gross Demand for Energy**

Country	Forecasted demand (GWh)				
	2003 act.	2010	2015	2020	2025
Kazakhstan	58,944	72,056	84,034	98,367	115,146
Kyrgyzstan	12,145	9,222	10,033	11,296	12,719
Tajikistan	16,348	11,267	12,410	13,972	15,731
Uzbekistan	48,691	46,597	51,255	56,589	62,479
Total	136,128	139,142	157,731	180,225	206,075

Source: Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan

Demand can be satisfied through a combination of measures to reduce losses, refurbish existing power stations and add new power

In energy terms, therefore, both the Central Asian region and Kyrgyzstan have sufficient export potential to be economically attractive. This would, however, require several barriers to be lifted.

1. The main barrier to expanding the scale of exporting fuel and energy resources (FER) from the region is insufficient capacity and the weak diversity of fuel and energy transport means (oil and gas pipelines, power transmission lines). Prospective large FER markets are Iran, China, Pakistan, Turkey and some other countries.

2. Regional cooperation in the field of developing a rational and effective use of energy resources implies:

- (a) Development and conclusion of long-term agreements on the use of hydro-electric resources from the Naryn-Syrdaria water-storage reservoir cascade which provides for economic mechanisms of mutual relations;
- (b) Provision of simultaneous functioning of the power systems of the States in the region, which is an important pre-condition for the rational use of water resources in CA;
- (c) Development of normative legislation on cooperation between countries of the region in the field of joint provision of optimal regimes of using hydro-electric resources, trade between energy carriers, implementing agreed policies on external energy markets, and in the area of energy saving;
- (d) Introduction of interstate market conditions and mechanisms in the region in the power industry sector, in particular, the introduction of mutual settlements on the basis of market prices for water and fuel-energy resources.

3. Reduction in electricity consumption across the regional economies as this currently exceeds applicable indicators for industrially developed countries in several cases. There is a high level of non-productive losses of FER in Central Asian countries across all economic sectors but the significant economically profitable potential for energy saving is concentrated here since it represents 25%-30% of the overall energy consumption in the region.

## 6. Kyrgyzstan's Capabilities to Export Energy

Table 2.2 shows that Kyrgyzstan's energy exports declined over the period 1991-2008, falling from 4,292 to 543 million kWh. Over recent years hydro-electric power stations have no longer been able to operate reliably for the system to meet domestic demand and export commitments to CASA 1000/CASAREM (Central Asia Regional Energy Market). To fulfil export commitments, it would be necessary to expand capacities to meet these key criteria:

- (a) Capability to meet domestic demand without power outages even in cases of drought (95% probability) which would be met by introducing small HPPS units;
- (b) Minimum annual guaranteed export of 2,000 GWh even in the low-water season.

Today system needs require about 840 MWh of new power in order to be self-sufficient in dry years, and there would be a requirement for about 1,100 MWh of power in order to adequately meet the criteria for domestic reliability by 2015. For that, it would be necessary to fulfil the following conditions:

- (a) Provision of operation of old and new power stations: 100% in winter and 80% in summer;
- (b) Toktogul HPPS is not worn out and generates power in accordance with water inflow;
- (c) Station output ratios: Toktogul - 0,920 GWh per 1 billion m<sup>3</sup>, Kambarata 1 - 0,490 and Kambarata 2 - 0,105 GWh per 1 billion m<sup>3</sup>.



The analysis done by USAID experts under the Regional Energy Market Project 1 showed that most savings would be achieved with a station burning domestic coal operating steam turbines (Kara-Keche) (45 US dollars/MWh), whereas Kambarata 1 and 2 are almost twice as expensive (87 US dollars /MWh). This is primarily due to the fact that the utilization ratio of those HPPS is only at 31% in power output terms. Kambarata -1 is essentially a peak station costing \$2 billion US dollars. The production costs for 1MWh could be more competitive if grid use was increased by 50% by reducing the voltage carried, and if costs for grid construction were brought down below 1,100 US dollars per MW.

Improvement in the reliability of energy savings and hence in Kyrgyzstan's exports could be achieved by:

- (a) Reducing power losses, including during transport through the JSC "NENK" grids from 6.0% in 2005 to 5.5% by 2010-2025, through distributing power to end users over the REK grids – technical losses from 18.4% in 2005 to 15% by 2010 and to 12% by 2025, commercial losses from 20.5% in 2005 to 3% by 2010;
- (b) Increasing power consumption up until 2010 with average annual growth rates of 107%; for the period 2011 – 2015 annual growth rates were expected at the level of 106% and further during the period 2016 – 2020 and 2025 at the rate of 104%; forecasted rates of growth of power consumption would completely provide for the development of the industrial sector of the economy, the services sphere and the population.

There was an opportunity for Kyrgyzstan to increase energy exports by constructing future HPPS and expanding the Kara-Keche HPPS from 2.28 billion kWh in 2005 to 5.2 billion kWh by 2010, to 11.6 billion kWh by 2015, to 12.4 billion kWh by 2020 and to 15.8 billion kWh by 2025, in addition to the possible construction of 4 hydro-electric stations with 200 MWt each with an aggregate output from 1.7 to 2 billion kWh at the river Sary-Zhaz.

## **7. Legislation and Institutions Regulating Energy Sector Activity**

### **Legislation Regulating Energy Sector Activities**

Existing legislation established the legal, economic and social basis of the energy industry's operations and development as well as its place and role in the national economy. It also specified the level of State participation in management in the fuel and energy industry (hereinafter referred to as FEI), licensing, environmental protection, arbitral dispute settlement, price regulation and tariffs for energy carriers. The legislation determined State protection for FEI consumers, defined the functions of a national body and local executive and administrative bodies to support the FEI. Articles of the legislation are provided below to demonstrate the FEI legislative environment.

Legislation governing the energy sector was adopted in 1996 and defined the underlying principles of the organization and regulation of economic activities related to the fuel and energy industry. The provisions of this legislation apply to all FEI enterprises regardless of their type of ownership.

Under the legislation, the energy regulatory body is the State agency on power engineering under the Government of Kyrgyzstan (hereinafter referred to as "the State agency"). At present, its assignee is the Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan (MIEFR).

Legislation governing electrical power engineering was adopted on January 28, 1997. The legislation is based on the provisions of the legislation governing the energy sector and applies to all legal entities regardless of their type of ownership as well as to physical persons, who convey, sell or consume electrical and thermal energy.

The present legislation aims at ensuring safe, reliable and uninterrupted power and heat supplies, improving the quality of the services provided to all consumers, establishing a competitive environment and forming an energy market, promoting private sector development and attracting investment. According to this law, power companies must provide all consumers with electricity without any discrimination. Electrification is almost 100% and there is no need for special decisions by the Government. Furthermore there are 50% preferential tariffs for high-altitude regions.

Pursuant to Article 12 of the legislation, legal and physical persons willing to produce electricity for personal consumption are not required to have a license for production. If that power exceeds 1,000 kilowatt, then they are required to obtain a license for the production, transmission, distribution or sale of electricity or heat from the State agency on energy under the Government of Kyrgyzstan.

According to Article 15 of the legislation model contracts are concluded on energy supplies setting out the rights and obligations of distributing companies and consumers. In accordance with a definition Stated under Article 2 of the legislation, a distributing company is any State, private legal or physical entity which provides consumers with electrical and thermal energy.

Legislation governing energy conservation was adopted on June 24, 1998 setting out the legal standards for carrying out public policy aimed at improving performance of power consumption as well as the legal standards for establishing and operating institutional economic and information mechanisms to carrying out this policy.

Pursuant to Article 15 of the legislation, underlying principles of State policy in the area of effective use of electricity include: the creation of economic and legal conditions by the Government to make physical and legal persons interested in energy conservation; development and implementation of Government projects and programmes for energy conservation and use of renewable sources of energy, alternative fuels and derivative sources of energy; as well as the implementation of flagship projects on high energy performance, provision of economic information and other kinds of activity in the area of energy conservation.

Legislation governing innovation activity was adopted on December 10, 1999 identifying the goals and principles of State regulation of innovation activity, the structure and organization of the State network for innovation and investment infrastructure, the legal, economic and social terms of reference for innovation activity intended for the use of accumulated and acquired achievements (knowledge, technologies) in creating new goods and services with new quality.

Legislation governing oil and gas was adopted on June 18, 1998 setting out the legal and fiscal conditions to attract investment in the oil and gas sector. Programmes on preservation of the environment from the negative impact of activities related to the oil and gas sector were developed and implemented. It also set out the regulations governing the use of mineral resources, their conservation, transportation, maintenance and sale and oil and gas field development.

General pricing policy in relation to oil and gas became subject to legislation. Programmes on de-monopolization, denationalization and privatization in the oil sector were developed and implemented.

State structures authorized by the Government to carry out licensing activity now perform preparatory work and issue licenses:

- (a) for the exploration, development (extraction) of oil and natural gas;
- (b) for the production, transmission, distribution and sale of natural gas and the processing of oil and natural gas.

Legislation governing natural and allowed monopolies in Kyrgyzstan was adopted on October 8, 1999. This legislation provided the definition of "allowed monopoly" namely any economic player, having a 35% share in a relevant market or more or at a rate fixed annually by the antimonopoly body, and possessing a dominating position, removal of which would seem to be impossible at the time. "Allowed monopolies" also included economic players/monopolists whose operation would require relevant State regulation for the purpose of preventing inflation as well as in spheres where it would be required based on considerations of public security.

The following is not allowed by those holding natural and allowed monopolies: temporary suspension of production and delivery of goods or services for the purpose of creating an artificial deficit in the market or creating conditions to enable that holder to affect operations of third parties;

1. The antimonopoly body performs the following tasks:

- (a) compiles and maintains the State register of subjects of natural and allowed monopolies in respect of whom State regulation and control is exercised;
- (b) determines regulatory methods.

2. State regulatory bodies for branches of industry carry out the following tasks:

- (a) adapt regulatory methods stipulated by this legislation for a particular subject of natural and allowed monopolies;
- (b) regulate issues related to the pricing of goods and services of natural and allowed monopoly holders;



- (c) take measures together with the anti-monopoly body to prevent activities aimed against competition;
- (d) exercise State control over the quality and prices of goods and services of natural and allowed monopolies.

**Regulation of prices for fuel.** At present the State Agency on Antimonopoly Policy controls the State monopoly in gas and electrical power, including prices: the profit margin was fixed at 5% (Government Regulation No 50 of 10 May 2000). The primary goal of regulating the fuel and energy sectors is to balance the interests of consumers and producers and improve competition. The Agency controls fuel prices by imposing restrictions on the profit margins of the following companies (Munay Myrza Oil Ltd, Munay Myrza Opt Ltd., Munay Myrza Zapad and Munay Myrza Yug). The State subsidizes prices for heating and hot water. Prices for water for municipal use, heating, hot water supply and public transport services are set by municipal or regional public administrations and are regulated by local agencies of the antimonopoly policy as sanctioned monopolies.

Legislation governing licensing was adopted on March 3, 1997 regulating the issue of licenses and determining the underlying principles of licensing, terms of licensing, types of licenses, subjects and objects of licensing. The nature of the process of issuing a license is not discriminatory and the law does not differentiate between public and private companies. Foreign legal and physical persons and persons without citizenship obtain licenses on the same terms as legal and physical persons of Kyrgyzstan unless otherwise stipulated by legislation. Licenses obtained in other countries are recognized in Kyrgyzstan provided relevant international agreements have been concluded. Procedures of certification and self-certification by third parties are accepted.

Licenses are required for the following kinds of business:

- (a) exploration, prospecting and exploitation of mineral coalfields;
- (b) designing, construction (building) and exploitation of dangerous manufacturing facilities;
- (c) construction of dams on rivers and reservoirs;
- (d) production, transmission, distribution and sale of electrical and thermal energy, natural gas and processing of oil and natural gas;
- (e) construction of power stations, substations and power transmission lines.

Criteria for the issue of licenses include availability of qualified staff, fulfilment of technical requirements and ensuring service levels as well as providing new opportunities for attracting investment. When issuing a license, production conditions ensuring social security, environmental protection, the health and safety of citizens and high quality of goods (works and services), which are the result of production, should be taken into account.

Legislation governing minerals was adopted on July 2, 1997 determining the property rights and obligations on using minerals: "minerals of Kyrgyzstan can be public, municipal, private and other patterns of ownership". Municipal, private and other patterns of ownership can include only small-scale low-concentration mineral coalfields where there are mineral outcroppings on owners' land plots. The legislation distributes competence between the Government of Kyrgyzstan and local public administrations and local Government.

The legislation sets the conditions for issuing licenses for using locally extracted minerals, procedures of granting the licenses to use minerals and specifies that licenses are allowed to be used for:

- (a) Geological exploration;
- (b) Developing mineral coalfields;
- (c) construction and exploitation of underground structures not related to extraction of minerals (storage of oil, gas and other substances and materials, burial of harmful substances, use of geothermal and other needs).

Legal and physical persons of Kyrgyzstan and foreign States can exploit minerals.

The maximum license area and minimum annual investment in geological exploration per licensed unit are set by the Government.

A license for geological exploration provides its holder with the exclusive right to explore the license area within 2 years with subsequent prolongation of license up to 10 years providing that the terms of the

license agreement are fulfilled. The license holder gives back the explored part of license area (geological allotment) within the time limit fixed under the license agreement.

In addition, the license holder, with the agreement of the State body on the use of minerals, can give the rights for license in pledge to third parties for additional financing of the project on the license area (transfer of licensing rights as the subject of a pledge is governed by the relevant Kyrgyzstan legislation governing the issue and receipt of pledges).

Legislation governing the restriction of monopolistic activity in Kyrgyzstan was adopted on April 15, 1994. This legislation regulates the relations connected with the development of competition in markets for goods in Kyrgyzstan and imposes restraints on monopolistic activities under the terms of international economic agreements and the relevant acts of international organizations of which Kyrgyzstan is a member.

The law prohibits actions taken by an economic player having a dominating position which result or can result in significant restraints on competition and/or infringe upon the interests of other economic players or citizens. Economic players are obliged, upon a request from the State antimonopoly body of the country, to submit authentic documents and other information required to fulfil antimonopoly obligations.

To prevent domination by particular economic players, preliminary State control over the creation, merger and accession of economic players is exercised.

If economic players carry out monopolistic activity and/or their actions lead to restriction of competitiveness, their business can be suspended by the appropriate authorities.

Legislation governing coal was adopted on December 29, 1998. The law stipulates that the Government of Kyrgyzstan is in charge of coal coalfields and carries out State regulation on the extraction and use of coal directly and through State authorities. Local Governments and local State administrations engaged in the extraction and use of coal also have their own duties. The law specifies the main requirements for the geological exploration of coal coalfields, determines the need for licenses for the use of minerals and other kinds of activity related to increased danger, sets environmental requirements and safety regulations, etc.

For the purposes of compliance with quality standards for coal and other requirements, the relevant standards and technical requirements for coal and products obtained from its processing are developed in the stipulated order for their obligatory certification in accordance with the existing legislation of Kyrgyzstan.

## **8. Regulatory Institutions of the Energy Sector**

The State Energy Agency (SEA) under the Government of Kyrgyzstan was responsible for the regulation of the energy sector. State Energy and Gas Inspectorate under the SEA is responsible for supervision and control. In the spring of 2005 the SEA was abolished and its responsibilities were passed to the newly established National Agency on Antimonopoly Policy and Development of Competition and State Energy and Gas Inspectorate under the Government of Kyrgyzstan respectively. Regulation of the energy sector has since been handed over to the Ministry of Industry, Energy and Fuel Resources (MIEFR). The short description of responsibilities of the various ministries and State bodies related to the energy sector is provided below.

MIEFR was allotted strategic planning, assessment and forecasting for the fuel-energy industry as well as rendering assistance in the development of new technologies, know-how in the energy sector for the purpose of developing basic and applied sciences in energy sector, development of production and energy supply, promotion of the development of renewable energy resources.

MIEFR:

- (a) issue licenses for the right to produce, transmit, distribute and sell electrical and thermal energy and natural gas, process oil and natural gas, construct electric power stations, substations and power transmission lines;
- (b) carry out harmonization of standards for providing services to consumers of energy resources and improving their quality and ensures their introduction in accordance with the legislation of Kyrgyzstan;
- (c) set tariffs for electric and thermal energy and natural gas;

- (d) work out and approve standard contracts on energy supply regulating the rights and obligations of distributing companies and consumers as well as contracts between participants in the energy and gas markets as stipulated by the legislation of Kyrgyzstan;
- (e) exercise State control over observance of the legislation relating to the fuel and energy industry;
- (f) control observance of the terms of contracts concluded between natural monopoly holders and consumers of their services;
- (g) control subsidizing between various categories and groups of consumers and develop proposals on its termination;
- (h) consider complaints, proposals, applications from physical and legal persons on issues covered by the MIEFR terms of reference;
- (i) develop mechanisms regulating the export and import of electricity.

Interaction between energy companies is regulated mostly by the various bodies of legislation governing power engineering, electrical power engineering and rules governing the electricity market.

The main requirements for energy organizations include ensuring safe and reliable energy supplies sufficient to meet the needs of consumers, providing energy at the prices set by license holder, quality and level of service, availability of quality control systems, condition of equipment and technical basis and suitably qualified and professional staff. These requirements must be met to obtain a license.

Licenses are issued by the executive Council of MIEFR separately for each kind of activity. The rights and obligations of the license holder and licensor are determined in the regulations on licensing of certain kinds of activity. The main goal is to ensure equal conditions and access for all market participants to electrical networks. Such requirements are fulfilled by regulating the relevant decision-making: adoption of tariffs, standard contracts both for consumers and energy market participants, development and adoption of rules and regulations.

According to the rules of the national electrical network established by the Executive Council of SEA, the market operator is the JSC "National Electrical Network of Kyrgyzstan" authorized to set electricity prices on the energy market for industrial consumers but not for the general population.

State Energy and Gas Inspectorate under MIEFR is a control and supervision body charged with ensuring the reliability, safety and regularity of energy supplies during the production, transmission, distribution and consumption of thermal energy and natural gas by energy companies and all consumers regardless of patterns of ownership and ensuring energy supplies. The State Inspectorate on Energy ensures national interests are served in the area of improving energy performance during the production, transmission and distribution of electricity and thermal energy and natural gas and those losses of fuel, gas, electricity and thermal energy are reduced during consumption. It also works for accident prevention and the prevention of industrial injuries.

The regulatory function of the Ministry of Agriculture, Water Industry and Processing Industry related to the energy sector involves the issue of licenses for construction of dams on rivers and reservoirs.

The State Committee of Kyrgyzstan on administration of Government property (hereinafter referred to as the State Committee on Government property) is a public administration body representing the interests of the Government as the owner of State property.

Regulatory requirements include: providing agreement to State agencies and businesses to act as founders of created legal entities and withdraw from the list of founders.

Functions of coordination, supervision and control:

- (a) organization of work and coordination of activity of State bodies and business corporations related to denationalization and privatization of State property;
- (b) control over observance of regulations regarding issues of confidentiality and privatization, issues of management, proper and safe use of State property;
- (c) coordination of works on improving assessment activities;
- (d) accounting, control and ensuring fulfilment of obligations by buyers, defined under sales contracts for State property.

Ministry of Economic Development and Trade of Kyrgyzstan (MEDT). This ministry is responsible for the development and submission of proposals jointly with economic players concerning amendments to taxes and budgets, investment and trade policy. The ministry forms and implements mechanisms of State support in the area of export control, improvement of foreign trade activity, development and encouragement of export and import, maintenance of States' trade balances.

State Agency on Environmental Protection and Forestry. This agency issues and revokes special licenses for: emissions of polluting substances into the environment, dumping of polluting substances into the environment and location of wastes in the environment.

State Agency on Architecture and Construction carries out supervision of the observance of technical regulations during construction activities. And before their development – supervision over fulfilment of construction requirements and rules and other necessary requirements ensuring safety of construction projects and building and fire safety, including during reconstruction and renovation of buildings, circulation on the market of construction products produced in the country and construction products, materials, constructions and items imported from other States and exercises control over observance of construction acceptance rules.

