

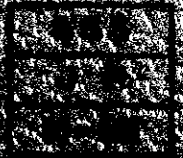


**MASTER PLAN STUDY  
ON  
THE DEVELOPMENT OF RADIO AND TV BROADCASTING  
IN  
THE KYRGYZ REPUBLIC**

**FINAL REPORT  
(SUPPORTING REPORT)**

**FEBRUARY 1996**

**APRIL International Technology Inc.**





JAPAN INTERNATIONAL COOPERATION AGENCY  
STATE NATIONAL BROADCASTING COMPANY  
MINISTRY OF COMMUNICATIONS  
KYRGYZ REPUBLIC

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*NHK Integrated Technology Inc.*

国際協力事業団

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- 1. A Socio-Economic Development Strategy and Urgent Measures, Feb. 1994, Report by President Akayev**

## A Socio-Economic Development Strategy and Urgent Measures

Feb. 1994, report by President Akaev.

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## Chapter 1: PRESENT ECONOMIC SITUATION

Kyrgyzstan, since acquiring independent status, is introduced to the world community as a developing country, which is on the way toward true democracy and market economy.

The economy of Kyrgyzstan was based on inner-Union labor segmentation. It had originally been disproportioned and thus supported by the large subventions, which accounted to 10-13% of gross national product (GNP). Kyrgyzstan has had two unbalanced industries: Agro-Industrial industry (AII) and Mining industry (MI). The major preference in the AII was usage of raw materials and development of the machinery production. The MI had been almost entirely dependent on demands and supplies from outside of the Republic. This caused economic and social disintegration in urban and rural life styles, and overconcentration of industries in major industrial centers.

Recent years economy of KR was badly affected by:

- abrupt decline in industrial output;
- multiplied (by thousands) rate of inflation;
- growing budget deficit.

The growth of output has stopped in 1989, and the decline rate continued to grow, the amount of national income in 1992 has shrunk by almost 30% (CIS - 33.5%), consumer goods production - 32%, industrial output - 27%, and agricultural production by 24%. Aggregate price ratio of consumer goods and services during this period became 1974.5% (in 1991/1992 - 1896.7%), while money income of the population raised only by 8.8 times. The budget deficit in 1992 was 11.8% of GNP, and this year it is expected to be 8.6% of GNP.

Causes:

- discontinuation of outside subventions;
- depreciation of production and transportation equipment;
- predominance of casual reforms;
- decrease in orders from CIS customers for purchases of goods machines, and equipment made in KR;
- rapid escalation of prices on imported fuel, metal, lumber, raw materials, and spare parts for the industries, with a simultaneous decrease in quantities;

- general decline in quality of executive and contract discipline and responsibility.

In 1992-1993 we, as well as other CIS countries, were moving along economic chaos, which has began since the radical liberalization of prices held in Russia in the early 1992. So, prices of fuel has now jumped by 1200 times compared to 1990, although prices of agricultural products, a major export item, only by 100-120 times. Hence, a large passive saldo emerged in trade with CIS countries during just 9 month was: Kyrghyz Som (KS) 187 million with Russia; KS 7.6 million with Kazakhstan; KS 115 million with Uzbekistan.

In 1993, we have undertaken well known measures to overcome crisis tendency in the economy. Although they were partially implemented, we lessened the rate of production decline and got control over inflation. So, per capita national income, during nine month, decreased by 15.4% (in 1992 - by 26%), and summer inflation slowed down to 16-18% against 40-50% at the end of 1992.

As a result, the Kyrghyz economy is still in its deep crisis state. What has been done during these economic reforms?

A basis has been provided for a new market economy: new institutions of private property, private and free proprietorship both in urban and rural areas.

Although it is newly born a system, it works as a market driven system, with price determination in response to the balance of supply and demand, and vice versa.

However, we shall admit that market relationships are now underdeveloped and imperfect. The most important thing is, to stir up free competition among producers and provide basis for free price determination, so that various businesses, competing with each other, might be able to satisfy consumers needs in a more varied, qualified, and cheaper manner. Until competition, the main stirring gear of market, is enacted - the economy is bound to regress and stagnation.