The Ministry of Finance monitors targeting and effective use of foreign official assistance and coordinates activities of ministries, State committees, administrative agencies and local Governments on programme and project implementation funded by international financial organizations and donor States and provides social security mechanisms for the low-income population.

Ministry of Labour and Social Security controls the observance of labour legislation; provides acceptance on the compliance of draft construction standards and rules with the requirements of the legislation on labour protection.

For the purpose of controlling observance of the legislation on labour, officials of ministries have the right to visit organizations and buildings freely regardless of their pattern of ownership.

State Energy and Gas Inspectorate is a public executive body which exercises control over compliance with technical regulations regarding the effectiveness and safety of energy equipment that is produced, rebuilt, repaired and supplied, it controls energy tests of existing and new equipment as well as rebuilt and modernized equipment carried out by businesses, organizations and agencies; it allows the introduction of tested equipment from buyers, energy companies and new consumers and makes a decision on phasing out electric and heat-consuming equipment which does not meet requirements of effective and safe use and operational safety; it evaluates proposals from businesses, organizations, agencies and other economic players on energy conservation and the introduction of new technologies; it develops and endorses draft national and, if required, international (regional) standards, technical regulations and other normative documents related to requirements for energy security, energy performance, registration of energy resources and environmental issues.

## **D. SWOT ANALYSIS FOR THE ENERGY SECTOR**

The low level of management in operations and lack of transparency has created conditions for distorted reporting and the development of a shadow economy. The quasi-fiscal budget deficit continues to grow (QFD as defined by the level of power losses, low level of funds collected for energy provided and tariff rate not covering actual costs) which in fact was 7.6% of GDP in 2005 or 7.6 billion soms; 5.4%, or 6.13 billion soms in 2006; and 4.9%, or 6.9 billion soms in 2007. This situation was based on the low amount of money collected (about 86%), the high level of losses making up on average about 40%, which in monetary terms was 2.4 billion soms, and the low tariff rate that did not cover expenses of 1.66 Som/kWh.

Accounts receivable for electricity as of January 1, 2008 made up 3,310 million soms and had risen by 4% since the beginning of that year. 2.4 billion soms (72%) of the total amount of debts is the share attributable to the population and 28% for other consumers. Wear and tear on equipment made up more than 60% and, as a result, the quality of the energy supply decreased. Some 7,812 breakdowns were fixed in the first half-year of 2007, which was 34% more than for the same period of 2006. In all, figures ranged from 16 thousand to 18 thousand breakdowns annually.

The abuse of authority in terms of the application of socially subsidized tariffs for the general population as well as corruption have had a distorting effect on the development of a market economy.

Over a long period of time, social and economic problems had been resolved at the expense of those sectors where the State could regulate tariffs. It was a way of protecting the population from price rises and preventing hyperinflation. That is why in Kyrgyzstan, like in other CIS States, as a result of restraining tariffs for electricity for the general population and rural consumers, tariffs had begun to grow for industry, thus distorting the world-wide accepted correlation of tariffs for industry and population.

There are currently several hidden cross-subsidies between different groups of consumers of electric, thermal energy and natural gas such as:

- (a) Electricity exports subsidize domestic consumers through electricity as well as thermal energy;
- (b) The State budget subsidizes consumers of natural gas.
- (c) Industrial consumers subsidize the population and rural consumers through electric power.
- (d) Consumers in cities subsidize consumers in rural regions.
- (e) Existing mechanisms of hidden cross-subsidies distort the real State of play and create:
- (f) Lack of transparency;
- (g) Lack of incentives for power engineering specialists and consumers to pursue energy conservation and cost reductions;.
- (h) Complexity of long-term planning.

The last ten years experience of electricity exports clearly shows that the level of export income is unstable and not sustainable. Analysis shows that, regardless of the exports volume, the total maintenance costs of the energy sector remain unchanged.

Kyrgyzstan had become used to relying on the income from electricity exports (basically through the fuel compensation scheme) for cross-subsidizing the domestic energy market. In the JSC *Kyrgyzenergo* over the last 6–7 years, annually, approximately 70% of the actual operating costs of production of power and a small amount of capital investment and payments on the debt for the whole energy sector were covered by the earnings from electricity exports. The domestic market of Kyrgyzstan was characterized by a wide application of subsidizing mechanisms such as support of tariffs and prices below cost for all categories of the population which resulted in price imbalances, leading to extremely wasteful energy consumption.

There were wide disparities in income throughout society yet everybody was granted a subsidy to pay for electricity, thus the principle of social justice was not observed. One part of the population had to pay the actual price for electricity while the other – low-income part of the population – paid as much as they were able to with the rest of the amount covered by social security.

Fixed tariffs for industrial consumers were twice those for the general population and rural consumers (see table 2.9) while the general population and rural consumers only paid half of the real cost of the tariffs. To date, industrial consumers have not been able to carry the burden of subsidies since their products have become expensive and therefore uncompetitive due to the rise in electricity prices. High tariffs for electricity deprive industries of opportunities.

**Table II.9. The Dynamics of Tariff Changes for 1996-2000 (a – Kyrgyz Tiyins/kWh, b – US Cents/kWh)**

	1996		1997		1998		1999		2000	
	a	b	a	b	a	B	a	b	a	b
<b>Average</b>	11.4	0.98	16.2	0.93	18.1	0.62	23.8	0.52	30.5	0.63
<b>Industry</b>	17.4	1.50	25.1	1.44	29.2	0.99	43.8	0.96	61.4	1.27
<b>Rural consumers</b>	7.8	0.67	9.4	0.54	11.1	0.38	18.1	0.40	26	0.54
<b>Others</b>	15.3	1.32	20.6	1.19	22.2	0.76	31.8	0.70	45	0.93
<b>Population</b>	6.9	0.59	9.6	0.55	11.1	0.38	14	0.31	17.2	0.36

Sources: data provided by SDRFEI under MIEFR

A. The average tariff rate (was 1.37 cents/kWh in 2003, 1.45 cents/kWh in 2005) was substantially lower than the cost price (2.25 cents/kWh) despite the fact that considerable losses were incurred during transmission and distribution of energy<sup>18</sup>. Despite subsidies for electricity consumption, consumption tended to fall. Partly due to its low quality and the insecurity of its supply consumers begin to turn to other, more expensive, energy resources such as firewood, gas and coal.<sup>19</sup>



The dynamics of tariff changes in 2005–2007 ranged from 1.45 to 1.86 cents/kWh. It should be mentioned, that Kyrgyzstan's tariff for electricity, including production, transportation and distribution, was the lowest not only in the whole region, excluding Tajikistan, but also among CIS States as well. Tariffs were 2-3 times lower than those for Kazakhstan and 1.5-2 times lower compared to Uzbekistan. Thus in 2007 the average tariffs for consumers in Azerbaijan were 7.23 cents/kWh, in Armenia 6.0 cents/kWh, in Belarus 7.56 cents/kWh, in Georgia 6.5 cents/kWh, in Kazakhstan 5.3 cents/kWh, in Republic of Moldova 8.34 cents/kWh, in the Russian Federation 4.6 cents/kWh, in Tajikistan 1.98 cents/kWh, in Uzbekistan 3.14 cents/kWh and in Ukraine 4.45 cents/kWh<sup>20</sup>.

There was an urgent need for electricity pricing reform. It was necessary to move gradually towards economic tariffs instead of cross-subsidies. Tariffs had to be differentiated and fixed based on voltage and therefore cost.

The existing price level for electricity did not cover costs. Therefore, a new tariff policy was adopted on April 23, 2008. According to the proposed pace of tariff increase, the average tariff for electricity was expected to reach 1.66 soms/kWh (about 4-5 cents) by 2012. Profits from the new electricity tariff were earmarked for reinvestment purposes.

In order to cover real economic costs in future, the tariff for end-users would be based on energy supply costs for end-users depending on voltage.

Given the fact that tariffs for electricity were not in fact changed for the period 2005-2007, the investment attraction of the sector deteriorated. The energy sector was not able to attract investors due to its lack of profitability. Certain risks attached to electric power engineering make attracting investment from strategic investors quite difficult. According experts from the SDRFEI, the volume of investment shown in Table 2.10 must be maintained to ensure the reliable operation of the energy sector, though in consideration of the current situation these volumes may be insufficient.

**Table II.10. Demands for Investment in Energy Sector of Kyrgyzstan for 2009–2012, Billion Soms**

<i>Energy companies</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>Total</i>
JSC Oshelectro	220.493	232.548	36.876	36.876	526.793
JSC Vostokelectro	255.259	255.259	255.259	255.259	1,021.036
JSC Jalalabadenergo	645.725	638.400	623.600	-	1,907.725
JSC Severelectro	1,054.390	1,084.429	147.038	119.228	2,405.085
JSC Electric Stations	4,292.030	2,260.000	1,205.800	2,716.900	9,934.730
JSC Bishkekteploset	167.380	145.211	258.670	238.480	809.741
JSC NES of Kyrgyzstan	835.090	2,211.000	5,477.000	5,477.000	14,000.090
<b>Total:</b>	<b>7,470.036</b>	<b>6,826.847</b>	<b>8004.243</b>	<b>8,303.743</b>	<b>30,605.200</b>

*Source: the State Department on Regulation of Fuel-Energy Complex*

Decisions on tariff regulation are prepared by the State Department on regulation of fuel and energy industry (SDRFEI) under the Ministry of industry, energy and fuel resources (MIEFR). The final decision is made by the Executive Council (EC). This consists of the Minister of MIEFR as chairman, the Director of SDRFEI and the Deputy Minister of economic development and trade (MEDT) and members of the Council. Decisions on tariffs are made openly, registered with the Ministry of justice and published in the mass media. If the stipulated procedure is not observed or if there are other violations, this decision of the EC can be appealed in the courts. Energy sector participants (including consumers) who disagree with decisions on tariffs can appeal it in the courts. The EC is not completely independent; it has to coordinate its decisions with the Government. The EC also makes decisions on thermal energy and natural gas. The same procedures apply as for electricity.

Therefore, the following problems exist in the energy sector:

- (a) Growth of energy consumption. Lack of demand.
- (b) Worn-out equipment.
- (c) High level of losses over networks.
- (d) Low level of collection.
- (e) Dependence on subsidies.
- (f) Ineffective management.
- (g) Legislative and institutional system suffers from weak and inconsequent implementation.

From the above, the following SWOT diagram can be prepared for the energy services sector.

### Box II.1. Energy Services Sector: Strengths, Weaknesses, Opportunities and Threats

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Hydro-electric resources which remain unused are being used only at 10% of the whole potential;</li> <li>• Kyrgyzstan has 50% of the coal reserves of Central Asia;</li> <li>• Geographical proximity to the big populated centres in the region;</li> <li>• Increasing the number of better-trained staff in the hydro-electric sector;</li> <li>• Multinational companies are interested in entering the national and regional markets under “the right market conditions”;</li> <li>• Current new legislation is facilitating third parties to get access to the electricity network and natural gas distribution network;</li> <li>• Preference given to national businesses to encourage the movement from Government ownership to the private sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Incompleteness of FEI reforms on subsoil use and lack of an integrated goal vision and methods for reform;</li> <li>• Limited potential for the electricity transmission and natural gas distribution infrastructure;</li> <li>• – Dependence of the Bishkek city power station upon imported fuels (coal, fuel oil, gas);</li> <li>• – Hidden cross-subsidies between different groups of consumers of electric, thermal power and natural gas;</li> <li>• Presence of quasi-fiscal deficit in the power industry;</li> <li>• Limited potential for increased internal investments in the sector;</li> <li>• Limited geographical coverage of gas distribution networks;</li> <li>• Lack of personnel to develop and market energy services;</li> <li>• Cumbersome administrative and planning procedures are the main limitation to sector development.</li> <li>•</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Growth of production and improvement of reliability of power supplies to domestic consumers as a result of reforms in the energy sector, improvement of management of energy companies;</li> <li>• Construction of new generating stations of any capacity under participation of the private sector or as 100% private ventures;</li> <li>• Increase of production and export of electricity by increasing capacities of power and hydro-electric stations;</li> <li>• Enhancing export position at regional market for electricity;</li> <li>• Introduction of energy saving activities, technologies;</li> <li>• Self-sufficiency in coal followed by exports to neighbouring countries in the region;</li> <li>• High and increasing level of unmet demand for electricity and gas in the national and regional markets;</li> <li>• Increasing income per capita will allow</li> </ul>	<ul style="list-style-type: none"> <li>• Competition from emerging regional players may diminish business justification and prospects;</li> <li>• Universal service obligations and limitations to foreign ownership are currently holding back foreign investments;</li> <li>• Aging infrastructure in electricity production and distribution in city centres;</li> <li>• Growth of power shortages;</li> <li>• Macroeconomic dependence of the country on the energy sector influencing the State budget;</li> <li>• Reliable knowledge of the generating capacities in neighbouring countries – potential importers of Kyrgyz electric power.</li> </ul>



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price rises for electricity necessary for full restoration of costs of distribution and maintenance;

- Commercial development of the energy sector to avoid energy losses in the cities which are supplied from the national grid;
- Posting invitations to tender by foreign companies in the sector may produce significant income from technology transfer.



# III

**NATIONAL SERVICES POLICY  
REVIEW OF THE TOURISM  
SERVICES SECTOR**

According to the World Council on Tourism and Travel, tourism's contribution to world GDP is 3.6%. However, taking into account the contributions from related sectors this figure rises to 10.4%. In many countries in Europe such as Switzerland, Austria, France, Bulgaria, a significant part of their welfare is built on income from tourism. Thus in Austria the figure is 8.6% of GDP from direct receipts and 15% taking account of the multiplier effect, in Spain accordingly 6.8% and 18.2%, in France 4.1% and 10.9%, in Croatia 8.5% and 19.0%, in Great Britain 3.4% and 9.1%, in Canada 3.4% and 11.0% and in Bulgaria 4.1% and 14.5%.

The distinctive feature of international tourism is the fact that a significant part of services are cheaply available. The rapid development of low-budget airlines also makes an essential contribution to stimulating demand for tourism. All this has contributed to tourism in Europe reaching more than 22 million per year.

Over recent years world tourism has encountered a constantly growing level of competition between countries both regionally and internationally.

As the economic benefits acquired from tourism become more and more evident, the relationship of countries to international tourism becomes progressively more open and leads to a decrease in the number of barriers.

Recent years have seen clear trends towards intensifying measures on environmental protection. Decisions on issues of water and air treatment, waste disposal, nature and animal protection, etc. are discussed and taken at national level. In most cases the consideration of issues related to environmental protection is combined with issues of tourism development and, undoubtedly the increased attention given to those issues create conditions for the emergence of new tourism products both at individual personal levels connected with ecological interests and for mass tourism.

Another trend involves the fact that the majority of Europeans live in crowded urban regions. This largely formulates tourist preferences towards countryside tourism, short breaks, off-season tourism, short-stay city breaks, self-catering holidays, etc. In the future, along with traditional tourism, exploration of lesser known locations that are harder to reach will become increasingly attractive.

The preferences of foreign tourists are mostly connected with high levels of service and value for money. These will continue to guide consumers in selecting tourist destinations.

Thus, the shared trend is polarization of tourist preferences on the one hand by strengthening mass tourism in developed tourist countries, and on the other hand by increasing demand for individual or specialized tourist products. Government measures must continue to focus on priorities for particular types of tourism that are value for money.

When addressing policy issues in the field of tourism, most national tourist administrations take into account the forecasts for tourism development worldwide issued by the World Tourism Organization – the largest non-Governmental organization which is a specialized institution of the United Nations numbering 153 Member Countries. According to the WTO report "Tourism – panorama 2020", tourism will double over the period 2000 and 2020.

## **A. THE ROLE AND EFFECTIVENESS OF THE TOURISM SERVICES SECTOR IN THE NATIONAL ECONOMY**

### **1. The Role of the Tourism Services Sector in the National Economy**

International tourism is now one of the most rapidly developing sectors of foreign economic activity.

Kyrgyzstan possesses unique natural resources and an original nomadic culture. It has a great unrealized potential for developing tourism for international and regional markets.

The tourist potential of recreational resources and historical and cultural heritage, their originality, the uniqueness of the customs and traditions of the Kyrgyz people and the wide popularity in the world markets of its crafts sector allows Kyrgyzstan integrate harmoniously into the international tourism market and develop its tourism potential intensively. It will provide steady growth of in employment and income for

the population, stimulate those branches of the economy linked to tourism and increase the inflow of investments into the national economy as a whole.

The Government recognises tourism as one of the priority sectors of the national economy. Analysis of statistical and empirical data indicates growing interest in Kyrgyzstan's tourist product and favourable trends in growth in the number of tourists and expansions in commodity markets.

The country has become more attractive to businessmen, sportsmen, scientists, fans of adventure holidays, and also for people who are interested in history and today's situation of the countries located on the Great Silk Way.

Latest trends show that tourism in Kyrgyzstan is becoming a significant independent sector of the national economy focussed on the satisfaction of specific requirements of the tourist population.

## **2. System of Indicators for the Tourism Sector and Related Sectors.**

The indicators for tourism and related sectors will provide Government bodies, businesses and the public with awareness on the direction and pace of tourism development in Kyrgyzstan.

### *Tourism Indicators<sup>21</sup>*

1) Tourism's share in GDP was 5.6% in 2011. This overall indicator determines the place of the sector in the country's economy. The growth of this share reflects the growth of the importance of the tourism sector. Achieving this share by 5.6% of GDP at an average GDP growth rate of 105.5% over three years means the sector's growth for that period was approximately 60%. This was quite intensive and reflects the efforts made by the Government.

2) Export of tourist services was 600 million US dollars in 2011. This overall indicator determines the economy's income from tourism. Taking into account that tourism was determined as a priority sector of the economy, and Kyrgyzstan had all the prerequisites for developing this sector, this financial result bears witness to the success of Government policy for this sector.

3) The number of arrivals of foreign citizens was 2.4 million people in 2011. This common indicator makes it possible to determine the attractiveness of the country for foreign tourists;

4) Basic capital investment in tourism was 11 billion som in 2011. As will be seen below, the country's tourist infrastructure requires significant improvement and this indicator makes it possible to track development trends in tourism.

5) The number of hotels and other accommodation facilities that obtained certificates of acceptance was 70. At present, hotels and other accommodation facilities in the country are not subject to certification. This procedure is beginning to be introduced. It will be carried out on a voluntary basis. However, the assumption is that certification will give a significant competitive advantage. At the same time, the State gets some opportunity to control the quality of hotel services and accommodation facilities;

6) The number of tourism employees who have tourism qualifications. Work is in progress to include the profession of tourist employee in the list of official trades and professions. The qualifications for this particular profession are still in the drafting stage. These measures are all aimed at improving the quality of tourism services.

### *Indicators of Related Sectors*

1) The increase in reconstructed and newly constructed roads was 1,700 km. by 2011. This indicator reflects the availability of the country's tourist resources for foreigners and Kyrgyz people and the quality of services provided;

2) Number of cities in the world, with which Kyrgyzstan has regular air communication, will be 30 by 2015. This indicator reflects the availability of tourist resources for foreigners and the quality of services provided;

3) A sufficient number of banks and automated teller machines (ATM) connected to international payment systems (VISA, Master-card and others) in the municipal centres of all districts by 2015;

4) Territorial coverage by telephone communications and Internet in regions (including mobile Internet technologies – GPRS, 1xEVDO) will reach 100% coverage of populated territory by 2015. This indicator reflects the quality of tourist services in Kyrgyzstan;

5) Earnings of reserves, special nature reserves and natural parks will attain 50% self-sufficiency by 2015. Reserves and special nature reserves are one of the main tourist resources of the country. At present, they are financed from the State budget and that financing is not sufficient for their development. At least, 50% self-financing will mean that special nature reserves and reserves will be using their tourist potential effectively;

6) The real growth of handicrafts sector is 10% per year. The handicrafts sector produces the bulk of souvenirs for tourists. The growth of this sector will reflect the growth in demand from foreign tourists that will indicate the increase in Kyrgyzstan's popularity as a tourist destination.

### **3. Focus of the NSPR in Terms of the Tourism Services Sub-Sectors.**

The WTO Services Sectoral Classification List (document MTN.GNS/W/120) includes a separate entry (number 9) for Tourism and Travel related services, and identifies four tourism related sub-sectors:

- (a) Hotels and restaurants (incl. catering);
- (b) Travel agencies and tour operators' services;
- (c) Tourist guides' services;
- (d) Other.

The United Nations Provisional Central Product Classification (CPC), conversely, does not include a separate entry for tourism services, but covers them under various Divisions of Section 6: - Lodging; food and beverage serving services (63); Land transport services (64); Water transport services (65); Air transport services (66); Supporting and auxiliary transport services (67). The latter, in particular, comprises the Travel agency, tour operator and tourist guide services (group 678).

For the purpose of analysis, the following sub-sectors of the tourism sector will be considered in the Review:

- (a) Hotels, Sanatoria-and-spa institutions, other recreation and tourism centres
- (b) Recreation and tourism centres
- (c) Restaurants;
- (d) Transport services;
- (e) Workmanship;
- (f) Nature reserves and natural parks.

In addition, a brief analysis of associated sectors which are not directly related to the tourism sector but which have a significant influence on tourism development in the country will be analyzed:

- (a) Communications;
- (b) Insurance;
- (c) Financial sector.

## **B. TOURISM SECTOR AND NATIONAL DEVELOPMENT OBJECTIVES OF KYRGYZSTAN**

### **1. Tourist Services Sector**

The world tourism industry has developed rate faster than world GDP for the last four decades. International tourism, in particular, can involve FDI and generate employment and added value together with receipts from foreign currency and tax revenues. Under favourable conditions, tourism can also have a strong multiplier effect. Tourism growth will probably keep advancing general economic growth in the future due to various factors, such as globalization, economic development in developing and transition countries and increasing incomes and demographic changes in the developed countries.

The tourism sector is one of the important branches of the economy of Kyrgyzstan. The sector's importance is underlined by the existence of a special State body responsible for promoting State policy in the field of services in the country - the State Agency on Tourism of Kyrgyzstan.

Tourism is one of the nine priority directions raising the development potential of the Kyrgyzstan economy which include the Fuel and Energy industry, Mining, Transport and Communications, the Agricultural industry and Trade, Construction and Innovative activity. It is reflected in the country's development strategy for 2009–2011 - the basic document of the Government of Kyrgyzstan which represents the strategic vision for the development of the country for the medium term.

*Box III.1.*

“The overall objective of tourism development in the mid- term period is formation of the modern sustainable and competitive tourist complex, capable to meet the needs of foreign and internal tourists in good quality tourist services, with wide geography of export of the services. Tourism should become a highly profitable sector creating new jobs. Ecological and social focus thus should remain the guiding principles of functioning of the sector.”

*Source: Country Development Strategy (2009–2011)*

Furthermore, the statistical and empirical data highlights the growing interest in tourist services in Kyrgyzstan.

The priority of the tourism sector is stipulated by the following factors:

- (a) Kyrgyzstan does not have easily available fossil resources to serve as the basis for economic growth. The high natural recreation potential of the country as a tourist resource may become the basis for such growth.
- (b) Kyrgyzstan practically has all the conditions necessary to develop all types of tourism;
- (c) Tourism does not lead to the exhaustion of natural resources.
- (d) Being an export-oriented sphere, tourism shows great stability in comparison to other sectors in the unstable conditions of world markets.
- (e) The development of tourism involves the development of many other sectors of the country's economy. At the same time tourism is itself dependent on those sectors.
- (f) Tourism has the great capacity in terms of providing population with employment (this affirmation comes from item 5).

As seen in table 3.1, in 2008 the share of gross value added cost of tourism in GDP since 2003 has increased by 5 percentage points reaching 4.1 %, thus in 2008 the value added cost of the sector has exceeded the construction sector by 31%. At the same time the average nominal growth was over 21 % per annum. Expressed in dollars those same 5 years of tourist service exports grew 10.7 times.

**Table III.1. Some Indicators of Tourism in Kyrgyzstan During 2003–2008<sup>22</sup>**

	2003	2004	2005	2006	2007	2008
<b>GDP, mln.som.</b>	<b>83 871,6</b>	<b>94 350,7</b>	<b>100 899,2</b>	<b>113 800,1</b>	<b>139 749,4</b>	<b>185 013,6</b>
GVAC of tourism, mln. Som	3 010,9	3 372,2	3 303,9	4 015,8	5 598,3	7 612,5
GVAC tourism, %	3,6	3,6	3,3	3,5	4,0	4,1
<b>Export of tourist services, mln. US dollars</b>	<b>47,8</b>	<b>75,3</b>	<b>70,5</b>	<b>164,6</b>	<b>341,7</b>	<b>509,2</b>

*Sources: National Statistical Committee of Kyrgyzstan*

The wide range of requirements was satisfied not only by tourist enterprises, but also by enterprises from other branches. Thus, tourism is of great importance as one of the factors with multiplier effects on economic development.

Most of Kyrgyzstan is mountains and it is precisely they that form the most attractive resource for tourists from abroad. Adventure tourism is in great demand on the world tourist market.

In recent years, tourist business has become increasingly attractive. This has been shown by the number of tourists in the country and the growth in export figures and income from tourist services. The number of

registered economic entities in the tourism sector bears this out. As on 1 January 2008 their number had grown by more than 25% compared to the number on 1 January 2004 (see table 3.2).

**Table III.2. Registered Economic Entities in the Tourism Sector in 2003–2009, as at January 1**

	2004	2005	2006	2007	2008	2009
Number of entities	4,255	4,601	4,787	5,036	5,321	5,424

Sources: National Statistical Committee of Kyrgyzstan

The number of operating entities of tourism appeared much fewer, than registered (see table 3.3). Growth has also turned out to be comparatively small – 106.5 % from 2003 to 2007. The number of employees in tourism enterprises and organizations decreased by 9.3 % for four years.

**Table III.3. Some Indicators of Tourism in 2003–2007.**

	2003	2004	2005	2006	2007
Existing collective means of accommodation and tourism enterprises at year-end in units	349	410	384	386	372
Average number of employees in tourism enterprises and organizations, person	6,635	6,571	6,497	6,507	6,017
Labour productivity, mln. som/person. <sup>23</sup>	0.454	0.513	0.509	0.617	0.930

Sources: National Statistical Committee of Kyrgyzstan

Although the number of employees declined the overall productivity in the sector significantly increased. (by more than twice for the period 2003 to 2007).

A total of 0.3% of all employed people work in tourist enterprises and organizations in Kyrgyzstan.

Unfortunately, the development of tourism has not been accompanied by increased tax receipts from that sector (see Figure 3). Tourism provides the lowest volume of taxes from those sectors recognized as priority in the country. On the one hand, it makes the sector sufficiently attractive for entrepreneurs; on the other hand it indicates the weakness of fiscal bodies and the imperfection of tax legislation in the area of tourism.

The transport sector stands by itself. Transportation of tourists during the period under review more than doubled, having carried more than 5 million passengers in 2007 (see table 3.4). The percentage of tourists in the total volume of passengers grew from 0.5% to 1.0%.

**Table III.4. Passenger Traffic in all Types of Vehicle in 2003–2007.**

	2003	2004	2005	2006	2007
Passengers carried – total in millions of persons	440.1	453.1	445	453.6	470.7
Tourists carried, in millions of persons	2.2	2.9	4.3	4.7	5.0
Percentage of tourists carried in total	0.5	0.6	1.0	1.0	1.1

Sources: National Statistical Committee of Kyrgyzstan

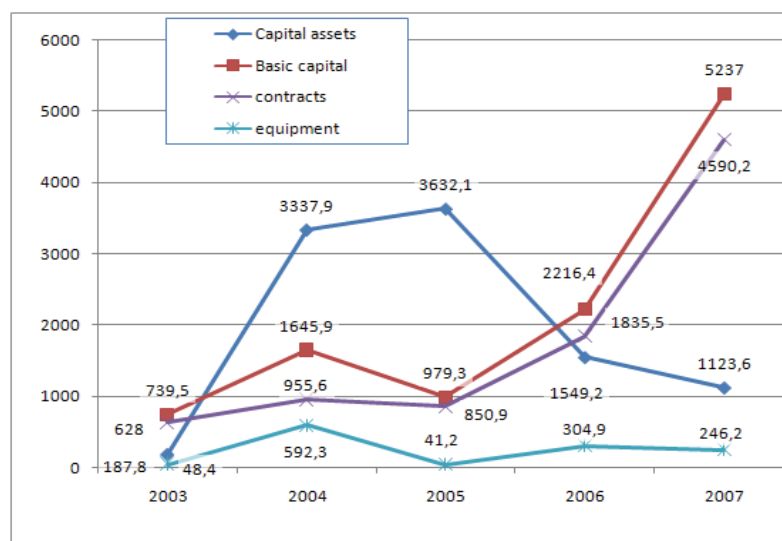
The development of tourism of Kyrgyzstan in 2003–2007 brought about the revival of investment in the sector. The main investor until 2006 was the USA (see table 3.5). In 2007 the situation changed in favour of investors from Kazakhstan. Thus in 2007 investments from the USA remained approximately at the level of 2003–2005, as well as investments from Russia, but investments from Kazakhstan grew more than threefold. As a result the volume of investments in 2007 with respect to 2003 grew more than 2.5 times (or by 44 % against 2006).



**Table III.5. Receipt of Foreign Direct Investment in the Tourism Sector by Country in 2003–2007, in Thousands of US Dollars**

	2003	2004	2005	2006	2007
<b>Total</b>	<b>6,419</b>	<b>7,840.9</b>	<b>7,231.1</b>	<b>11,223.2</b>	<b>16,174.1</b>
<b>From countries except CIS</b>	<b>4,586.9</b>	<b>5,299.0</b>	<b>4,895.1</b>	<b>7,781.2</b>	<b>4,808.0</b>
USA	2,769.6	4,586.4	4,019.6	4,468.4	3,674.6
<b>From CIS countries</b>	<b>1,832.1</b>	<b>2,541.9</b>	<b>2336.0</b>	<b>3,442.0</b>	<b>11,366.1</b>
Kazakhstan	353.8	1,777.4	1,556.7	2,962.2	10,655.5
Russia	857.3	453.1	504.0	72.8	663.6

Investments, mainly, were moving towards basic capital, however, the volume of construction contracts was growing faster conditioned by a rise in prices of construction services (see Figure 3.1). The level of investments in equipment, tools and inventory turned out to be approximately at the average level for the previous four years.

**Figure III.1. Investments in Basic Capital in the Tourism Sector in 2003–2008, in Millions of Soms**

Sources: National Statistical Committee of Kyrgyzstan

Main players in the tourist services sector. Except for travel agencies, hotels and specialized accommodation facilities, transport enterprises play the most important role. However there is a clear distribution of responsibilities between types of vehicles: if air and railroad transport mainly serve tourists crossing the State border, then car and water transport move tourists inside the country.

National tourism policy is determined by the State Agency on Tourism under Government of Kyrgyzstan. This body actively promotes Kyrgyzstan as a tourist destination. Those activities include the holding of tourist exhibitions and fairs within the country, such as Kyrgyz International Tourist Fair-Exhibition BITF in Bishkek, Santa Claus festivals, participation in international tourist exhibitions, forums and implementation of broad information campaigns.

This Agency is responsible for tourism promotion abroad. The Agency produces and distributes appropriate posters, placards, postmarks and postcards, arranges introductory tours for foreign mass media, business circles and tour operators as well developing the web-site indicated in the footnote<sup>24</sup> with all the necessary basic information about the country. Unfortunately other agencies involved take a rather passive role. Despite some work being done by them, their efforts are not sufficient to contribute to tourism promotion in Kyrgyzstan

Tourism is quite dependent on general conditions created for entrepreneurship in the country. Those are legal documents regulating the activity of small and medium-sized enterprises, export of goods and services, crossing of State border by foreigners and conditions of their stay in the country, etc.

Thus, the development of tourism in the country depends on many institutions: the Ministry of Foreign Affairs determines Kyrgyzstan's visa policy and many specialists state that in spite efforts to make visas easier form foreigners to obtain, difficulties still remain for tourists to gain entry into Kyrgyzstan. This is mainly due to the insufficient number of consulates abroad. The problem could be solved by participating of Kyrgyzstan in the Agreement on Special Visa Space, such as, for instance, in the "Silk Way" project under discussion, which intends to introduce a uniform regional visa integrating the five countries of the "Silk Way": Kyrgyzstan, Kazakhstan, Uzbekistan, Tajikistan and China. In the case, Kyrgyzstan would be able to use the whole extended network of diplomatic representations of all those countries. Moreover, such visas would increase the awareness of foreigners about tourist opportunities in the country.

The Ministry of Internal Affairs and Ministry of Emergency Situations could also play an important role in developing the tourism sector. The country's positive image largely depends on their ability to provide law enforcement as well as to ensure the security and safety of citizens and foreign visitors. The Government regularly carries out special training for policemen regarding rules of conduct towards tourists.

The legislation governing tourism regulates the development of the tourism sector in Kyrgyzstan There are also several other laws and regulations which determine the responsibility of Government agencies regarding security and other issues during a tourist's stay in the country as well as a tourist's rights and obligations. Currently the legal base regulating the development of tourism does not meet modern international requirements and needs further improvement.

As mentioned above, the main guidelines for sustainable development of Kyrgyzstan including its tourism sector is reflected in the Country Development Strategy for 2009–2011 (CDS).

Tourism falls under most of Kyrgyzstan's legislation since it covers many economic and other spheres including:

- (a) Small and medium-sized enterprises;
- (b) Fiscal issues;
- (c) Investment;
- (d) National security issues (including economic security) and enforcement of law;
- (e) Issues related to preservation of historical and cultural inheritance;
- (f) Other issues.

Among the problems and barriers facing tourism, experts have identified safety and visa issues for tourists and problems for foreigners accessing tourist services in Kyrgyzstan. This is a question of visa support, as well as a lack of coordination among agencies responsible for tourism development due to inappropriate legislation on tourism.

Giving the general assessment of regulatory issues, it is necessary to note that gaps in legislation in general and particularly for tourism exist in the majority of countries of the former Soviet Union. However Kyrgyzstan legislation is more advanced compared to that of former Soviet Union countries due to its compliance with GATS/WTO requirements.

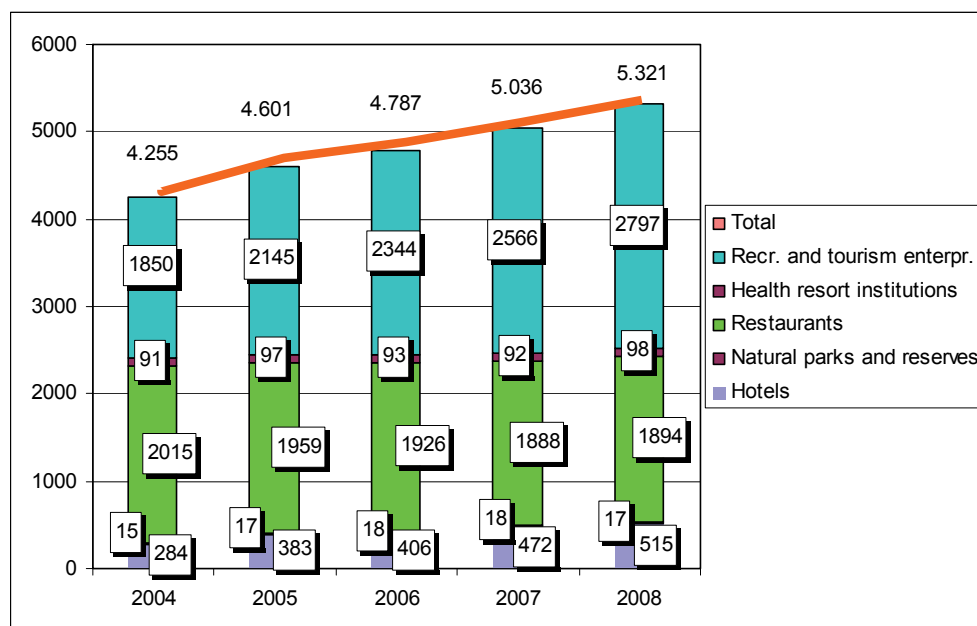
## **2. Market Structure of Tourist Services Sector**

As noted above, tourism in Kyrgyzstan is defined as the priority sector of the economy. Owing to features of the tourism sector and competitive advantage, the development of tourism market in the country has been sustained by Government policy, primarily aimed at privatisation.

The infrastructure of services existing today does not yet meet requirements for successful tourism development in the country. However it can be the base for modern tourism infrastructure to meet international standards including ecological requirements.

As of 1<sup>st</sup> January 2008 about 5,321 enterprises and individuals registered in Kyrgyzstan to deal with tourism business. These include 515 hotels, 2,767 recreation and tourism enterprises, 1,894 restaurants, 98 health resort institutions, health and fitness centres, specialized commercial enterprises, natural parks and reserves. (see Figure 3.2).

**Figure III.2. Registered Economic Entities in the Tourism Sector by Types of Services Provided in the Field of Recreation as at January 1 2008**



Sources: National Statistical Committee of Kyrgyzstan

The number of hotels and recreation and tourism enterprises has been growing positively (by 81.3% and 51.2% accordingly). The quantity of restaurants has fallen. Over 5 years their number decreased by 6 %, which may be explained by high competition among catering enterprises in early 2000.

Some other figures demonstrate the developing trend in tourism businesses (see table 3.6)<sup>25</sup>. While the number of tourism businesses increased, the number of hotels and specialized accommodation facilities has decreased since 2004.

**Table III.6. Available Collective Accommodation Facilities and Tourism Enterprises at Year End, in Units**

	2003	2004	2005	2006	2007
<b>Total</b>	<b>349</b>	<b>410</b>	<b>384</b>	<b>386</b>	<b>372</b>
Hotels	79	120	120	123	119
Specialized accommodation facilities	164	163	150	166	154
Tourist bases	7	9	8	9	11
Sanatoriums	13	13	13	13	14
Children's sanatoriums	8	7	7	6	6
Sanatorium-spas	17	17	16	13	11
Holiday centres	10	9	9	11	14
Holiday houses	58	62	53	61	57
Treatment centres	1	1	-	1	1
Recreation centres	4	3	5	6	5
Sports and fitness camps	7	8	7	8	5
Children's fitness complexes	39	34	32	38	30
Travel companies and tour operators, travel agencies and excursions	111	118	105	87	80
Natural parks and reserves	5	8	8	8	8
Other tourism arrangements	-	1	1	2	11

Sources: National Statistical Committee of Kyrgyzstan

The same negative trend was shown in the number of employees (see table 3.7). For the last 5 years the number of employees of hotels and specialized accommodation facilities decreased by 3.8 % and by 15 % respectively. To explain this trend one may assume that because of the growing prices and downward economic situation in the country tourism enterprises were constrained to cut their operational expenses. Thus, the simplest way to decrease operating expenses is salary cuts or reductions in the number of employees. Additionally there was a risk of some enterprises moving over into the so-called “shadow economy” for the same reasons.

**Table III.7. Average Number of Employees of Tourism Enterprises and Organizations**

	2003	2004	2005	2006	2007
<b>Total in tourism sector</b>	<b>6,635</b>	<b>6,571</b>	<b>6,497</b>	<b>6,507</b>	<b>6,017</b>
Hotels, persons	1,160	1,151	1,167	1,227	1,116
Specialized accommodation facilities, persons	4,436	4,350	4,226	4,086	3,775
Travel agencies, persons	1,039	1,070	1,104	1,194	1,126
<i>Average total annual number of employed in the economy ,in thousands of persons</i>	<i>1,930.5</i>	<i>1,991.2</i>	<i>2,077.1</i>	<i>2,096.1</i>	<i>2,152.7</i>

Sources: National Statistical Committee of Kyrgyzstan

Tourist products. Kyrgyzstan can provide all types of tourism due to its varied climate and nature. The most advanced is resort-recreational and health tourism in the Issyk-Kul Lake region with a developed tourism infrastructure. However other locations in Kyrgyzstan with an appropriate resort-recreational potential should be developed as well, including mountain sanatoriums (e.g. in Vorontsovka village), sanatoriums near springs of mineral water (Djalal-Abad and in Issyk-Ata region) tourism in many *Jailags*, or mountain valleys, and other locations. The main problem for this type of tourism is undeveloped infrastructure such as buildings, beaches, waste treatment and recycling systems. This is the case for all resort-recreational locations.