No country in the world that tried to transfer from command to market economy, including the East European ones, has avoided a chaotic period with a consequential and abrupt decline in industrial output. This was characteristic of Kyrghyzstan during last years. Such is the law of nature: one might lead any system from one order into another through chaos only.

But now, it is a decisive moment for putting in order new, i.e. market regulatory environment, since we have already accumulated enough experience and can foresee related positive and negative effects. After that we shall need decisive, prompt and efficient actions.

In this respect the Kyrghyz Government must do the following:

- decisively support sprouts of market economy, convey a policy to strengthen and develop market infrastructure;
- accelerate reforms concerning private property through privatization measures, setting up a multi-property economy, private sector expansion, and antimonopoly measures;
- stimulate creation and energetic activities of wide variety of small and middle-size businesses that produce goods of great demand;
- abstain from State-ordering system both in industrial sector and in agriculture; promote free competitive trade;
- reduce administrative interference with business entities, simplify and unify business conditions.

One additional feature should be always recognized by all citizens of the Republic: there are no easy ways out, as well as mysterious ones that make heavy burden of reforms easy; no one, but us, can change our live. A good help might be provided, as it is being done by many countries in CIS, as well as around the world: however, could do our reforms for us.

## Chapter 2: WHAT WE NEED TO OVERCOME DIFFICULTIES

For the success of the reforms, improvement of the economy, development of the international cooperation and strengthening of the state sovereignty, there is a need to have a confidence in the social and political stability of the country, at least for the nearest future.

What could be the basis for such confidence?

1. Firm civil peace and inter-ethnic consent.
2. National unity and desire for the economic growth.
3. Appropriate economic policy and creative efforts of the population to back up new measures that are the basis for the economic reforms.
4. Strong Executive Power that has the trust of the people and is able to implement the reforms gradually and persistently.
5. The Parliament that could create proper laws and be capable to conduct legal reforms immediately.

It is out of question that to come out of the present severe economic crisis we need great efforts of all citizens of the Republic, and mobilization of all the internal resources.

The success will not be achieved, unless we base our efforts upon the national unity, healthy national feelings and dignity, national spirit and self-consciousness, and national traditions of the people. It is the support of the strong national feelings that helped many countries create a sound economy, and come out from the ruins.

First of all, revolutionary changes in the peoples world perception is needed for the success of the reforms. To participate in the reform actively, the people need hope and belief, strong positive emotions. They must be confident that the reforms are providing favorable and equal conditions for personal motivation system, basing on which they will be able to earn money, achieve success and improve their line. People must understand the sense of the reforms and believe in them. The main task of the President, the Parliament, scientists, journalists, all progressive intelligentsia is to achieve it.

To be frank, we must accept, that the new economic understanding has not been formed firmly in the State Power itself, and it has negative reflection on political decision making.

Without effective executive power, well qualified and well organized body of governmental administration in the capital, as well as in provinces, we cannot gain success in economic reforms.

Strengths of the power are its efficiency and respect among the people.

We need strong executive power, characterized by democratic administration, and not that of the authoritative regime. Kyrgyzstan cannot accept the "autocratic reform" policy. The new Constitution of the Kyrgyz Republic, adopted on May 5, 1993, provides us with the chance to convey reforms in democratic mode. The state authority shall provide us with such democratic conditions that enable us to become masters of our own life and success.

To raise efficiency of the state power requires revisions of the structure and function of business-related ministries and bodies under strict conduct of the Constitution and laws of the Republic. It is necessary to eliminate all unnecessary and inefficient managing institutions at all levels.

We need to substantially eliminate managing personnel at all levels. According to our estimations we can lessen state bodies by 15% or 2.5 thousand people without much damage. Enormous low-income staff of state executives, endowed with administrative power, gets corrupted making their living on it to survive. Corruption in state executive bodies causes incurable damage to the country and society. The "virus" of profiteering has also infected many state institutions.

What could we do to fight more efficiently over corruption?