The mountainous relief, many mountainous rivers and unique fauna provide great opportunities for developing adventure holidays, including rafting, alpinism, hunting, fishing and travelling. The main issue which constrains development of this type of tourism is insufficient safety provisions. There is no reliable system of registration and accompaniment of participants on adventure holidays or rescue services.

A future and relatively new type of tourism is ecological and agricultural tourism. Kyrgyzstan can offer the opportunity to get acquainted with the historical past of people settled in the region, their traditional way of life, handicrafts and folklore. Ecological tours for a variety of categories of tourist can include sailing on rivers, bicycle trips and walking excursions with living in camps and *yurtas* or accommodation in holiday and tourist centres.

Also there is a possibility for development of cultural tourism, business and congress tourism, entertainment and educational tourism, spas, wellness tourism, religious tourism, event tourism, shopping tourism and gastronomic tourism

Travel agencies. Approximately the number of travel agencies, tour operators, tourist and excursion agencies was reduced to third since 2003 (see table 3.8), however the number of employees of travel agencies has increased by 8.4 % (see table 3.8). The average number of employees of tour operators has grown accordingly from 9 to 14 persons per company.

Private companies are the main players in the tourism market due to the comprehensive privatisation programme launched in 1988. Despite the fact that almost 25,000 enterprises are engaged in tourism a total of 90% of tourism-related services were provided by private companies. These companies provide a broad range of services.

*Box III.2.*

“Tourists from foreign countries have more to do with services of travel agencies/companies, Kazakh people have fewer dealings with them and therefore remained as groups of tourists, with it being preferable to make their own leisure arrangements, at least for the moment.

Many tourists, having taken advantage of services of travel agencies, were left dissatisfied with the service, especially the assessment of quality among tourists from Kazakhstan. Almost 52% assessed the quality as “satisfactory” and “poor”. Most tourists from Uzbekistan assessed the quality as “excellent”, with only a third of them finding the service “poor”.

Assessments of tourists from foreign countries have turned out to be higher in comparison to assessments of tourists from Kazakhstan and Uzbekistan but at the same time significant failures are evident. Even taking account of the fact that the service quality does not always only depend on travel company/agency, the number of reserved assessments cannot but concern businesses in the sector. It is clear to everyone – deficiencies in the work of one company are capable of making negative impact on the activities of other market players”.

*Source: LLC Marketing-service Bureau (2006). Market of Kyrgyzstan’s Tourism. Results of Marketing Research.*

The hotel industry is one of the main components of the tourist industry and plays a crucial role in tourism development. Given that the hotel industry itself is one of the important and profitable sectors of the economy, many countries are keen to develop this sector.

The hotel industry in Kyrgyzstan comprises hotels, motels, roadside and beach hotels and special accommodation facilities. The special accommodation facilities are enterprises which provide accommodation along with additional services, e.g. spas and sanatoria or congress centres.

*Box III.3*

“People with different needs and opportunities come to Kyrgyzstan for recreation and places for their basic accommodation are various and variable. For instance, significant changes occurred in basic places of accommodation of tourists: if in 2004 tourists mainly preferred living in sanatoriums/rest houses/vacation hotels then this year tourists gave preference to boarding-houses, rented apartments and living with friends/relatives.

For the decrease in the number of tourists who had a rest in sanatoriums/rest houses/boarding houses the lack of bed-rooms played a role, therefore tourists were forced to settle for where it was possible to do.

Assessments of quality of services are subjective, but precisely those consumer assessments despite their subjectivity may serve as a basic guideline for service providers. It is quite good that about 70% of tourists from CIS countries have given good and excellent assessment of services quality in places of main residence.

Evaluations of tourists from further abroad have changed in recent years and for the better. The differences in quality assessments are especially evident by categories of places where tourists live mainly.

As usual the highest level of service, according to opinions of tourists is in private guest houses/boarding houses.

Many tourists of further abroad gave positive assessments of the quality of service received in places of main residence. It is remarkable that the highest assessment was given to private guest houses/boarding houses and yurts”.

*Source: LLC Marketing-service Bureau (2006). Market of Kyrgyzstan’s Tourism. Results of Marketing Research.*

In 2007 the hotel industry in Kyrgyzstan had 119 hotels with a total of 2,352 rooms and 8,151 beds. The number of persons accommodated in 2007 was 164,800 people (see table 3.8).



**Table III.8. Basic Indicators of Hotel Operations**

	2003	2004	2005	2006	2007
Number of hotels, units	79	120	120	123	119
Number of accommodated persons, in thousands of persons	127.9	149.4	126.7	132.7	164.8
Number of all rooms, units	1,925	2,248	2,244	2,357	2,352
Single capacity, beds	3,409	4,022	4,472	7,383	8,151
Beds per day, in thousands	247.3	254.9	221.8	257.4	266.2
Ratio of use of available rooms <sup>26</sup>	0.2	0.17	0.14	0.1	0.1

Sources: National Statistical Committee of Kyrgyzstan

The food industry of Kyrgyzstan is developing rapidly. This industry comprises restaurants, cafes, bars, cafeterias and other catering enterprises. Statistical data shows that the volume of services provided by restaurants, bars, cafeterias and other enterprises in 2003–2007 increased more than twofold and in 2007 the total turnover reached 4.1 billion soms (see table 3.9).

**Table III.9. Volume of Services Provided by Restaurants, Bars, Cafeterias and Other Enterprises Regarding the Supply of Prepared Food**

Years	Million soms	Percentage	
		To previous year	To 2003
2003	1,469.9	N.A	100
2004	1,787.1	21.5	121.5
2005	2,189.0	22.5	148.9
2006	2,814.5	28.5	191.4
2007	4,102.0	45.7	279

Sources: National Statistical Committee of Kyrgyzstan

**Box III.4.**

“The development of the food industry is happening at a very rapid pace over recent years.

Observations conducted during survey and opinions of tourists have served to highlight some problems:

- Low level of sanitary culture especially in the process of transportation, storage, preparation of products,
- Application of out-of-date types of food-preparation equipment and dishes,
- Minimum limited standard of serving meat and fish dishes,
- Lack of general practice in preparation and serving of desserts,
- Lack of general practice in serving fruit juices at breakfast,

As a partial solution tourists buy additional or other food in cafés and restaurants located near boarding houses.

Kyrgyzstan’s desire for European standards of reception, placement and service of tourists also obliges them to raise the whole system of catering to a qualitatively new level in places of organized recreation, including choice, portions, quality of dishes and certainly the level of service. Especially the level of service in the field of food is interpreted by tourists as one of the indicators of hospitality of the country and it is quite good that it is rising and approaching European standards, especially in restaurants and cafes in recent years.

In the responses of tourists from the CIS and countries further abroad, responses like “excellent” and “good” are in the majority. This implies that the quality of service in restaurants is higher than average. However according to the opinion of the most exacting tourists – the Kazakhs, we must work seriously on service levels.”

Source: LLC Marketing-service Bureau (2006). *Market of Kyrgyzstan’s Tourism. Results of Marketing Research.*

Transportation is one of the major elements of the tourist industry. Transportation of tourists in Kyrgyzstan is done air transport, motor vehicles and by railroad.

Kyrgyzstan is located in the centre of Eurasia at the future crossroads of transport and economic ties between Europe and Asia, the North and the South. The main objective in this area is to make the country accessible to foreign tourists by establishing direct international air flights. To achieve this goal it is necessary to carry out a number of activities, namely; to transform Manas International Airport into a large

aviation hub; to create conditions for foreign and domestic airlines to operate in; to enhance flight safety and the quality of services for air passengers.

According to data from the National Statistical Committee of Kyrgyzstan 5,041,700 passengers was carried by all types of transport in 2007 (see table 3.10).

**Table III.10. Transportation of Tourists by Transportation Type for the Period 2003–2007, in Thousands of Persons**

	2003	2004	2005	2006	2007
Tourists transported - total	2,245.4	2,893.6	4,327.3	4,710.1	5,041.7
<b>By air transport</b>					
Entrance international	47.0	59.6	68.0	56.0	91.3
Exit international	65.5	75.8	62.5	67.7	95.5
Domestic	105.1	122.5	112.3	108.3	92.3
<b>By rail transport</b>					
Entrance international	70.6	86.2	89.8	129.4	151.9
Exit international	148.1	153.5	155.2	198.9	225.3
Domestic	11.0	10.8	10.2	9.8	15.6
<b>By car transport</b>					
Entrance	61.0	139.8	149.7	98.1	76.5
To far abroad	0.9	1.3	24.3	15.5	
To CIS countries	60.1	138.5	125.4	82.6	76.5
Domestic	1,737.1	2,245.4	3,679.6	4,041.9	4,293.3

Sources: National Statistical Committee of Kyrgyzstan

In 2007 the largest number of tourists in Kyrgyzstan (more than 62% of all tourists) arrived by rail.

The most common means of transport inside the country is coaches. Therefore the reconstruction of the highways Bishkek-Osh, Bishkek-Naryn-Torugart, Bishkek-Balykchy-Karakol, Osh-Irkeshtam as well as domestic roads was important for developing tourism. These roads follow the ancient "Great Silk Way".

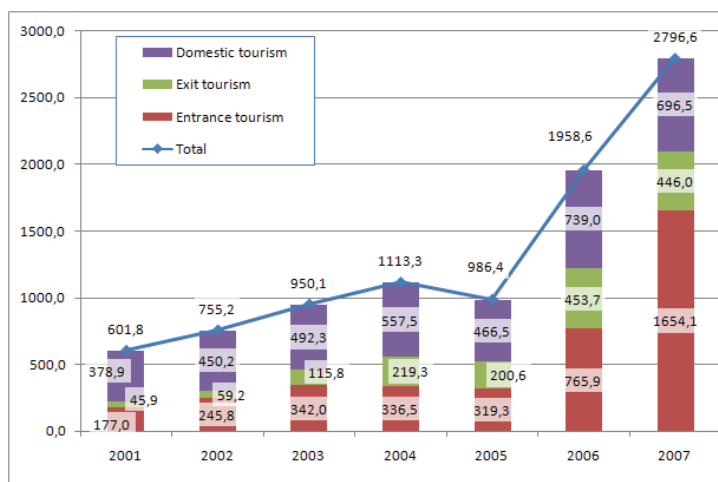
The entertainment industry of Kyrgyzstan includes parks, theatres, circuses, museums and other entertainment venues. This also includes reserves and natural parks. There are 17 theatres, 59 museums, 8 national parks, six natural reserves and 69 wildlife sanctuaries and natural monuments.

Professional theatres in the country are owned by the State. Most of them are located in Bishkek (8) and Osh (4). In 2007 theatres staged 1,252 performances.

### 3. Consumers of Tourism Services

As mentioned earlier, tourism in Kyrgyzstan has become quite important. Over the last 6 years the total number of tourists has increased 4.7 times (see Figure 3.3) mainly due to foreign tourists visiting Kyrgyzstan. At the same time the number of Kyrgyzstan citizens travelling abroad for tourist purposes has increased by almost 10 times. The domestic tourism market has grown 80% over the last 6 years.



**Figure III.3. Number of Tourists in Kyrgyzstan, in Thousands of Persons**

Sources: National Statistical Committee of Kyrgyzstan

The main consumers of domestic tourist services are citizens of Kyrgyzstan. They represented 77.7% of all tourists in 2007 (see table III.11). The breakdown by tourism type was as follows:

- (a) Recreation centres 10%
- (b) Sports and health camps 12.9%
- (c) Other tourism enterprises 27.8%
- (d) Sanatoriums 47.7%
- (e) Other 1.6 %

The most popular kinds of recreation for domestic consumers were sanatoriums, natural parks and reserves, recreation health centres and travel tours. Most of these services were provided in the Issyk-Kul, Chui and Talas regions. Some 71.2% of total hotel services for the domestic population were provided in the country's capital (Bishkek) and in the Djalal-Abad region.

**Table III.11. Number of Tourists by Accommodation and Service Category in 2007, Percentage by Category**

	Countries except CIS	CIS countries	Kyrgyzstan
<b>Total</b>	<b>6.4</b>	<b>15.9</b>	<b>77.7</b>
Hotels	16.4	12.4	71.2
Specialized accommodation facilities	2.1	29.1	68.7
Tourist centres	0.0	13.6	86.4
Sanatoriums	5.8	23.3	70.9
Children's sanatoriums	0.0	0.0	100.0
Sanatorium-spas	0.0	0.0	100.0
Holiday centres	0.3	52.1	47.7
Recreation sanatoriums	1.4	33.3	65.3
Health sanatoriums	0.0	5.1	94.9
Recreation centres	0.1	89.9	10.0
Sports and health centres	0.0	87.1	12.9
Children's health centres	0.0	11.6	88.4
Travel agencies and tour operators, travel bureaus and excursions	3.2	4.3	92.6
Natural parks and reserves	0.4	1.1	98.4
Other tourism enterprises	58.1	14.1	27.8

Sources: National Statistical Committee of Kyrgyzstan

**Box III.5.**

“Kazakh tourists mostly (66.3%) think that the price for rendered services complies with quality, let’s remember that in 2004 such was less than half – 42.4%. In its turn, 19.9% think that price is overstated (in 2004 it was 43.9%) – it means that they are satisfied with the quality received. The data testifies that tourists from Kazakhstan most of all accepted price increases, as they found they were justified.

Tourists from Russia more strictly estimated the quality of received services in comparison with expenditures. As tourists spend more money, they estimated services quality more strictly. But in general, tourists were mostly satisfied with services.

Uzbek tourists are more patient with services in Kyrgyzstan. Most tourists remained quite pleased and satisfied with the quality of services and prices.

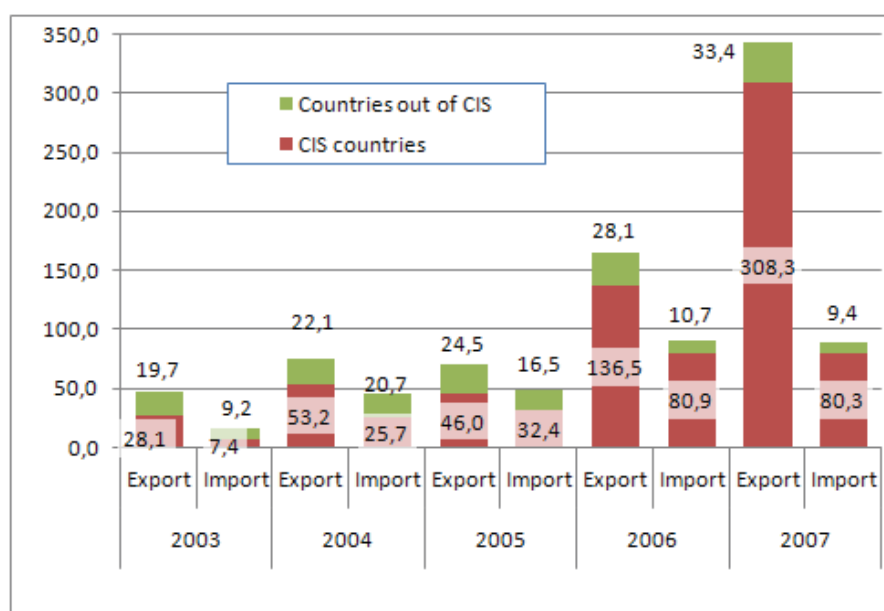
According to the opinion of tourists from further abroad the quality of services increased in terms of the most expensive and cheapest destinations. More than half of those tourists spending 100-200 dollars and two thirds spending more than 700 dollars rated service quality highly.

Domestic tourists mainly found the budget sector good but found prices inconsistent in the more expensive sector.”

Source: LLC Marketing-service Bureau (2006). *Market of Kyrgyzstan’s Tourism. Results of Marketing Research.*

Since 2003 Kyrgyzstan has maintained a positive foreign trade balance in tourism (see Figure III.4).

**Figure III.4. Import and Export of Tourism in 2003-2007, in Millions of US Dollars**



Sources: National Statistical Committee of Kyrgyzstan

#### 4. Other Tourism-Related Economic Sectors

Tourism is a very particular sector of the economy. Firstly, tourism itself involves other economic sectors that should be considered independently. Secondly, tourism depends on, and at the same time has an impact on other sectors, primarily the civil aviation and land transportation system<sup>27</sup>. Water transportation is also available in Kyrgyzstan but is not fit for large-scale passenger transportation. All means of transport are mostly privatized except railroads. Therefore market development of civil aviation and motor carriers depends on demand for their services.

The development of transport infrastructure, roads, airports and air traffic control systems are also important issues having an impact on tourism development

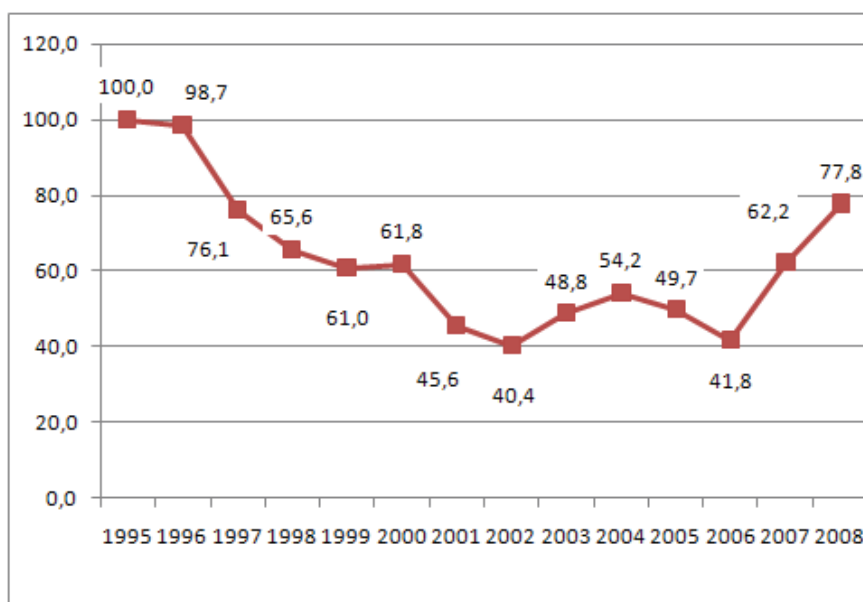
Currently most roads do not meet international standards. In 2005 two thirds of 4,300 roads needed rebuilding. One fifth of roads were so dilapidated that they needed to be fully rebuilt from scratch.

The railroad plays an important role in national development. Currently the railways of Kyrgyzstan do not function as a single railroad system. In order to improve railroad transport capacity the Government intends to develop the railroad project China-Kyrgyzstan-Uzbekistan as well as the international railroad transportation corridor through Torugart with outlet to cities Balykchy, Kara-Suu and Andijan which connect the North and South regions of the country.

Civil aviation is another important sector of the transportation system. In order to ensure development it is necessary to increase the ability of airports to meet international standards including Manas International Airport as well as to benefit from more passengers and cargo transit. In addition it is necessary to improve flight safety by modernizing the system of air traffic control.

Tourism depends on the transport sector, particularly on civil aviation. However statistics for international aviation passenger turnover in Kyrgyzstan clearly show that the availability of airlines does not guarantee tourist inflow (see Figure 3.5).

**Figure III.5. Kyrgyzstan's Aviation Passenger Turnover in 1995-2008, %, 1995=100**



Sources: National Statistical Committee of Kyrgyzstan

Despite the fact that large international carriers such as Turkish Airlines and British Airlines already operate in Kyrgyzstan, the passenger turnover for the last 12 years did not increase. The reason is that during recent years there was no demand for international air carrier services. As soon as the international tourist inflow to Kyrgyzstan increases the number of international air carriers who are interested in operating in Kyrgyzstan will increase as well.

The banking sector is essential for tourism development since it handles all kinds of transactions. The development strategy for the banking sector in Kyrgyzstan includes measures to enhance the sustainability of banks and to facilitate access of the population to banking services. One of the important measures is to introduce the necessary arrangements for all kinds of banking transactions including banking infrastructure, modern technologies and international payment systems (VISA, MASTERCARD etc) across the country.