1. Convey a "legitimate" profit orientation of state institutions transferring all their assets to them, but, of course, depriving them of all administrative contents. Let entities proclaim their own demand on their administrative, consultative, and communicational services.
2. Adopt a law on state services that would exclude participation of executives in businesses, establish a system of tough and objective screening procedure to select for positions at state nonelective bodies. The contract system shall be introduced and entirely substitute the current one. At the same time the prestige of state officials shall be supported and their wages raised to the standards of sufficient living.

Economic reforms could not be carried out successfully without radical legislative reforms. Elaboration of legislative infrastructure required by the market economy is, perhaps, the most important goal of the reforms at this stage.

Our Supreme Council have adopted part of the laws related to the market environment, so called "first generation laws", as well as Property Law, Renting, Pledging, Land and Land Reforms, Company Law, Principles of Privatization and Entrepreneurship, Foreign Investments and Concessions, Taxation, Bank and Bank operations, Cooperation, Joint-Stock Ventures, etc., which were highly estimated in our Republic, as well as abroad.

However, dynamics and pace of the social life here impose many new problems to solve through legislature, and change economic relationships, the very core of which is - the Right to Property. Laws described above already require revision or urgent replacements, because in many cases it is not enough to just amend the laws.

At present, it is the high time to reform legislation on: (1) judiciary procedures; (2) state support and protection for private proprietorship; (3) privatization; (4) insolvency; (5) competition; (6) insurance; (7) monetary control; (8) water resources; (9) land taxation; (10) labor laws; (11) contract laws; (12) international private property; and many others.

Perhaps, at this stage, we need to adopt first of all such fundamental statutes as The Civil Code, The Labor Code, The Criminal Code, i.e. the three whales that uphold the legislative power.

It is important to point out that legislature should pace ahead reforms in politics, economy, and social areas in order to prevent chaotic reforms.

Unfortunately, today we do not have a unified strategy in legislation and legal policy. Here, the urgent need is to balance activities of the Supreme Council and the Government. We need urgently to carry out a special program to provide reforms in the near future, according to the program of economic reforms.

For the Supreme Council, which symbolizes legislative power in Kyrgyzstan, the major activity is to provide reforms in legislature. The Supreme Council shall be a cooperative opponent and a partner of the executive power but not the substitution of it. Unfortunately,

the Supreme Council is gradually turning into the scene of political fights, putting legislative tasks at second priority.

Here we are bound to recall a rather fruitful activities of the Supreme Council in 1991-1992, when they adopted many reform laws. Those laws served as fertile soil for the first sprouts of the market economy and democracy in the Kyrgyz Republic.

### Chapter 3: SOCIAL ORIENTATION OF THE ECONOMY

These are the human values that we are bound to support - raising welfare of the nation, respect the rights of the people, protection of the rights.

Special concern, in this respect, is about continued decline in the public welfare level, resulted from the economic crisis.

The major factor that compromises not only state authorities, the Government, but also the course of democratic reforms.

The rise in public monetary income in 1990-1993 was 77.5 times more, whereas the increase in consumer goods and food prices in retail trade went over 158 times.

Thus, real public income decreased by the half. Consequently, the nearest social objective of the Government shall be to double the real income of the population for achieving previous welfare level, so that to move then farther. To achieve this level during 3 years, we need 15,2% rate of increase in the economy, during 4 years - 11.2%, 5 years - 8.9%. All these are a real prospective if only the economy gets a powerful stir to grow.

Of course, we did not take into account the abrupt difference in public income between various groups. More than half of the population now lives under poverty level. Because of this, the Government should make targeted allowances to the poor - retirees, disabled persons, low-income families with many children, students.

I should emphasis the need to differentiate our society for these purposes. We are not supposed to allow some people get boundlessly rich and others fall in poverty. This will turn our society into the polar-contrast one. We must strive to build a free society, as well as a fair one making it better even for the less successful citizens. The latter should have a certain support guaranteed.

Thus, setting up an efficient and a really ongoing system of the targeted social protection is one of the highest priorities of the Government.

A special danger is represented by the growing explicit and implicit unemployment. The total number of unemployed population reaches up to 275 thousand people. According to the estimations of the Head Administration on Employment, the present number of unemployed is about 140 thousand people, almost 110 thousand of them



are laid off because of the collapsed industries. The worst damage has been made to the women in the labor market. 7 of 10 women are unemployed. This problem should be placed in the center of attention for the Government, Ministry of Labor and Social Protection, Heads of provincial administrative bodies, administrators of all levels.

The Government shall convey an energetic policy in the labor market, which must provide special training to the workers required in the market, and assist in their employment through creation of new job opportunities in the industry, in the public services, and export of labor. Creation of public services in the villages will be very important. That might be irrigation, construction of roads, schools, hospitals, tree planting, etc. Such steps of the local administration may lessen the strains in society at this transfer period.

So, what our social policy should be like?

The level of social advancement is defined by state of economy. A real social policy cannot exist without advancements in the economy. In this respect, to make populist decisions is unacceptable. Besides we must not forget that goals to enhance the educational level of the people, to support and efficiently use the scientific potential, to develop the traditional culture and arts, to maintain at the required level the health care system - all that are the most important problems demanding the constant attention of the state authorities.

Insufficient investments into. health care system; education; science and culture; low wages, which do not level up with the responsibility level of the people in those industries, force best qualified people to change their place of work for the profit oriented companies.

To provide social support for the teachers, arts workers, retirees and students it is necessary to establish a special international aid fund.

An extreme importance is to prevent destruction of the social infrastructure - educational institutions, research centers, health and culture organizations (resorts, sports bases, children camps, etc.), which is within the capabilities of the Government and local authorities.

#### Chapter 4: THE COURSE AND PACE OF REFORMS

For Kyrgyzstan there is no alternative to market orientation in economy. Free economy, based on market principles, is the best and humanitarian attempt to enhance the real welfare of the nation.

A market economy is based on the experience of a society, members of which choose the best of supplied products, for production of which scarce resources are used. The decision about it in the command economy is always made by the government officials, who usually mistreat all what is new.

Public oriented market economy implies variety in property forms, government participation in providing economic efficiency, national income and employment regulation, measures to meet peoples demands for education, health care, and culture.

It is the social market economy that might be called kind of "the third way" for Kyrgyzstan. To this, much consideration is given by the scientists and politicians - a way of perfect match between economic efficiency and social stability.

The major problem is How to transfer from the command economy to the free market style least painfully. Here a matter of the reforms rate is arising. The logic and available historical experience add favor to accelerated transferring methods. Of course, it is easier to keep macroeconomic situation stable during gradual shifts and pretend that everything is all right. However, such approach is dangerous. It becomes self-producing and very likely tends to lead back to the old command-administrative economy. It is also very favorable to the majority of nominal administration, who resist reforms because it creates more time to strengthen their position.

I am certain, that the only and true way out for Kyrgyzstan is radical reforms. There is a need in a combined breakthrough at all major reform directions, a determined one, while we have a firm support of the CIS countries, highly developed countries of the world, international financial organizations. We shall not miss this historical chance!

Slow reforms mean lengthening the life of the autocratic admoofficials.

Here we come to the prime matter - which will mainly affect success of the reforms - administration personnel.

Administration personnel today may be classified into the following three major groups:

1. Nominal staff who are at present the basis of the Republican administering system.
2. Newly employed officials who are now prospective candidates for top administering positions in the near future.
3. The youth acquiring knowledge at the educational institutions a prospective managing personnel of 2000's.

The reality is that today we have to continue reforms within the first group, convalescing it with group 2, and gradually implanting members of group 3.

Since members of the first group have been brought up by the command economy they have to be seriously trained in the basics of market economy, perhaps with an examination for a special certificate, which might become a subject of consideration for top administration positions. Members of the first group, who consciously back up reforms, shall be persistent and continuously learn the new management psychology as well as principles of industrial administration in the market environment.

Market economy demands people who understand principles of competing prices behavior, with a knowledge in efficiency management and quality control, as well as marketing - a management system, which esteems studies of the dynamic changes in consumer demand and unsatisfied needs of consumers, design and processing of the goods in demand.

Our goal is to create a complex training net for such people. It is important to widely and efficiently use opportunities to train them abroad, especially those of group 2. They all should be filed and given every support. We also need to have a special project and funds to train politicians of the XXI century.