In Kyrgyzstan the telecommunications sector is developing unevenly. As of 1 January 2008 447 rural telecommunication centres out of 1,872 remained unequipped even with ordinary telephone booths. The Government intends to increase the telephone penetration ratio and Internet access up to 100 % across the country

The crafts sector in Kyrgyzstan comprises mainly small and micro-sized enterprises. There are five basic market segments in the sector, namely: gifts (40%), boutiques and galleries (38%), local tourist guides (22%) and catalogue and brochure producing (2%). The crafts sector has the highest potential for further growth and generation of employment for the local population. Currently additional subsidies are needed for the development of local crafts.

The construction sector of Kyrgyzstan is a solid base for the sustainable growth of the national economy, and of tourism in particular. Residential construction, construction of transport and communications infrastructure, energy infrastructure and construction of facilities for processing industries are defined in the Government's roadmap for the construction sector as a matter of priority. Currently the construction sector needs additional investments to develop its capacity for infrastructure engineering in order to ensure maintenance and operation in accordance with established international standards with regard to earthquake-proof technologies and reliability of buildings and structures.

## **C. PROVISIONS, INSTITUTIONS AND POLICY MEASURES AFFECTING SECTOR ACTIVITY**

### **1. General Matters**

The legislation governing tourism in Kyrgyzstan comprises more than a hundred laws and regulations clearly showing that the Government is keen to develop the tourism sector

As mentioned above, it is small and medium-sized enterprises (SME) that are mostly engaged in the tourism sector so that their business activity is governed by general legislation on SME with the common existing problems laid down below:

- (a) Weak legislation;
- (b) Complicated taxation system;
- (c) Difficulties related to bank credits;
- (d) Numerous administrative and other barriers;
- (e) Complex system of licenses and permits.

The low level of transparency, complex procedures in licensing and permit issuance severely affects the rights and economic interests of entrepreneurs as well as complicating business operations and increasing production costs

The Government<sup>28</sup> has introduced a ban on the adoption by local authorities of any further regulations prior to the completion of the third stage of revisions of legislation related to tourism.

Most complaints by entrepreneurs are related to inspection procedures, which has led the Government to introduce more transparent procedural rules in order to restrict and eliminate the abuse of authority during regular inspections. In that connection, in order to eliminate "red-tape", the number of inspections was reduced by streamlining them with an introduction of a system of risk assessment and a reduction in the number of necessary inspections. Furthermore the number of authorities entitled to conduct inspections was reduced by 70%.

In the area of legislation there were contradictions in the legal texts regulating enterprise and investment activities. To overcome these contradictions, it was necessary to develop the legislation governing public-private partnerships, to amend the legislation governing the State registration of legal entities, branches and representations and further simplify registration procedures. It was necessary to review the legislation governing concessions, public procurement, toll roads, and energy for the purposes of introducing new methods of public-private partnership and financing mechanisms as well as legislation governing licensing.

Public administration is not efficient enough so, the main body - the State Agency on Tourism has become responsible for the implementation of State policy in the field of tourism, for the provision of training and professional training, for service quality improvement, for the construction of new tourism infrastructure projects, for increasing the inflow of tourists, for attracting investment and administering the visa scheme, etc.. However, it does not have real regulatory powers or the ability to administer tourist organizations and tourist destinations due to a lack of regional vertical management, and its inability to co-ordinate the activities of ministries and agencies, directly or indirectly connected with the attraction, reception and

servicing of tourists (Ministry of Foreign Affairs, Ministry of Internal Affairs, Frontier Service, Customs Services and tax bodies, aviation authorities, etc.).

The legislation governing tourism, as it stands, was practically unworkable from the moment it was enacted, and today many of its articles have simply become outdated. Ecological, sanitary, and land use legislation are weak nationally. Ecological and sanitary standards in the construction and operation of tourist projects simply do not work.

Some important issues of sector regulation will be analyzed further.

### **Private Participation**

The State has a small number of tourist assets. These are natural reserves and natural parks, and some facilities (sanatoriums and health-treatment institutions), which are more or less Government agencies. However, all activities directed at developing tourism in the country apply equally to any business operating in the tourist sector.

In tourism sub sectors, there is no special licensing for the private sector, either domestic or foreign. Registration of foreign citizens and legal entities as economic entities is regulated under the legislation governing foreign investments, as described in section I.

### **Important Regulatory Bodies and Sector Regulations**

Tourist services are regulated both under legislation and agencies common to the whole economy and sector-specific legislation. The authorities can issue licences and set prices for socially sensitive goods and services. At the same time the rights and obligations of foreign suppliers are virtually the same as the rights and responsibilities of domestic businesses.

If foreign legal entities incur damage as a result of unfavourable decisions applied by inspecting agencies, they have the right to appeal to a court for redress. During the consideration of such cases, the legislation of Kyrgyzstan and relevant international agreements and other normative legal acts apply.

### **Measures Related to Technical Standards and Safety Standards**

In Kyrgyzstan, there are currently no operational ecological technical regulations. Currently draft regulations on the provision of ecological safety in Kyrgyzstan are before the parliament for consideration and approval. Sanitary norms and standards of safety are regulated by specialized Government agencies (sanitary-epidemiological stations, facilities of the Ministry of Emergency, etc). Domestic and foreign suppliers of services are subject to the same requirements with regard to standards.

It should be noted that not all technical specifications currently in force in Kyrgyzstan are based on the appropriate international standards. However, Government agencies are currently working on bringing these specifications into line with international ones.

Information on the issue of sector standards can be made available if an enterprise is registered with various special authorities. Information centres exist under the State Agency on Standards and MEDT where information on standards and the certification system can be obtained. However the system of information centres is not yet sufficiently well-developed in the regions.

Conformity assessment procedures, testing and certification do not differentiate between participants in the services market, but entrepreneurs can make complaints against the transparency of existing procedures.

## Measures Related to Licensing

The procedure for licensing tourist activity is set out in the national legislation governing licensing. Of the various types of tourist services only passenger and cargo transportation services are subject to licensing by the Ministry of Transport and Communications, and hunting and fowling by the State Agency on Environmental Protection and Forestry.

The normal procedure provides for applicants to obtain licences to carry out particular types of activity followed by any permits that may be needed for land, plant, premises or other facilities. In exceptional cases licences may be issued in advance of permits.

There are no any special licensing-related restrictions existing for corporations.

Foreign legal or physical entities and Stateless persons can receive licenses under the same conditions and terms as Kyrgyzstan legal and physical entities. So formally there is effective competition between foreign and domestic companies in the sector.

Licenses obtained in other States, are recognized on the territory of Kyrgyzstan on condition that appropriate bilateral agreements exist or in such cases as laid down in the legislation governing the National Bank of Kyrgyzstan.

A license may be unlimited or limited to a certain period of time (not less than 2 years) and can be assigned.

A license may only be issued to an applicant where the application states the nature of the business and where the applicant is qualified to exercise that activity.

To receive a license, the following documents are required:

- (a) application in due form;
- (b) documents confirming the compliance of the licensee with the requirements for that type of activity;
- (c) documents confirming payment of the fees for the consideration of the application and the issue of the license;
- (d) copy of certificate of State registration.

Some legislation can stipulate additional and special requirements for the list of documents for individual types of licensing activities. Licences are not issued for activities prohibited by law.

All documents submitted to obtain licenses must be registered with the licensing authority.

A license shall be issued not later than one month after an application has been submitted with all the required documents.

Fees are charged for the issue of licences.

A license shall be terminated only in the cases below:

- (a) the license has expired;
- (b) the terms of the license have not been met;
- (c) the license is withdrawn;
- (d) the applicant has ceased to operate.

In the case of re-registration of a legal entity, a license shall be valid until the end of that term.

Disputes connected with termination of licenses, shall be settled in court.

Licensing of tourism businesses terminated in 2001, and the only functions fulfilled now are coordination and monitoring by controlling Government agencies.



For instance, there are tourist areas, such as the area around of Issyk-Kul Lake, where there is a system of graduated entrance fees which was introduced for environmental protection purposes and is applied to local coaches and those registered abroad. The amount is 100 soms for local trucks and buses, 50 soms for local cars. Foreign cars pay 500 soms.

## Measures Regulating the Movement of Natural Persons

Foreign citizens can be hired as employees by foreign investors and can be members of governing bodies of legal entities with foreign shareholdings<sup>29</sup>. However it should be noted that Kyrgyzstan has formally adopted the policy of ensuring priority rights of citizens of Kyrgyzstan for any vacant positions.

Authorized Kyrgyzstan State bodies assist with the entry and presence of foreign citizens associated with foreign investment activities for the period of their work in Kyrgyzstan according to the relevant national legislation. Employment relations between foreign investors and their employees, who are not citizens of Kyrgyzstan, are regulated by legislation stipulated in their employment agreements. These employment agreements cannot be below the mandatory requirements established by the Kyrgyzstan Labour Code. In the absence of such employment agreements, foreign citizens employed by companies located in Kyrgyzstan are subject to the labour legislation and other legal acts of Kyrgyzstan.

There are no specific requirement for providers of tourism services (in terms of education, qualifications, licensing), and the recognition of equivalent professional qualifications acquired abroad depends on each company's management.

Conditions and legislative framework for conducting business in Kyrgyzstan by foreign citizens and individuals without citizenship shall be determined by the *"Resolution on order of labour activity by foreign citizens and individuals without citizenship in KR"*<sup>30</sup>.

In accordance with this regulation foreign citizens and individuals without citizenship, arriving in Kyrgyzstan for employment, are registered with the State Committee of Kyrgyzstan on Migration and Employment (State Committee). Granting permits to hire foreign labour and subsequent work permits should be done within the limits of quotas for hiring foreign labour set annually by the Government.

These quotas are cancelled in the event of non-use three months from the time they are issued.

To receive permission to hire foreign labour employers submit applications to the State Committee. The list of the documents to be attached to the application and the permit form are laid down by the State Committee.

In some cases confirmations from other State bodies of Kyrgyzstan can be requested regarding the appropriateness of hiring such specialists.

Permits to hire foreign labour cannot be transferred to other employers. Foreign workers hired by one employer cannot be transferred to work for another employer. If a foreign citizen is employed by more than one business entity, he must obtain additional permits from the State Committee.

Foreign private entrepreneurs holding work permits have the right to work in the location specified in the applications they submitted. If foreign entrepreneurs wish to work at locations not specified in their applications they must obtain additional permits.

Work permits for foreign managers and foreign specialists are granted for one year with the right of extension for an additional year. The total validity period for work permits for foreign qualified specialists should not exceed two years and for individual entrepreneurs three years.

Work permits are granted to foreign citizens of age 18 and older.

Fees are charged for such permits. Employers pay the fees for permits to hire. Employees pay the fees for work permits. The level of fees is set by the Government.

Furthermore under Kyrgyzstan legislation foreign citizens cannot own tourist facilities (property) but may lease said property for a period not exceeding 49 years. Another limitation currently under consideration by the parliament is that at least 90% of staff should be citizens of Kyrgyzstan.



Moreover the new draft legislation governing tourism stipulates that investment managers must be citizens of Kyrgyzstan and that the number of foreign citizens in the management of any company must be reduced to one third. However, this law is still in the process of discussion. In addition, the draft law proposes to restrict foreign investment for the development of tourist facilities to 49%. There are no such limitations at present.

## **2. Policies and Regulatory Measures on Competition as Applied in the Sector, Including Regulations Related to Trade in Terms of Foreign Ownership and Participation in the Sector.**

### **Horizontal Measures**

According to the legislation governing investment in Kyrgyzstan<sup>31</sup>, foreign investors operate under the same conditions as legal entities and individuals of Kyrgyzstan, except for limitations that may be imposed on industries related to defence, national security, public health and public morality.

In some cases, if investments are made in priority economic industries, the social sphere or in particular territories according to State programmes, foreign investors can be provided with investment benefits.

### **Measures Related to Competition**

Formally there are no differences in the approaches to domestic and foreign tourism service providers. According to the legislation governing foreign investments Kyrgyzstan provides a fair, equitable legal framework, full protection and guarantees to foreign investors. The State abstains from intervention in the economic activity, rights and legally acknowledged interests of foreign investors. Kyrgyzstan Government officials not observing the provisions of this article are answerable under the legislation of Kyrgyzstan. Thus, foreign citizens can easily provide tourism services and that is what is already happening in some cases.

It should be noted that there is Government participation in this sector: such tourism facilities as nature parks and reserves are State-owned. Moreover there are recreational facilities, holiday centres, health centres and camps that are owned by State ministries.

Licenses in the tourism sector do not provide exclusive rights.

In Kyrgyzstan there is existing legislation dealing with the restriction of monopolistic activity and the development and protection of competition<sup>32</sup>. It determines the organizational and legal basis for the development of competition, prevention, restriction and suppression of measures for monopolistic activity and unfair competition and aims to provide conditions for the creation and effective operating of a national market for goods and services.

### **Audit Legislation**

As in any other sphere, foreign investments and tourism are subject to examination during registration by the Ministry of Justice. The legislation governing investments in Kyrgyzstan<sup>33</sup> states: "*State registration, re-registration and liquidation of legal entities with foreign participation and their branches and representative offices is made according to the Civil Code of Kyrgyzstan and the Law "On State registration of legal entities of Kyrgyzstan"*<sup>34</sup>. There is no special body in the country, which audits investments.

Foreign investors additionally submit the following documents:

- (a) Foreign legal entity acting as founder – notarized extract from the commercial register, certifying that the founder is a legal entity acting according to the legislation of his country with notarized translation into a State or official language. Notarization of the abovementioned documents is not required for legal entities of CIS Member States;
- (b) Foreign individuals acting as founder – copies of passports or other documents (with specification of visa terms), establishing the individual's identity with legally certified translation into a State or official language<sup>35</sup>.

The main criteria applied during the assessment of applications for approval is the legitimate nature of the activity applied for together with the availability and compliance with established requirements of those documents submitted for the registration of an enterprise.

Investors have the right to bring before a court all issues concerning their activities in Kyrgyzstan, including any disputes with State bodies. Moreover, investors have the right to use any methods of dispute resolution, provided for under Kyrgyzstan legislation and in international practice.

### **Legal Requirements and Requirements Regarding Joint Enterprises**

Tourist firms can have any form that is acceptable and suits them best. The level of involvement of local participants does not determine the activity of foreign firms. However, it is important to remember that the number of foreign citizens that can work for a firm must correspond to the quota officially set.

The enterprise can be fully foreign or joint, with any share of foreign or local capital. There are no special requirements on the structure of boards of directors.

## **3. Kyrgyzstan Obligations in WTO in the Energy Services Sector**

In the view of experts GATS is very important but nevertheless it is only an initial link in the creation of multilateral intergovernmental regulations for Government activity in the sphere of the international services trade. Therefore Kyrgyzstan, supporting the Development Agenda adopted in Doha, participates in negotiations in the sphere of services.

Kyrgyzstan supports the principles of service market liberalization, including in the tourist service sector, through which various companies providing tourist services can operate in the market. As stated above there is a national trend toward tourist service sector development, which contributes to the development of competition in this sector. With the aim of maximum liberalization in 2001 the licensing of tourist facilities was stopped and the only functions now carried out by the State in this sphere are coordination and monitoring.

As noted above, foreign investors investing in Kyrgyzstan do so under MFN terms. There are no restrictions for foreign investments in this sector, which resulted in tourism growth (see table 3.6). Investors have the right to freely employ people who are not citizens of Kyrgyzstan. Employees who are not Kyrgyzstan citizens can also be hired for managerial positions in the company.

According to the list of specific obligations of Kyrgyzstan on service trade consisting of 99 sectors and almost 600 sub sectors, developed in accordance with the United Nations Central Product Classification, Kyrgyzstan accepted obligations during its accession to WTO for 545 sub sectors and types of activity. This is the quantitative part of the list. The qualitative part is more noticeable with regard to Kyrgyzstan's commitments to horizontal and specific obligations that do not have limitations on market access to market and MFN terms virtually in all sectors and delivery options (except for a small number of strategic sectors and the fourth delivery option). No commitments have been entered into regarding MFN, which differ from Kyrgyzstan's national framework.

As is well known GATS provides for two groups of obligations: general (horizontal), covering all types of services and specific, regarding particular industries producing and providing services. The list of obligations for Kyrgyzstan in respect of tourist services and travel include the following types of activity:

- (a) Hotel and restaurants, including catering (CPC 641-643);
- (b) Tourism agencies and tour operators (CPC 7471);
- (c) Guide services (CPC 7472);
- (d) Miscellaneous.

In the national economic development programme the tourism industry in Kyrgyzstan is considered as one of the priority economic sectors stimulating the development of related industries, raising the flow of investments into the national economy and securing stable employment and population income growth, particularly for the rural population and the populations in remote mountain regions. Taking this factor into account, Kyrgyzstan assumed the highest level of obligation with regard to the tourism services sector on its accession to the WTO.

There are no limitations for both access to market and national regime on Mode 1, Mode 2 and Mode 3 applied to all the above-mentioned activities in the service sector of tourism and travel. As for Mode 4 the country did not accept responsibility except for measures related to the temporary entrance and presence of foreign citizens delivering services as salesmen, workers transferred within companies, managers, supervisors, and measures affecting the presence of individuals (foreign citizens are required to obtain entrance visas unless the country has a visa-free entrance agreement with Kyrgyzstan).

Therefore Kyrgyzstan's obligations in the sector of tourism and travel set no limits on the number of service providers both in the form of quotas, monopolies, exclusive providers and in the form of need confirmation requirements, measures requiring the special status of legal entity for joint companies and foreign capital contributions in the form of limits on maximum shares of foreign contributions. There are also no limitations on the total number of operations with services or total volume of services delivery and total number of individuals, which are required and have direct relation to the delivery of a certain service, in the form of quotas (managers, supervisors and specialists) or requirements for economic need confirmations. However, local legislation provides that decisions on permits to hire foreign labour are based on the principles of priority rights of the citizens of Kyrgyzstan to fill vacant positions and are made where equivalent labour in Kyrgyzstan is lacking.<sup>36</sup> This means that MFN treatment does not apply when hiring foreign specialists.

Currently legislation provides that foreign specialists, who are offered a job in Kyrgyzstan, may obtain work permits valid for one year. Upon expiry work permits may be extended by decision of the State Committee for up to three years. Work permits can be extended for a further two years under the horizontal commitments of Kyrgyzstan in WTO, provided the total duration does not exceed five years. The current legislation needs to be revised in order to bring it into compliance with WTO rules.

Foreign investors, their representatives and their foreign employees are authorized to travel within Kyrgyzstan without limitation, except for those territories prohibited for free movement by Kyrgyzstan legislation. In addition there are areas (for example Issyk-Kul Lake) where differential treatment is applied to entrance fees for local and foreign vehicles for the purposes of environment protection. Fees paid for foreign vehicles are higher which means there is no MFN treatment in the case of foreign service providers. It should be noted though that the majority of foreign vehicles come from Kazakhstan which is not yet a WTO member.

The Doha Round launched a comprehensive agenda of negotiations related to trade in services liberalization including the liberalization of tourist services. Realizing the importance of the liberalisation of trade in services Kyrgyzstan, as a newly acceded WTO Member, accepted comprehensive commitments on service market access liberalization including the tourist sector, aiming at reciprocity from other members.

At the Ministerial Conference in Hong Kong in December 2005, Kyrgyzstan requested the equivalent treatment to that granted to least-developed countries in recognition of their acceptance of new commitments and, as a landlocked and small income country, to be compared with least developed countries. Kyrgyzstan also wished to obtain benefits from specific provisions included in market access negotiations

Also during the Conference Kyrgyzstan requested that it be recognized that it had already made comprehensive commitments in services on accession to WTO and therefore could not liberalize service market access further as a small low income economy in transition

As mentioned in Chapter II, the letter with the position of Kyrgyzstan on services was sent to the WTO Director General (No 03-1-1/2551) on 1 June 2005.

## **D. THE SWOT ANALYSIS OF THE TOURIST SERVICES SECTOR**

The SWOT analysis shows that Kyrgyzstan geographically, historically and politically has strong competitive advantages. However, legislative imperfections and other difficulties conditioned by the economic situation in the country make Kyrgyzstan's position worse on the international tourist market and create sufficiently perceptible threats for tourism development in the country. Moreover, over a long period, up to 2006, there was no real activity in Kyrgyzstan to attract tourists. Consequently many travel lovers worldwide were unaware of the tourist opportunities in Kyrgyzstan.

Nevertheless Kyrgyzstan's potential will enable it to overcome weaknesses and shortcomings both internal and external.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Rich, lively and original culture and traditions, history, preserved ecology;</li> <li>• Part of the Great Silk Way across Kyrgyzstan;</li> <li>• The country is rich in attractive natural resources, including nature reserves, which are ideal for ecological tourism;</li> <li>• Issyk-Kul Lake – unique health resort area on a world scale;</li> <li>• The country has great potential for development of adventure and extreme tourism (climbing, mountain skiing, rafting, paragliding etc.);</li> <li>• The country is located in the middle of Eurasia, at the crossroads of promising air, transport and economic connections between Europe and Asia, North and South. Therefore, the country could become one of the world's transport (passenger and freight) centres;</li> <li>• The country is one of the most politically stable countries in Central Asia;</li> <li>• Country authorities realize the importance of tourism for the country's development and conduct a consistent policy of development for the industry.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Non-harmonized inter-sector legislation;</li> <li>• Insufficient budget financing of State policy activities in the area of tourism;</li> <li>• Majority of tourism assets and infrastructure facilities are in poor condition;</li> <li>• Quality of services provided in these facilities does not meet international standard requirements of quality, safety and environmental safety;</li> <li>• Limited aviation access to many areas;</li> <li>• High transport costs in the price of tourist packages for international tourists, poor condition of roads;</li> <li>• Tourism is mainly seasonal; especially resorts on the Issyk-Kul lake, where tourist season is about 60-70 days long;</li> <li>• Insufficient safety when organizing tourist activities;</li> <li>• Incomplete and unreliable tracking of incoming foreign tourists;</li> <li>• Complicated process of obtaining tourist visas for foreigners due to insufficient number of visa issuing locations in foreign countries;</li> <li>• Permanent threat of environmental pollution in mass tourism zones;</li> <li>• Lack of unified information space;</li> <li>• Unskilled tourist workers.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Educational potential in the country is high, so training of proper specialists is feasible merely requiring time;</li> <li>• Active marketing by the State and private companies may generate increased tourist inflow to the country;</li> <li>• Geographic location, natural conditions and landscapes of the country call for development of practically all types of tourism (from banking and business tourism to cognitive and extreme tourism);</li> <li>• Mountains, ecologically clean places and extremely clean healthy air are valuable tourist resources of Kyrgyzstan;</li> <li>• Kyrgyzstan natural resources make it possible to organize highly effective treatment courses</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Macroeconomic threats. Possibility of deterioration of internal and external economic conditions, decrease in economic growth rate, decrease in investment activity, high inflation;</li> <li>• Financial threats. Insufficient level of budget financing. Possible failure to fulfil budget obligations will jeopardize fulfilment of development tasks;</li> <li>• Man-made and ecological threats. Changes in nature and climatic conditions. Any big natural, man-made or ecological disaster will lead to decreased attractiveness of the country as a tourist destination. Global climate changes could also significantly impact tourist inflows, bringing specific risks for the main tourist areas;</li> <li>• Geopolitical threats. The political situation in the country and in neighbouring countries has great impact on the development of domestic and incoming tourism. Political instability, military conflicts and terrorist attacks could lead to decreased tourist inflow and strengthen Kyrgyzstan's image as a country, not to visit;</li> </ul>

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comparable with similar world spas (mineral and thermal water, curative mud, national drink kumis etc.);

- Organization of passenger hub and cargo terminal at Manas International Airport would help to handle increased tourist inflow;
- The trend over recent years has been that international tourists have started to prefer long trips to search for new countries;
- Lack of human impact on ecology and wide biological diversity of flora and fauna;
- Active private sector is a guarantee for tourism development.
- According to the GATS accepted commitments, the tourism sector is open.

- Legislative threats. Failure to execute programmes and regulations for tourism will negatively influence the industry's growth rate. In addition, there is a great risk that ministries and agencies will refuse to change relevant legislation, which is not dependent on an authorized tourism body;
- External threats. Successful performance of tourist industry depends on the situation in the international markets, currency exchange rates, and the level of mutual integration of States, all of which are very important for border tourist regions.





# IV

## **CONCLUSIONS, RECOMMENDATIONS AND ACTION PLAN**



## A. POWER INDUSTRY

The country has significant reserves of coal and hydro-electric resources, although production is not large. Therefore the structure of the fuel and energy balance of the country shows that imports make up more than half of requirements and consist of oil products, gas and coal. One of the priorities of Kyrgyzstan's fuel and energy industry is the production and distribution of electric power since this has a significant impact on the country's economy. The country's electricity generation capacity dates from the last century. Electricity shortfalls have emerged over recent years.

The energy sector's current problems include:

Existing tariffs for electricity do not cover production costs. Consequently, they do not act as market signals for market participants: they neither motivate producers to invest nor consumers to save energy. As a result the energy sector does not operate using clear market mechanisms.

Poor management by the owner (the Government) of the energy companies combined with lack of motivation on the part of the energy companies' staff to work efficiently does not create favourable conditions for rational market behaviour by the energy companies as market subjects. This not only inhibits development but is counter-productive.

The current regulatory body is unable to implement entrepreneurial policies to regulating the energy sector on the basis of market developments. This inhibits the development of a contract law approach in the energy sector.

Finally, all these problems have led to:

- (a) A very low level of efficiency in the use of equipment and operating losses in almost all the sectors of electricity production, transmission and distribution.
- (b) A high level of worn-out production plant making it problematical to provide further stability and reliability in supplying energy.
- (c) Acute shortage of investment, lack of strong processes in the construction of new energy plant and in the technical re-equipment of the current energy plant.

Reforms are required to overcome the sector's problems.

It is necessary to reform both institutions and tariff policy and to improve the sector's attractiveness for investment by taking the following steps:

- (a) improve public administration and management of energy companies;
- (b) improve the energy sector's work by means of creating an independent regulatory body endowed with wide-ranging powers. At the same time this body must be completely open to State bodies and the public in its intentions and actions;
- (c) the management of the energy companies must be highly motivated for productive and efficient work by means of competitive salaries and attractive social packages;
- (d) creation of competition mechanism where possible;
- (e) separation of marketing from the function of supplying consumers with electricity will form a space that must be competitive. This will favour the improvement of customer service and consumer rights protection. Overall, improving the regulation of the energy sector's work as a monopoly will improve the growth of efficiency in the way the energy companies work;
- (f) establishing full transparency for the energy sector and strengthening controls by civil society;
- (g) providing wide information about the reform process, mechanisms for formulating solutions, pricing, personnel policy, providing the public with the information about financial results, finally, public involvement in public policy development in the energy sector must become the daily norm for the energy sector. It will serve as a balance against management abuse of authority and theft;
- (h) transmission of energy assets to an effective owner.

Transmission of the energy business to an effective owner is the optimal way towards reform development. Institutional changes concerning the basic economic and legal relations between business parties and owners of rights (or long-term concessions) will ensure confidence the fact that expenditure will cover all the investments made.

## 1. First Steps to Reform

- (a) Have the political will to reform;
- (b) Consumers, including the population must know and support the reform objectives;
- (c) Create the necessary legislative and regulatory framework;
- (d) Create the necessary institutional environment;
- (e) Introduce a market methodology of tariff setting.
- (f) Gradually reduce public participation and increase private sector involvement in the development of the energy system;
- (g) Operate a tariff policy which creates conditions for the expansion of the energy sector.

Policy objectives in the electricity sector must be:

- (a) financial improvement of the sector;
- (b) improvement of the energy companies' productivity;
- (c) creation of the necessary prerequisites for a well-balanced and integrated development of the energy sector,
- (d) formation of a basis for the sustainable development of the sector and energy security in Kyrgyzstan in the long term.

Three kinds of tasks (institutional, tariff and investment) will be needed to achieve the above-mentioned objectives.

### Institutional Tasks

- (a) Development of an effective energy market model adapted to the conditions of Kyrgyzstan, creation of the institutional and regulatory frameworks necessary for its functioning and creation of the preconditions for regional energy market development.
- (b) Radical change of the State regulation system for the energy sector and creation of an efficiently working institutional regulator of the energy market.
- (c) Increasing business transparency in the energy sector, development and strengthening of the mechanisms of civil society to participate in policy making processes in the energy sector and evaluation of this policy's results.
- (d) Strengthening of the energy companies' institutional potential, improvement of financial and corporate governance, strengthening of fiscal discipline and achieving profitability.
- (e) Combating the manifestations of corruption in the energy sector.

### Tasks for Improving Tariff Policy in the Energy Sector

- (a) Ensuring the balance of all participants' interests in the energy market on the basis of economic principles;
- (b) Phased reduction of the use of cross-subsidization mechanisms to a minimum;
- (c) Creation of growth mechanisms for investment by incorporating investment components into tariffs.

### Tasks for Improving the Investment Climate and Developing External Markets

- (a) Ensuring investment attractiveness for the energy sector.
- (b) Ensuring the transparency of plant investment by foreign companies in the energy sector of Kyrgyzstan.
- (c) Forming the competitive advantage of Kyrgyzstan in the field of electricity production and supply in the Central Asian region.

## Development of Institutions and Forming an Effective Regulatory Body

The objective of creating the regulatory body is to maintain effective and dynamic parity of interests between the energy companies themselves and electricity consumers and create the potential for sector development. An effective regulatory body for the energy sector can act in two directions:

- (a) Separation of powers in policy making and pricing, carrying out licensing and control functions. They must be divided between MIEFR, the regulatory body and the State energy inspectorate in order to prevent a conflict of interests and possibilities for their abuse. Other ministries and departments must not be involved in the management of the energy sector. At the same time the regulatory body itself must be completely transparent in its intentions and actions and openly participate in policy discussions conducted both by the power bodies and the groups concerned.
- (b) Transformation of the regulatory body itself and its conversion into a meaningful market institution. The regulatory body must:
  - (i) have exceptional powers to issue licenses to work in the energy sector in accordance with Kyrgyzstan legislation;
  - (ii) establish economically sound methodologies and procedures for pricing and tariff setting;
  - (iii) establish tariffs for services regarding power transmission and dispatching and the sale of electricity, heat and natural gas;
  - (iv) implement the producers' demonopolization policy, further the development of competition providing all competitors with equal opportunities and access to work in the energy sector;
  - (v) monitor the activity of all actors in the energy sector and ensure compliance with the terms of licenses issued by the regulator and also with the rules and ordinances adopted by that body;
  - (vi) develop and implement standards and regulations on providing services for consumers in accordance with Kyrgyzstan legislation;
  - (vii) establish mechanisms of investigating Customers' complaints and resolving disputes between consumers and businesses in the energy sector and also between the energy sector actors themselves.
- (c) It is necessary to adopt a legal and regulatory framework for the effective work of the regulatory body which includes the following sets of rules for the energy sector:
  - (i) rules for a trading system administrator;
  - (ii) rules for a system operator;
  - (iii) rules for free bilateral contracts and the "day ahead" market;
  - (iv) rules for balancing the market;
  - (v) rules for electricity trading;
  - (vi) rules for market system services;
  - (vii) rules for the trading market for the rights to use the electricity network bandwidth, financial transfer rights;
  - (viii) rules for the market for financial derivatives.
  - (ix) increasing the transparency of the energy sector with regard to the above.

## Development of a Tariff Policy in the Energy Sector

The primary objectives for a tariff policy are the introduction of the principles of self-financing for the energy sector, phased elimination of the cross-subsidies in the field of tariff setting and also annual improvements in the energy sector's main indexes in order to create an attractive investment environment. For these reasons the tariff policy must be based on the following principles:

- (a) Tariffs must cover all the costs to the energy company connected with generating, transmitting, distributing and selling electricity.
- (b) Tariffs for each group of consumers must reflect all the costs to supply this category of consumers with electricity.
- (c) All subsidies must be directed to the electricity consumers (population) on a low income via Governmental social protection programmes.

As part of tariff policy objectives, tariffs for electricity must differentiate according to the category of consumer, taking into consideration the following principles:

- a) the tariffs established for different categories of consumers must reflect the real costs to companies for the generation, transmission, distribution and sale of electricity for a given category of consumer;
- b) the tariff must depend on the voltage level at the consumer's point of connection to the electricity supply company's grid and also on the introduction of reasonable consumption levels.

However, the final tariff for all consumers without exception must consist of the following elements:

- (a) tariff for electricity production;
- (b) tariff for electricity transmission;
- (c) tariff for electricity distribution;
- (d) tariff for the sale of electricity.

## 2. Improvement in the Energy Sector's Investment Attractiveness

### Measures to Increase the Investment Attractiveness of the Energy Sector

Both the World Bank and the European Bank for Reconstruction and Development report that the investment climate in Kyrgyzstan is one of the least favourable in the European and Central-Asian Region. The problem of improving the investment climate is complex and affects almost all spheres of Government and regulation in Kyrgyzstan. In accordance with the National Development Strategy it will be necessary:

- (a) to pursue a predictable and stable economic policy;
- (b) to provide macroeconomic and political stability;
- (c) to improve tax administration;
- (d) to improve customs regulations;
- (e) to provide transparency in all State bodies regulating investment processes;
- (f) to simplify further administrative barriers and procedures for investment processes;
- (g) to create an independent judicial system.

While it is vital to implement the above-mentioned items they alone do not provide sufficient conditions for improving the investment attractiveness of the sector. There are much more important indicators for potential investors which demonstrate the investment attractiveness of this sector: namely the country's ability and desire to manage the high level of loss, the low collection of payments and to fight corruption in the energy sector effectively and pursue a tariff policy in the energy sector that provides the investor with a reasonable profit. The economic benefit obtained from investments is important for all investors. Until tariffs allow a reasonable profit, the investment attractiveness of the energy sector will continue to be considered low.

**Table IV.1. Action Plan on Energy Sector Development**

No	Activities	Implementation periods	Expected result	Financial sources
	<b>1. Electricity production – 12.3 billion kWh</b> <b>2. Export volume – 1,000 million kWh, per annum till 2011.</b>			
1.	1) Develop a general placement scheme for generating capacities, consumption regimes, levelling energy system loading 2) Develop operational rules for the Toktogul storage facility approved by MIEFR decree.	III, 2009  IV, 2009	Rational and effective use of electricity	Budgetary financing

No	Activities	Implementation periods	Expected result	Financial sources
2.	Introduce additional generating capacity to increase export potential.	IV, 2009	Increase export potential and enhance export position at regional market of electricity.	Russian Federation's investment resources - 1.7 billion US dollars
3.	Develop a feasibility study for the construction Kambar-Ata 1	IV quarter 2009.		5 billion soms of own funds (budget and JSC <i>Electric Stations</i> )
4.	Start construction of Kambar-Ata 1 (construction period – 8 years).	2010 – 2011		For 2009–2011, 200 million US dollars
5.	Launch the first turbine unit at Kambar-Ata HPPS-2 (construction period – 4 years).	I, 2010		
6.	Develop feasibility study for the reconstruction and modernization of Bishkek power station, carry out annual repairs	2009 – 2011	Increase production of electricity and heating	2.05 billion soms, Energy company's own funds
7.	Carry out reconstruction of Uch-Kurgan HPPS	IV, 2010	Provide additional electricity production	615 million soms, Energy company's own funds
8.	Develop a feasibility study for Kara-Keche HPPS for capacity not less than 600 MW. Create conditions to attract investment for construction. Resolution adopted by the MIEFR's governing body.	IV, 2009	Increase generating capacity to cover the needs of northern region of Kyrgyzstan	Budget and JSC <i>Electric Stations</i>
9.	Provide construction of small HPPS by applying clean development mechanisms at: - Kirovskiy - Orto-Tokoiskiy - Papanskiy HPPS - Kara-Suiskiy (Kara-Kul)	2011	Commission additional capacities	Investments required 8.36-11.02 billion soms
<b>3. The level of electricity losses in distribution networks, 27% by 2011.</b>				
10.	Carry out refurbishment and modernization of distribution networks	2009–2011	Enhance reliability, reduce accident risk and losses.	Investments required 10 billion soms
11.	Construction and commissioning of new high-voltage lines and substations for the purposes of increasing load capacity and improving infrastructure for provision of electricity exports.	2009–2011	Increase transmission capacities and strengthen energy and economic safety.	Investments required 13.7 billion soms
12.	Develop general plans for heating supplies for the cities of Bishkek and Osh taking into account decentralization of the heating supply system, installation of heating counters for consumers and in municipal boiler houses.	IV, 2010	Improve heating supply, reduce losses	Budget of Bishkek and Osh cities and JSC <i>Electric Stations</i>

No	Activities	Implementation periods	Expected result	Financial sources
	<b>4 Collection of payments for electricity consumed, 97 % by 2011</b>			
	<b>5. Tariff rate for electricity – 1.66 som/kWh by 2012</b>			
13.	Improve administration	2009 -2011	Reduction of quasi-fiscal budget deficit	Ministry of Industry, Energy and Fuel Resources
14.	Implement market methodology for tariff setting			
	<b>6. Coal production – 1,479,000 tonnes for 2009–2011.</b>			
15.	Provide development of the Kara-Keche coalfield or preserve sector coal production volumes at the level of 2008.	2009–2011	Production 1,479,000 tonnes. (annually at an average of 493,000 tonnes)	Through attracting investment
	<b>7. Gas production – 51 million m<sup>3</sup>. for 2009–2011.</b>			
	<b>8. Oil production – 237,000 tonnes for 2009–2011.</b>			
16.	Support development of oil-gas sectors by attracting direct investments.	2009–2011	237,000 tonnes of oil; 51 million m <sup>3</sup> gas	Gas sector needs direct investment of approximately 21 billion som
		IV, 2009	75,000 tonnes oil; 17 million m <sup>3</sup> gas.	
		2010	80,000 tonnes oil; 17 million m <sup>3</sup> gas.	
		2011	82,000 tonnes oil; 17 million m <sup>3</sup> gas.	
	<b>9. Development and adoption of Government Resolution on Energy Saving</b>			
17.	Develop a Program of Reduction of GDP Energy Costs by 13%. To reach this objective, it is necessary to develop energy saving sub-programmes in all economic sectors.	IV, 2009	Effective and rational use of electricity.	MIEFR
	<b>10. Conduct reforms: Concession or privatization of electricity distribution companies 2012; establishment of independent regulatory body in the energy sector 2012; development and adoption of package of rules on energy market activity.</b>			
18.	Transit to concession or privatization of distribution companies.	2009-2010	Receipt of funds from concessions or privatization to the budget. Improvement of corporate and financial management of companies and reliability of electricity supplies.	Committee on the Management of State Property

## **B. TOURISM**

### **1. Conclusions on Sector Development**

The recommendations on tourism sector development are stipulated in the Country Development Strategy for 2009–2011 and fully correlate with the present study.

Kyrgyzstan has strong competitive advantages in tourism. It has a rich, lively, original culture and traditions, history and wilderness including wild forests, mountainous lakes and rivers, mineral sources what could be considered as great potential to develop different types of tourism, even adventure holidays such as mountainous tourism and alpinism.

The Issyk-Kul Lake is the largest natural resource in Kyrgyzstan for tourism purposes. The lake region has a unique combination of mountainous and maritime climates, magnificent beaches, crystal-clear water with mineral sources, mud and thermal sources. This region has the great potential for further development as a world-class spa.

Tourism itself involves other sectors. It depends on and impacts many other sectors of the economy. The legal framework on tourism needs to harmonize to include legislation on international cooperation, transport, customs, land, tax, licensing, environmental and many other areas in order to establish favourable conditions for the development of domestic and international tourism. Currently Kyrgyzstan's legislation on tourism does not meet international standards and requirements and in practical terms does not provide a solid legal basis for tourism development.