## Chapter 5: ECONOMIC DEVELOPMENT STRATEGY

To choose the right strategy for economic development we must consider the fact that Kyrgyzstan is capable and obliged to enter new industrial community.

The new industrial countries have passed three consecutive stages of development:

First - development of import substitute industries;

Second - creation of export potential and base industries;

Third - development of research-intensive industries.

Kyrgyzstan has all the required conditions to simultaneously progress in all these directions.

The people of Kyrgyzstan has a high educational level: the Republic has already acquired a firm foundation for the development of a modern industrial country. However, there are not yet sufficient incentives for an intensive and highly productive labor.

Strategically, it is vital for Kyrgyzstan to pass over the following stages:

1. we shall reach macroeconomic stabilization by the market related methods;
2. we shall create a progressive economic structure in the entire economy, as well as in the industries; and
3. we shall accomplish technological modernization of the basic industries, among those in priority.

Let us concentrate a while on the important problems of each of these strategic phases of the republican economic development.

On May 10, 1993 we introduced our new national currency - Kyrgyz Som (KS). With this, we actually started implementing the first phase utilizing the standard tools of the classic monetary macroeconomic methods of stabilization. It might be performed through strict implementation policy on credit-monetary methods to reduce emission of the currency. This has shown positive results at commencement phase, while the Government resisted the pressure of industrial, and agricultural businessmen. Let me remind you of the inflation rate declined to 16-18% in July-August. The September credit emission to donate the economy with KS 274.5 million have lead us to 33% increase in the inflation rate and severely undermined the national currency standing.

What this situation should teach us to?

1. The policy of micro-economic stabilization may give what was expected only as a result of good adaptation measures at the micro-economic level.
2. It is impossible to implement macroeconomic intentions successfully without the changes required at micro-economic level, if we wish to originate the market environment.

Hence, to stabilize does not necessarily mean to 'macro-stabilize' only.

The Government shall, in this respect, to focus its activities on micro-economic level by a targeted subsidies of the priority producers, and rejection of the inefficient entities. Here, a workable plan is needed: we need systematic and continual work done to depict inefficient enterprises and make concrete decisions on them, not just recommendations: change the profile, reorganize, or liquidate.

Here one important question arises: does the necessity to control micro-level in the economy compromise the market freedom of the business entities? I am convinced, no.

We must find an optimal composition of market mechanisms and the government control. Such optimization must become the meaning of the current managing system at all levels. [m]

The Governmental control must stimulate effectively the market forces and eliminate their negative effect. To say short, at present we need to focus on the establishing the market environment at the micro-level.

Thus, during transition, an active role of the Government is important. Of course, the Government need to adopt and skillfully use the flexible tools of Governmental control to success in transition to the market economy least painfully.

After a new livable economy is established and private enterprises become the major subject of the economy, than only there will appear opportunities to choose - to what extend we shall use control of the Government over the economy.

Formation of a progressive structure of the economy depends, first of all, on what priorities we choose.

The short history of our independence has shown, that the priorities are as follows:

- agriculture and food production;
- light industry, including textile and sewing production, wool and leather production, national crafts;
- fuel and energy sector;
- mining industry;
- electrotechnical and microelectronics industries;
- tourism.

These are the industries to become the engine of the economical development in Kyrgyzstan.

I am convinced we need a 7-year plan of economic development for comprehensive and balanced development of these priority industries to be able to form a progressive economical structure, with which, we hope, Kyrgyzstan will succeed to enter the XXI century. This plan shall have programs to solve major and vital socio-economical problems in the favorable industries.

The purpose of such indicative projection plan is to enable industrial and entrepreneurial communities to orient in tendencies in the national economy development by 2000. Flexible and recommendational this plan shall cover the whole economy and the social sphere, expand to all levels of administration: republican, industrial, regional. Special attention shall be given to the industrial plans, the purpose of which is to stimulate modernization of the priority industries, and their timely restructuring.

It is also important to have this plan to help determine the long term goals by the private companies and small businesses. After all, it is through the unification of the plan that we can improve considerably the relationships between state and private sectors of the economy.

The 7-year plan may provide the basis for the steady economical development of Kyrgyzstan, as well as prevent further chaotic changes in the economic structure. Such a projection-plan can really become the model of the socio-economical development of Kyrgyzstan at the turn of the century and thousand-year period.

If this gains acknowledgment, we shall evolve all the creative forces of our society regardless of their place of work: state bodies; higher educational institutions; the Academy of Science; political parties or movements; industry or small businesses; in urban or rural areas. Such were the steps undertaken by the Japanese in

1960, when they were elaborating 10-year plan, "Development Plan to Double the National Income" the implementation of which was the real source of the "Japanese economic wonder". Of course we shall not just copy somebody's example, but to creatively adjust, since, as the Japanese say "copying is the first step to creativeness".

The key factor for the Kyrgyzstan economic growth is, without doubt, the third phase.

Success in the economical development is dependent entirely on our capability to attract and adopt new technologies and innovations in managerial practices.

During recent decades we became assured that major increase in welfare of the society can be through utilization of the new and high-quality technologies, generated by the progress in science and technology.

For Kyrgyzstan, which has considerable marketable natural resources (such as oil, gas, grain, etc), the only way to survive and prosper is to promote technological progress in the priority industries.

So the central issue of our economical policy shall become the new technologies. The major goal of the policy shall be attraction and implementation of some of the most prominent technologies now widely available in the US, Japan, and Europe. Our investment policy shall be directed toward introduction of the available technologies, first of all of domestic production. The main criteria here, apparently, are: increase in production efficiency and quality.

The Government shall not support obsolete fixed assets of any kind, except those of vital importance, on which at present the life of the people is dependent. It shall fit modernization events in any enterprise, with preference given to the most prominent of the available technology, and pay maximum attention to achieve high qualification.

What shall we do to adopt the new technology?

First of all, hard work and advanced skills. Second, punctuality and accuracy. Third, high quality standards. Fourth, organizational efficiency and flexibility, and adoptability to the changes in technology. These are the principles that we shall cultivate among the youth. We shall teach the youth to strive and learn how to develop a product to the highest perfection.

It is very important to use the traditional skills of the Kyrghyzes to make compact, foldable and portable goods from silver, wood, leather, wool, hey, and other materials. Since ancient times the Kyrghyzes highly appreciated making fine and careful work. We must resurrect and utilize these wonderful features of the nation at making high-quality products on the basis of the new technology. The Japanese example show explicitly that marketable and competitive products are those, which bear the feature of the nation, its unique character. Examples are: the Russian samovars, and Chinese thermos.

The national culture and the spirit shall definitely be inserted in its industrial products. The goods might be competitive if only they can touch the soul of the customer by its beauty and attraction. This generates a desire to buy and use it in life in addition to the functional purpose of the product.

How, then, to create a steady national base for technical and technological progress in this republic?

We have to start create national bases of the new technologies, free test-industrial areas, where a mass production of the innovative projects will be carried out on the basis of high-tech technologies. There shall also be a support for creation of the technological research centers at the industrial enterprises. It is these centers that might become "points of technological breakthrough" and assist the future state of the economy.

There is another one area where the Kyrghyz scientists and engineers might gain a success at the international level. This is Mechanotronics. In this Republic you can find highly qualified specialists on mechanics and machinery - from one side - and electronics - from another. A contribution to the success might be given due to or from the national synthesis in culture.

The development and implementation of such techno-parks and techno-centers is the most important task of the recently established State Committee for Science and Technology (SCST). This task shall not be imposed on the National Academy of Science, which is to maintain the international level of fundamental and applied scientific research. Thus if we want to progress economically, through high technology, we must save and strengthen the SCST.

And now, we are approaching the major problem. Where do we take funds for the implementation programs?



I believe, we must mobilize domestic resources. For this purpose we may issue aimed urgent state obligations. A possible collateral for such a loan may be - priority of the owners of obligations in the process of state property privatization, the obligations exchange for the stocks of the most promising objects of property. Such obligations are known to the world community as "project obligations", for financing and construction of roads, housing, plants rehabilitation, etc.