Currently worn-out tourism infrastructure and facilities severely constrain tourism sector development and need rebuilding. The quality of the services provided does not meet international standards for quality, safety and environmental protection.

The development of tourism in Kyrgyzstan is being held back by limited capacities in civil aviation, high transport costs for foreign tourists and the poor condition of roads.

An insufficient level of security complicates operations for tourism services providers and affects tourist inflow to the country negatively.

One of the main issues holding back the development of tourism is insufficient registration procedures. There is no reliable system for registering foreign tourists for statistical purposes to estimate the overall economic impact of tourism. The low level of management in operations and lack of transparency has created conditions for distorted reporting and the development of a shadow economy. There is a risk of some enterprises moving over into the so-called "shadow economy".

Among the other problems facing tourism are visa issues for tourists. Despite a number of improvements in access to visas for foreigners, there are still certain difficulties for tourists to enter Kyrgyzstan mainly due to the insufficient number of consulates abroad.

A certain concern arises relating to a potential threat of environmental pollution in areas of mass tourism, especially in Issyk-Kul.

### **2. Sector Development Recommendations**

To ensure tourism development the Government set up the following task force<sup>37</sup>:

- (a) To ensure development of institutions for the industry;
- (b) To formulate a modern promotion strategy for tourism in the international market with the key idea of creating a positive image of Kyrgyzstan as a tourist destination in the international tourism market;
- (c) To create favourable conditions for sustainable development and modernization of tourism infrastructure bringing it up to international standards in the area of service quality improvement, including the necessary professional and educational training to meet tourist market requirements in highly qualified specialists. In this regard the following activities will be implemented during the next three years: the development of the General Tourism



Development Scheme Based on Tourist Clusters, the establishment of “free economic areas for tourism purposes”, the development of tourist infrastructure facilities, improvement in the legislative framework for tourism, improvement and simplification of the visa arrangements for international tourists, introduction of an effective registration, tracking and monitoring system.

The long-term strategy for the promotion of Kyrgyzstan’s tourist sector in the main international markets includes the following issues: development and promotion of national brands (“Kyrgyzstan – tourist destination”, “Kyrgyzstan – country of Santa Clauses”, “Kyrgyzstan – country of pure nature”, “Kyrgyzstan – country of mountainous peaks”); development and promotion of local tourist brands for each region, organization of international festivals, contests and other events; large-scale advertising and information campaigns aimed at lobbying for and promotion of Kyrgyzstan as a tourist destination; improving national statistics complying with international standards.

The following activities will be implemented to improve tourist service quality and safety for international tourists:

- (a) Introduce regulation on liability for tourist operators and tourist agencies in order to protect the rights of tourists,
- (b) Establish specialized tourist rescue services,
- (c) Improve professional standards of conduct for key professions in the tourist industry,
- (d) Support applied research in the area of tourism,
- (e) Ensure preparation of high quality specialists in all tourism spheres (tourist agencies and guides, hotel business, catering, information centres),
- (f) Ensure building and rebuilding of roads in tourist areas;
- (g) Simplify and improve customs and border procedures,
- (h) Establish 24-hour tourist information centres in Bishkek and at airports and railroad and bus stations,
- (i) Establish special cleaning services in tourist areas including beaches, climbing camps etc.;
- (j) Ensure rigorous hygiene standards in catering services;
- (k) Assist in the preparation and publishing of information materials (including Internet materials) about Kyrgyzstan and its tourist locations;
- (l) In cooperation with business design and implement educational programmes on ecology to promote ecology friendly conduct by the general population;
- (m) Develop partnerships with regional operators, representatives of the National Parks and Nature Reserves, local communities, craftspeople and folklore groups for the successful development of ecotourism;
- (n) Actively cooperate with tourist associations and organizations in other countries.

### **Other Requirements Needed to Improve Policies to Develop the Tourist Sector. Joint Efforts with Other Sectors of the Economy**

As mentioned in Chapter III tourism is a very particular sector of the economy depending on some sectors and impacting others.

Therefore, it is necessary to ensure harmonization of general economic, industry and regional development strategies with goals and tasks of tourism development. In addition, it is necessary to ensure that Kyrgyzstan legislation, at the very least, does not hamper tourist sector development but, ideally, promotes such development.

The following measures might give an additional impetus to tourism development:

- (a) Development of small and medium enterprises (SME).
- (b) Development of craftsmanship.
- (c) Banking and insurance sector development

- (d) Development of transport and transport infrastructure.
- (e) Development of the telecommunications sector.
- (f) Maintaining and preserving Nature Reserves and National Parks.

**Table IV.2. Action Plan on Development of Tourism and Related Sectors**

No	Activity	Implementation period	Expected result	Financial sources
<b>Measures on sector development</b>				
1.	To implement measures to promote the brand "Kyrgyzstan is a home of Santa Claus"	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
2.	Ensure participation of Kyrgyzstan under the brand "Kyrgyzstan is the tourist destination" in major international tourist exhibitions and fairs to present the potential of Kyrgyzstan as a tourist destination.	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
3.	Organise an annual Kyrgyz international tourist fair (BITF) in Bishkek	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
4.	Organise tourist fairs across the country (Osh, Issyk-Kul, Jalalabat, Batken, Talas)	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
5.	Organise international festivals of folk arts and crafts, demonstration of customs and traditions of the Kyrgyz people, demonstration of national games (horse racing, etc.)	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
6.	Organise information tours for representatives of foreign mass media, the business community and tourist organizations. Arrange a PR campaign to promote the tourist potential of KR	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
7.	Ensure advertisement production to promote the tourist potential of KR including catalogues of tourist routes, guidebooks, booklets, calendars, posters.	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
8.	Ensure implementation of activities/events to celebrate International Tourism Day	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
9.	Ensure production of video materials about the tourist potential of Kyrgyzstan on major TV channels in	2009–2011	Promotion of the image of Kyrgyzstan as a tourist	National budget

	the CIS and worldwide: ORT, BBC, National Geographic and Discovery in Russian, English, Chinese and Japanese.		destination, increase the number of foreign tourists	
10.	Organise information centres on tourism in embassies and consulates of Kyrgyzstan abroad, namely in Moscow, Yekaterinburg, Novosibirsk and Almaty.	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists	National budget
11.	Open tourist offices at Manas International Airport, railway stations, Tamchi Airport. Ensure 24x7 service during holiday seasons	2009–2011	Provision of information support of tourists	National budget
12.	Establish national service for registration and rescue of mountain tourists and provide conditions for reliable operation of such service	2009–2011	Safety provisions for tourists	National budget
13.	Develop and support a tourist web portal with the following brand: “Kyrgyzstan is the tourist destination”, with a search engine and a possibility of posting orders and booking tourist services online	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists, development of the private sector in tourist services	National budget
14.	Develop and support Tourist Information Centres(TIC) in rural areas	2009–2011	Provision of information support for tourists	National budget
15.	Develop projects and feasibility studies for future investments in tourist infrastructure (hotels, camps, roads and other facilities)	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists, development of the private sector of tourist services	National budget
16.	Organise an international seminar with participation of service providers (“Business to business”) from Turkey	2009–2011	Promotion of the image of Kyrgyzstan as a tourist destination, increase the number of foreign tourists, development of the private sector for tourist services	National budget
17.	Hold regular training seminars on tourism for the National Security Service (NSS), Ministry of the Interior, Border Guards and Customs Service	2009–2011	Introduction of behavioural model of hospitality, training of highly skilled tourism workers	National budget
18.	Improve professional skills of tourist personnel in the health resort, hotel and public catering sectors	2009–2011	Improved quality of service in accordance with international standards	National budget
19.	Support applied research on tourism; publication of educational and methodological papers on tourism.	2009–2011	Expansion of range of tourist services in the country.	National budget

			Formulation of the Master Plan till 2010 (general plan of development of tourism in various areas)	
<b>Some measures on development of related sectors</b>				
20.	Road and highway rebuilding and maintenance	2009–2011	Improvement of the quality of road networks, reduction of time for transportation of cargo and passengers by road, relaying of asphalt and prolongation of serviceability of roads with hard coating	National budget and donor's assistance
21.	To implement CAREC Project "Improvement of Regional Road Corridor"	2009–2011	Enhancement of national transit capacity, expansion of opportunities to access regional markets for goods and services	National budget
22.	Ensure modernization of the air navigation systems	2009–2011	Maintenance of flight safety; reduction of delays in international and local flights, as well as better servicing of transit aircraft	National budget
23.	Carry out feasibility study for construction of the China-Kyrgyzstan-Uzbekistan railroad	2009	Development of a railroad sector. Increased goods traffic transported by railroad.	National budget
24.	Ensure installation of telephones in villages that have not been covered so far	2009–2011	Installation of telephones in all villages across the country; digitization and development of the local communication infrastructure	National budget
25.	To implement the National strategy "ICT for development of KR"	2009–2011	Expansion of information and communication services offered to the population. Ensuring equal, affordable and high-quality access to information services.	National budget and donors' assistance
26.	Develop and approve standard projects for at least 400 small settlements across the country	2009–2011	Development of the town-planning documentation: 2009 – for <i>oblast</i> and <i>rayon</i> administrative centres; 2010–2011 – for	National budget

			other villages	
27.	Simplify administrative procedures for construction projects permits	2009–2011	Reduction of the terms of housing preparation and construction	National budget
28.	Develop banking sector	2009–2011	Expansion of access of population and tourists to modern banking services	Financial assistance from international financial institutes
29.	Introduce and approve legislation governing liability for tour operators and agents and mandatory insurance of tourists	2009–2011	Increased level of financing in the post office system and further development of the insurance sector	National budget
30.	Ensure to introduction of market mechanisms <sup>38</sup> for the self-financing of national parks and nature reserves	2009–2011	Development of nature reserves and national parks	National budget





# V

## **ANNEXES AND NOTES**



**Annex 1. Information on Reserves and Coal Quality Produced by Enterprises at Coalfields as of 1 January 2007**

No	Name of coalfield and operating enterprise	Coal quality	Ash content percentage	Humidity percentage	Heating capacity in kilocalorie/kg.		Balance reserves mln.tonnes	Industrial reserves mln.tonnes
					highest	lowest		
1	JSC Kyzyl-Kyacomur total:	B-3	24.1	25.6	5,705	3,810	3.6	3.02
	incl. Valakish mine						2.1	1.6
	Abshir open-cast mine						1.5	1.42
2	LLC Besh-Burkhan	B-3	16.3	22.8	6,700	5,300	38.1	37.27
	JSC Suluktakomur total:						47.0	31.1
	Incl. Mine at Razzakova						21.0	11.5
	Tabyshker mine						20.0	14.0
	Kyzyl-Bulak Open-cast mine						6.0	5.6
	Reserved areas No 8, No 11					114.0		
3	JSC Almalykkomur total:	B-3	26.0	23.3	6,549	4,097	18.5	16.2
	incl. by open-cast method						-	-
	by underground method					16.2		
4	SJSC Tash-Komur total:	D	31.9	14.5	7,100	4,300	37.0	27.19
	incl. Severnaya mine						8.3	3.9
	Kara-Suu open-cast mine						28.7	
	Reserved area Tegene podzemnyi					30.0		
5	JSC Tegene	D	21.9	19.5	7,310	4,400	6.8	3.6
6	JSC Kok-Jangak	D	21.5	9.8	7,300	4,768	30.0	9.93
7	JSC Jyrgalan total:	D	12.8	11.7	7,400	5,000	2.5	1.56
	incl. deep-cast +2,100 m.							0.8
8	JSC Open-cast Ak-Ulak	B-3	13.3	22.5	6,800	4,700	65.0	62.3
	incl. Open-cast Ak-Ulak						48.0	45.9
	Open-cast Tuura-Kavak							
	Open-cast Kara-Keche					17.0	16.5	
9	JSC Suluktakurulush,	B-3	16.3	22.8	6,700	4,080	21.2	16.0
10	LLC Parity Coal total:	B-3	31.5	15.63	7,279	4,509	3.7	3.13
	Turuk coalfield						D	10.12
11	LLC Konorchok	D					0.680	0.640
12	LLC Sardar	D					0.860	0.82
13	LLC Besh-Sary-K	B-3	13.3	22.5	6,800	4,700	174	168.6
14	JSC Ak-Zhol	B-3	13.3	22.5	6,800	4,700	1.1	1.02
15	CJSC Sharbon	B-3	13.3	22.5	6,800	4,700	0.4	.033
16	Uzgen coal basin, total:						155.2	139.9
	Kumbel coalfield	D	4.27	13.41	8,457	6,390	11.0	10.5
	Kara-Dobo coalfield	K	4.30	7.1	8,602	8,089	98.6	86.0
	Torgoi-Dobo coalfield	G	2.7	10.8	8,560	8,200	0.46	0.4
	Aldiar coalfield	D	3.26	22.61	7,248	4,541	45.0	43.0
	<b>Total by sectors:</b>						<b>751.18</b>	<b>522.65</b>

## Annex 2. Methodology of Calculation of Quasi-Fiscal Deficit (Qfd) in the Energy Sector of Kyrgyzstan

The formula for the calculation of QFD in monetary terms is as follows:

**Q = KEL + KTL + KCC**, where:

KEL – component (composite) of QFD related to power over losses expressed in monetary terms;

KTL – component (composite) of QFD related to low tariffs in expressed in monetary terms;

KCC – component (composite) of QFD related to partial tariff payments expressed in monetary terms;

The time component of QFD related to power over losses is calculated as follow:

**KEL = GDM \* CRT \* (LT - LR) / 100**, where:

GDM – power supplied to domestic market;

CRT – tariff covering the costs of the production, transmission and distribution of energy;

LT – percentage of overall losses of energy in domestic market;

LR – agreed percentage of power losses in domestic market.

Quantity of electricity supplied to domestic market GDM is calculated as follow:

**GDM = GSO - ET + IT**, where:

GSO – total sale of energy;

ET – total export of energy;

IT –total import of energy.

Total actual power losses in domestic market in per cent is calculated as follow:

**LT = GTL / GDM \* 100%**, where:

GTL – total actual power losses in the domestic market in kWh.

Actual power losses in the domestic market in kWh is calculated as follow:

**GTL = GDM - GB**, where:

GB – profitable sale of energy in the domestic market in kWh which is determined as the total amount of profitable sale to consumers by both distribution companies (DC), JSC “Electric Stations” and JSC “National Electric Network of Kyrgyzstan” .

The agreed percentage of power losses in domestic market LR is equal to 13% (technical losses).

Component of QFD related to low energy tariffs is calculated as follow:

**KTL = GB \* (CRT - TB)**, where:

TB – average level of tariff according to bills (average tariff).

Tariff on the paid bills TB is determined in accordance with minimal level of profitable sale of energy in the domestic market.

Component of QFD related to partial (incomplete) tariff payments for the purposes of power sales profitability calculated as follow:

**KCC = GB \* TB \* (100% - CA% - CR%) / 100**, where:

CA – actual collection of tariff payments in the domestic market in per cent;

CR – agreed shortage of tariffs payments in domestic market in per cent.

The agreed percentage of shortage of tariffs payment in domestic market CR is equal to 2% (commercial losses).

### Annex 3. Participation of Kyrgyzstan in Multilateral of Kyrgyzstan in Multilateral and Regional Agreements

Organisation	Provisions	Participants
<b>Customs union/Common market</b> CIS Economic union	<p><u>Date of signing:</u> 24 September 1993.  <u>Objective:</u> free movement of goods, services, capital and labour force; agreed monetary and credit, financial, tax, price, foreign trade, customs and currency policies.  <u>Implementation:</u> (a) interstate association (multilateral) free trade; (b) Customs union; (c) common market of goods, services, capital and labour force; (d) currency union; review of separate agreement for each stage of integration  <u>Current status:</u> Adoption of action program of the CIS development and implementation of action plan aimed at developing and increasing effectiveness of economic cooperation of the CIS during 2003-2010.</p>	CIS countries, except Ukraine and Turkmenistan (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Republic of Moldova, Russian Federation, Tajikistan, and Uzbekistan). Ukraine is a party which is not a member of the CIS and Turkmenistan is a member.
Eurasian Economic Community (EurAsEC)	<p><u>Date of signing:</u> 26 February 1999.  <u>Objective:</u> general customs tariff (GCT), external customs border, uniform economic area; customs union and single economic space; Members agreed to coordinate tax, currency and customs policies.  <u>Implementation phase:</u> (a) free trade area without exclusions; quotas, uniform tax system; (b) GCT and final customs union; (c) single economic area for promotion of goods, services, capital and labour force. Terms to complete establishment of customs union are not set.  <u>Current status:</u> GCT being progressively implemented.</p>	Belarus, Russian Federation, Kazakhstan, Tajikistan and Uzbekistan
Central Asian Regional Economic Cooperation (CAREC)	<p>Decision was made in October 2005 that CAREC and EurAsEC should be united (Council of Heads of EurAsEC States 6 October 2005)</p>	Kazakhstan, Tajikistan, Uzbekistan and Russian Federation
<b>Regional agreements on free trade</b> Free Trade Agreement between CIS States	<p><u>Date of signing:</u> 15 April 1994.  <u>Objective:</u> free trade area as a transition agreement for the establishment of a customs union.  <u>Implementation phases:</u> step-by-step elimination of all taxes, duties and dues without set timeframes  <u>Current status:</u> Kyrgyzstan participates in free trade with all CIS countries, except Turkmenistan,</p>	All CIS countries except Turkmenistan (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Republic of Moldova, Russian Federation, Ukraine and Uzbekistan)
Economic Cooperation Organization Trade Agreement (ECOTA)	<p>Kyrgyz does not intend to sign ECOTA.</p> <p><u>Date of signing:</u> 4 July 1994.  <u>Conditions:</u> FTA without exemption.  <u>Certain condition:</u> cover any goods if protocol on exemption does not come into force  <u>Current status:</u> free trade agreement without exemption</p>	Iran, Pakistan, Turkey, Afghanistan, Azerbaijan, Kazakhstan, Tajikistan, Turkmenistan, Uzbekistan  Armenia

<b>Bilateral agreements on free trade</b>	<u>Date of signing</u> : 12 January 2004. <u>Conditions</u> : FTA without exemption <u>Current status</u> : free trade agreement without exemption	Azerbaijan
	<u>Date of signing</u> : 30 March 1999. <u>Conditions</u> : FTA without exemption <u>Current status</u> : free trade without exemption	Belarus
	<u>Date of signing</u> : 22 June 1995. <u>Conditions</u> : FTA without exemption <u>Current status</u> : free trade without exemption	Kazakhstan
	<u>Date of signing</u> : 26 May 1995. <u>Conditions</u> : FTA with quotation under separate protocol but not signed <u>Current status</u> : free trade without exemption	Republic of Moldova
	<u>Date of signing</u> : 8 October 1992 <u>Conditions</u> : FTA with possible exemptions under separate protocol but not signed as yet <u>Current status</u> : free trade without exemption	Russian Federation
	<u>Date of signing</u> : 19 January 2000r. <u>Conditions</u> : FTA without exemption <u>Current status</u> : free trade without exemption	Tajikistan
	<u>Date of signing</u> : 26 May 1995r. <u>Conditions</u> : FTA without exemption <u>Current status</u> : free trade without exemption	Ukraine
<u>Date of signature</u> : 24 December 1996r. <u>Conditions</u> : FTA with protocol on exemption <u>Current status</u> : free trade without exemption	Uzbekistan	

Source: WTO Secretariat, Ministry of Economic Development and Trade of Kyrgyzstan.

- a Uzbekistan joined in 2006, Armenia, Republic of Moldova and Ukraine are observers.
- b Russian Federation, Georgia, Turkey and Ukraine have had the status of observer since 1996.
- c Bosnia and Herzegovina, Central African Republic, Thailand and the Russian Federation are observers.

## Annex 4. Kyrgyzstan: Schedule of Specific Commitments in Services

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
<p><b>I. Horizontal commitments</b></p> <p>Commitments include <u>all</u> sectors</p>	<p>(4) Unbound except for measures concerning temporary entry and stay of nationals of another member who fall into the categories below:</p> <p><b>Services Salespersons</b> - persons not based in the territory of Kyrgyzstan and receiving no remuneration from a source located within Kyrgyzstan, who are engaged in activities related to representing a services supplier for the purpose of negotiating for the sale of the services of that supplier where: a) such sales are not directly made to the general public and b) the salesperson is not engaged in supplying the service. Entry for persons named in this section is limited to a ninety-day period.</p> <p><b>Intra-corporate Transferees</b> - managers, executives and specialists, as defined below, who are employees of firms that provide services within Kyrgyzstan through a branch, subsidiary, or affiliate established in Kyrgyzstan and who have been in the prior employ of their firm outside Kyrgyzstan for the period of not less than one year immediately preceding the date of their application for admission and who are one of the following:</p> <p>a) <b>Managers</b> - persons within an organization who primarily direct the organization, or a department or</p>	<p>(4) Unbound except for the measures affecting the presence of natural persons in the territory of Kyrgyzstan (KR) - for CIS citizens no entry visa is required. Citizens from other countries are required to obtain entry visas (except the countries with which Kyrgyzstan has agreements on entrance without visas).</p>	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
	<p>sub-division of the organization, supervise and control the work of other supervisory, professional or managerial employees, have the authority to hire and fire or recommend hiring, firing, or other personnel actions (such as promotion or leave authorisation), and exercise discretionary authority over day-to-day operations. Does not include first-line supervisors, unless the employees supervised are professionals, nor does it include employees who primarily perform tasks necessary for the provision of the service.</p> <p>b) <b>Executives</b> - persons within the organization who primarily direct the management of the organization, establish the goals and policies of the organization, exercise wide latitude in decision-making, and receive only general supervision or direction from higher-level executives, the board of directors, or stockholders of the business. Executives would not directly perform tasks related to the actual provision of a service or services of the organization.</p> <p>c) <b>Specialists</b> - persons within an organization who possess knowledge at an advanced level of continued expertise and who possess proprietary knowledge of the organization's services, research, techniques, or management. (Specialists may include, but are not</p>		

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
	<p>limited to, members of licensed professions.)</p> <p>d) <u>Persons responsible for the setting up of a commercial presence.</u></p> <p>e) <u>Persons as employees of an enterprise engaged in substantive business in Kyrgyzstan without having commercial presence in Kyrgyzstan who provide a service as a professional of a service sector.</u></p> <p>Entry for persons named in this section is limited to a three-year period that may be extended for up to two additional years for a total term not to exceed five years.</p>		
<b>II. Commitments in specific sectors</b>			
I. business services			
A. Professional services			
<p>a) Legal services (CPC 861)</p> <p>1. Legal service: home country law and public international law (excluding Kyrgyz Law)</p> <p>2. Legal services: practice as or through a qualified Kyrgyz lawyer</p>	<p>(1) None</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound except as indicated under horizontal commitments.</p> <p>(1) None</p> <p>(2) None</p> <p>(3) Advocate services may be provided only by the KR citizens. Only an advocate has the right to provide legal services in connection with criminal matters.</p> <p>(4) Unbound except as indicated under horizontal commitments.</p>	<p>(1) None</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound except as indicated under horizontal commitments.</p> <p>(1) None</p> <p>(2) None</p> <p>(3) Unbound</p> <p>(4) Unbound except as indicated under horizontal commitments.</p>	



Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
b) Accounting, Auditing and Bookkeeping services (CPC 862) c) Taxation services (CPC 863)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
d) Architectural services (CPC 8671) e) Engineering services (CPC 8672) g) Urban planning and landscape architectural services (CPC 8674)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
h) Medical and dental services (CPC 9312) i) Veterinary services (CPC 932) j) Services provided by midwives, nurses, physiotherapists and para- medical personnel (CPC 93191)	(1) None (2) None (3) Unbound (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) Unbound (4) Unbound except as indicated under horizontal commitments.	
<b>K) SERVICES IN THE SPHERE OF INDUSTRIAL PROPERTY</b>	(1) None (2) None (3) Unbound (4) Only a citizen of Kyrgyzstan, who is permanently residing in Kyrgyzstan, has the right to provide services (in the sphere of industrial property) as a patent agent.	(1) None (2) None (3) Unbound (4) Only a citizen of Kyrgyzstan, who is permanently residing in Kyrgyzstan, has the right to provide services (in the sphere of industrial property) as a patent agent.	
B. Computer and related services (CPC 841-845, 849)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
C. Research and development services (CPC 851-853)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>D. Real Estate services</b>			
a) Involving own or leased property (CPC 821) b) <u>On a fee or contract basis (CPC 822)</u>	(1) None (2) None (3) Unbound (4) Unbound except as indicated	(1) None (2) None (3) Unbound (4) Unbound except as indicated	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
E. Rental/leasing services without operators and with operators (CPC 83101-83109, 832)	under horizontal commitments. (1) None (2) None (3) <u>None</u> (4) Unbound except as indicated under horizontal commitments.	under horizontal commitments. (1) None (2) None (3) <u>None</u> (4) Unbound except as indicated under horizontal commitments.	
<b>F. Other business services</b> a) advertising services (CPC 871) c) Management consulting services (CPC 865, 866) e) Technical testing and analysis services (CPC 8676)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>f) Services incidental to agriculture, hunting and forestry (CPC 881)</b>	(1) None (2) None (3) <u>None</u> (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) <u>None</u> (4) Unbound except as indicated under horizontal commitments.	
<b>g) Services incidental to fishing (CPC 882)</b>	(1) <u>None</u> (2) <u>None</u> (3) <u>Unbound</u> (4) <u>Unbound except as indicated under horizontal commitments.</u>	(1) <u>None</u> (2) <u>None</u> (3) <u>Unbound</u> (4) <u>Unbound except as indicated under horizontal commitments.</u>	
h) Services incidental to mining (CPC 883, 5115) i) Services incidental to manufacturing (CPC 884, 885, except for 88442)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
j) Services incidental to energy distribution (CPC 887)	(1) Unbound (2) Unbound (3) None, except for services on distribution of electric energy (4) Unbound except as indicated under horizontal commitments.	(1) Unbound (2) Unbound (3) None, except for services on distribution of electric energy (4) Unbound except as indicated under horizontal commitments.	
m) Scientific and technical consulting services (CPC 8675) n) Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment) (CPC 633, 8861-8866) r) Printing, publishing (CPC 88442)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
s) Convention services (CPC 87909*) t) Market research and public opinion monitoring services 2. communication services			
<b>A. Postal services (CPC 7511)</b>	(1) Unbound (2) None (3) Unbound (4) Unbound except as indicated under horizontal commitments.	(1) Unbound (2) None (3) Unbound (4) Unbound except as indicated under horizontal commitments.	
<b>B. Courier services (CPC 7512)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>C. Telecommunication services: Basic and Enhanced Telecommunication Services<sup>39</sup></b>			<u>Kyrgyzstan undertakes additional commitments as contained in the attachment, all parts of which are equally binding.</u>
(a) Voice telephone services (CPC 7521) (d) Telex services (CPC 7523**) (e) Telegraph services (CPC 7522) (g) Private leased circuit services (CPC 7522**, 7523**)	(1) None, except for international and long distance communication, where none as from 1 January 2003. (2) None (3) None, except for international and long distance communication, where none as from 1 January 2003. (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
(b) Packet-switched data transmission services (CPC 7523**) (c) Circuit-switched data transmission services (CPC 7523) (f) Facsimile services (CPC 7521**, 7529**) (h) Electronic mail (CPC 7523**)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
(i) Voice mail (CPC 7523**) (j) On-line information and data base retrieval (CPC 7523**) (k) electronic data interchange (EDI) (CPC 7523**) (l) enhanced/value added facsimile services, include. store and forward, store and retrieve (CPC 7523**) (m) code and protocol conversion (n) on-line information and/or data (CPC 843**) (o) other			
<b>D. Audiovisual services</b> a) Motion picture and video tape production and distribution services (CPC 9611) b) Motion picture projection service (CPC 9612) c) Radio and television services (CPC 9613) e) Sound recording d) Radio and television transmission services (CPC 7524)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>3. Construction and related engineering services (CPC 511-518)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>4. DISTRIBUTION SERVICES</b> A. Commission agents' services (CPC 621) B. Wholesale trade (except alcoholic beverages, tobacco, firearms, pharmaceuticals) (CPC 622) C. Retailing services (except for alcoholic beverages and tobacco) (CPC 631, 632, 6111, 6113, 6121) D. Franchising (CPC 8929)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>5. education services</b> A. Primary education services (CPC 921)	(1) None, except for on primary education services funded from State sources.	(1) None, except for on primary education services funded from State sources.	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
<b>B. Secondary education services (CPC 922)</b>	(2) None (3) None, except for on primary education services funded from State sources. (4) Unbound except as indicated under horizontal commitments. (1) None, except for on secondary education services funded from State sources. (2) None (3) None, except for on secondary education services funded from State sources. (4) Unbound except as indicated under horizontal commitments.	(2) None (3) None (4) Unbound except as indicated under horizontal commitments. (1) None, except for on secondary education services funded from State sources. (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>C. Higher education services (CPC 923)</b>	(1) None, except for on higher education services funded from State sources. (2) None (3) None, except for on higher education services funded from State sources. (4) Unbound except as indicated under horizontal commitments. (1) None, except for on adult education services funded from State sources. (2) None (3) None, except for on adult education services funded from State sources. (4) Unbound except as indicated under horizontal commitments.	(1) None, except for on higher education services funded from State sources. (2) None (3) None (4) Unbound except as indicated under horizontal commitments. (1) None, except for on adult education services funded from State sources. (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>D. Adult education (CPC 924)</b>	(1) None, except for on adult education services funded from State sources. (2) None (3) None, except for on adult education services funded from State sources. (4) Unbound except as indicated under horizontal commitments.	(1) None, except for on adult education services funded from State sources. (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>6. environmental services</b> (A) Sewage services (CPC 9401) (B) Refuse disposal services (CPC 9402) (C) Sanitation and similar services (CPC 9403) (D) Other	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
<p><b>7. financial services</b></p> <p><b>A. All insurance and insurance related services. (CPC 812**)</b></p> <p>a) Life, accident and health insurance services (CPC 8121)</p> <p>b) Non-life insurance services (CPC 8129)</p> <p>c) Reinsurance and retrocession (CPC 81299*)</p> <p>d) Services auxiliary to insurance (including broking and agency services) (CPC 8140)</p>	<p>(1). Unbound, except for insurance of cargo transportation, brokerage and reinsurance.</p> <p>(2) None</p> <p>(3) None, except for Foreign ownership in Kyrgyz legal entities providing insurance services must not exceed 49%. This restriction will be eliminated by 1 January 2002</p> <p>(4) Unbound except as indicated under horizontal commitments.</p>	<p>(1) None</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound except as indicated under horizontal commitments.</p>	
<p><b>B. Banking and other financial services (excluding insurance)</b></p> <p>(a) Acceptance of coalfields and other repayable funds from the public (CPC 81115-81119)</p> <p>(b) Lending of all types, include., inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction (CPC 8113)</p> <p>(c) Financial leasing (CPC 8112)</p> <p>(d) All payment and money transmission services (CPC 81339**)</p> <p>(e) Guarantees and commitments (CPC 81199***)</p> <p>(f) Trading for own account or for account of Customers, whether on an exchange, in an over-the-counter market or otherwise, the following:</p> <ul style="list-style-type: none"> <li>- money market instruments (cheques, bills, certificate of coalfields, etc.) (CPC 81339**)</li> <li>-foreign exchange (CPC 81333)</li> <li>-derivative products include., but not limited to, futures and options (CPC 81339***)</li> </ul>	<p>(1) None</p> <p>(2) None</p> <p>(3) None</p> <p>(4) Unbound except as indicated under horizontal commitments</p>	<p>(1) None</p> <p>(2) None</p> <p>(3) None, except for <u>The minimum capital requirement for banks with less than 20% foreign participation is half that required for banks with more than 20% foreign participation.</u></p> <p><u>This distinction will be eliminated by 31 December 2002.</u></p> <p>(4) Unbound except as indicated under horizontal commitments.</p>	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
<p>-exchange rate and interest rate instruments, incl. products such as swaps, forward rate agreements, etc. (CPC 81339**)</p> <p>-transferable securities (CPC 81321*)</p> <p>- other negotiable instruments and financial assets, include. Bullion (CPC 81339**)</p> <p>(g) Participation in issues of all kinds of securities, include. Underwriting and placement as agent (whether publicly or privately) and provision of service related to such issues (CPC 8132)</p> <p>(h) Money broking (CPC 81339**)</p> <p>(i) Asset management, such as cash or portfolio management, all forms of collective investment management, <u>pension fund management, custodial coalfieldary and trust services</u> (CPC 8119**, 81323*)</p> <p>(j). Settlement and clearing services for financial assets, include. Securities, derivative products, and other negotiable instruments (CPC 81339** or 81319**)</p> <p>(k) Advisory and other auxiliary financial services on all the activities listed in Article 1B of MTN.TNC/W/50, incl. credit reference and analysis, investment and portfolio research and advice, and on acquisitions and on corporate restructuring and strategy (CPC 8131 or 8133)</p> <p>(l). Provision and transfer of financial information, and financial</p>			



Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
data processing and related software by providers of other financial services (CPC 8131)			
<b>8. HEALTH related and social services (other than those listed under I. A. H-J.)</b> (CPC 9311, 9319 other than 93191, 933)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>9. tourism AND TRAVEL related services</b> (A) Hotels and restaurants (incl. catering) (CPC 641-643) (B) Travel agencies and tour operators services (CPC 7471) (C) Tourist guides services (CPC 7472) (D) Other	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>10. recreational, cultural and sporting services (OTHER THAN audiovisual services)</b> (CPC 9619, 962-964)	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>11. transport services</b>			
<b>A. Maritime transport services (CPC 7211-7214, 745**, 8868**)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>C. Air transport services (except maintenance and repair of aircraft)</b> (CPC 731, 732, 734, 746)	(1) Foreign air transport companies are not permitted to provide domestic air transportation services (2) Unbound (3) Unbound (4) Unbound except as indicated under horizontal commitments.	(1) Unbound (2) Unbound (3) Unbound (4) Unbound except as indicated under horizontal commitments.	
<b>d) Maintenance and repair of aircraft (CPC 8868**)</b>	(1) None (2) None (3) None except Foreign ownership interest in Kyrgyz legal entities providing such services can not exceed 49% This restriction will be remove before 2005	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
	(4) Unbound except as indicated under horizontal commitments.		
<b>E. Rail transport services (CPC 7111-7113, 8868**, 743)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>F. Road transport services (CPC 7121-7124, 6112, 8867, 744)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>G. Pipeline transport (CPC 7131, 7139)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>H. Services auxiliary to all modes of transport (CPC 741, 742, 748)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	
<b>d) Services on transport tickets reservation by means of computers (CPC 749)</b>	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	(1) None (2) None (3) None (4) Unbound except as indicated under horizontal commitments.	

The (\*) indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in this classification list.

The (\*\*) indicates that the service specified constitutes only a part of the total range of activities covered by the CPC concordance (e.g. voice mail is only a component of CPC item

## NOTES

<sup>1</sup> Indicators 6-10 are determined in the CDS, Decree of the President of Kyrgyzstan No 183 as of 31 March 2009.

<sup>2</sup> Forecast figures on oil production subject to correction provided JSC "Gazprom" and JSC "Kyrgyzneftegas" complete their prospection projects.

<sup>3</sup> Forecast figures on gas production subject to correction provided JSC Gazprom and JSC Kyrgyzneftegas complete their prospection projects.

<sup>4</sup> According to information from MEDT, the level of harmonization of national standards with international ones is currently at 50 %.

<sup>5</sup> Annex No 1 lists the technical characteristics of coal produced at national coalfields.

<sup>6</sup> Annex 2, Methodology of calculation of quasi-fiscal deficit in energy sector of Kyrgyzstan

<sup>7</sup> The State Committee on Taxes and Duties deals with collection of taxes, including local taxes for which local bodies take responsibility (Decree of Government of Kyrgyzstan N 164, April 2005).

<sup>8</sup> See Annex 3

<sup>9</sup> Foreign investors should have one third of votes as a minimum.

<sup>10</sup> FDI may be prohibited in some spheres such as reconstruction of roads, healthcare, military activity for the purpose of protection of national security.

<sup>11</sup> Foreign investors, including private persons can lease agricultural lands for a maximum period of 49 years, and can temporarily use land in cities and villages for a fixed period. They can rent immovable property on the same basis as Kyrgyz nationals and legal entities (WTO Document WT/ACC/KGZ26, 31 July 1998, page 8).

<sup>12</sup> Voluntary standards have been separated from mandatory technical regulations which are applied, for example, in respect of goods representing a threat to the environment or to human health and safety (legislation governing consumer protection).

<sup>13</sup> KR is not a member of the International Electro technical Commission (IEC), however in December 2003 Kyrgyzstan has been allowed (in the person of NISM) to participate in the IEC Affiliate Country Programme. Kyrgyzstan has been a corresponding member of the International Organization for Standardization (ISO) since 2005.

<sup>14</sup> Basic agreements with CIS countries were signed in 1992. (The Agreement on Conducting of Agreed policy in the Field of Standardization, Metrology and Certification and the Agreement on Principles of Conducting and Mutual Recognition of Certifications). Since then Kyrgyzstan has signed agreements on cooperation in the area of standardization, metrology and certification with the Russian Federation (in 1994) China (1995), Ukraine, Uzbekistan and Georgia (1996), and Kazakhstan (1997). Other countries which have mutual recognition with Kyrgyzstan are Iran, Slovakia, and Turkey and EU countries.

<sup>15</sup> These facilities are not subject to privatization (Article 3, of the legislation governing privatization). However, they may be leased.

<sup>16</sup> WTO document TN/TF/W/74, 10 November 2005.

<sup>17</sup> WTO document WT/MIN(05)/ST/155, 17 December 2005.

<sup>18</sup> Technical losses during transmission and distribution of energy caused by old equipment made up 24% of the total volume of electricity produced in 2004. Moreover, commercial losses of 25% resulted from the fact that businesses were unable to bill customers as a result of an ineffective operating system of meters and debt collection (DFID, 2003). Corruption and related underestimation by inspectors of electricity consumption were reported to be commonplace.

<sup>19</sup> Breakdowns of energy systems take place quite often and power surges and risk of low voltage put electric equipment out of operation.

<sup>20</sup> Data provided by the State Department on Regulation of Fuel and Energy Complex under Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan.

<sup>21</sup> Indicators 1-4 are determined in CDS 2009-2011.

<sup>22</sup> The source of all statistical data for Kyrgyzstan is based on data from the National Statistical Committee of Kyrgyzstan, unless otherwise specified.

<sup>23</sup> Indicator is calculated individually according to formula Labour productivity = VAC sector / average number of employees.

<sup>24</sup> [www.kyrgyzstan-tourism.com](http://www.kyrgyzstan-tourism.com)

<sup>25</sup> Number of operating restaurants, bars and other catering enterprises are not provided by the official statistics.

<sup>26</sup> Occupancy rate is equal to total number of overnight stays divided by total beds multiplied by the number of days per year (365).

<sup>27</sup> This refers to the overall situation in the transportation system.

<sup>28</sup> Decree of the Government of the Kyrgyz Republic as of 11 September 2008, No 509.

<sup>29</sup> Legislation governing investment in Kyrgyzstan dated 27 March, 2003, No 66

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<sup>30</sup> Approved by the Government Resolution of 8 September, 2006, No 639

<sup>31</sup> Of 27 March, 2003, No 66

<sup>32</sup> Of 15 April, 1994, No 1487-XII

<sup>33</sup> Of 27 March, 2003, No 66

<sup>34</sup> Of 12 July, 1996, No 39

<sup>35</sup> Kyrgyz and Russian languages

<sup>36</sup> Government resolution of 8 September 2006, No 639 "*Resolution on order of labour activity by foreign citizens and individuals without citizenship in KR*"

<sup>37</sup> Tasks and activities of CDS 2009–2011 are State policy activities formulating the general direction of sector development.

<sup>38</sup> This measure is not mentioned in the State strategies

<sup>39</sup> Commitments undertaken in this section are in accordance with the Notes by the Chairman S/GBT/W/2/Rev.1 and S/GBT/W/3.