However, taking into account that the people here and the economy have a very low income, constant payroll balance deficit, entire consumption of the national output, only foreign donations through concessional long-term loans can become the main source to finance the economy in the near future. To prove this idea, I will present some data: capital investments from domestic sources accounted to 9.4% GNP, 1992 (total - 9.4%), 8.2% GNP (total - 8.3%), and for 1994 the planned GNP is 7.5% GNP. However, if we take into account the foreign investments the capital investments in 1994 will be 25.6% GNP. Besides, I should say, in a good economy the share of domestic capital investments shall be more than 25-30% GNP. Yet we have to approach it still, while now it is important to strive attract more international investments.

"The Theory of a Big Stir", being one of the concepts of the economic growth, says that to make a developing country a stable one, one must implement a policy, which would enable us to avoid a trap of so called "sinfull circle of poverty", provide increase in the rate of capital savings over demographic rate and quickly raise the national income to the level that might guarantee the further steady growth of the economy. To say short, we need such a stirring engine, which might excelerate the speed of a rocket and enable it to reach the orbit.

For Kyrghyzstan to be able to break through the "sinfull circle of poverty" (i.e. low income, little savings, low quality, small revenue, etc.), to be able to start and reach the "orbit", it needs to have also "a Big Stirring Impulse" as large investments into modernization of the industry. For Kyrghyzstan, which suffers from shortage of capital, the importance of skillfull allocation of the investment funds is vital. That is why the Government shall promote

such kind of help, inform timely about it, and assist in its effective implementation.

It is obvious though, that it is the people of Kyrghyzstan who shall make the main job. They can follow their own interests and reveal their own resources. So the main force to provide economic self sufficiency and steady growth is the Kirghyz people themselves, I shall emfasise this again.

I must say that during last years a big scope of work has been done to attract international aid and investments into this Republic.

USA, Japan, Germany, Turkey, Switzerland, and Netherlands are providing us with a considerable financial aid.

Such international financial organizations like IMF, WB, IDA (International Development Association) have already extended their funds for rehabilitation of this economy. Next are agreements with ABD (Asian Bank of Development), EBRD (European Bank of Reconstruction and Development), IFC (International Financial Corporation), and IDB (Islami Bank of Development). A large credit has been extended from the ECC (European Community Commission) for medicine donations. A considerable donation from UN DP is received for training programs, financial and technical support of Bishkek International School of Business Administration, construction of schools in the remote areas.

In 1992-1993 there was enormous lack of support of the existed industries, infrastructure. We first of all needed to provide fuel for the economy, raw materials and spare parts for the machines and equipment in heavy and light industries, to purchase imported medicines, food, and for agriculture - pesticides and herbicides. So the first loans went to cover these needs. The Governmental prepared a Program for rehabilitation of the economy at that period and entered contracts with IMF and WB to finance it on the account of the so called "stand-by" mode. The situation is now changing for the better, the economy has recovered from the shock generated by the price liberalization in 1991-1992. It is going to be favorable for extending the system changes in the production management far structural reforms acceleration.

At present, the Government prepares a form to enter agreement with IMF and the WB, on very concessional and long terms, to finance the reform measures, to implement middle-term program of structural

reconstruction, which might become a stirring point for the progress in 2000.

To coordinate activities of all Governmental and commercial institutions, which are to attract and use international investment aid, as well as to provide control over that activities, there was a State Committee of Foreign Investments (Goscominvest) established under the command of the Government Head. The Goscominvest Board of Directors is now working effectively as an executive body for the Committee.

It is extremely important that the work performed by Goscominvest was public, so that the people knew about the investment projects and aims for which they were created. More over, to protect interests of the Republic, every investment project shall be put under independent, economic, legal, and other relevant examination lead by Goscominvest. So, the investment fund shall be allocated to such industries that require less expenditure for implementation of smaller projects and have a shorter loan-time. This will provide prompt investments turnover.

The Government faces now a vitally important task. It shall establish an effective system of external debt management, and a stabilized basis for acquiring [earning] hard currency sources, so that to be able to pay off the loans.

This is also a time to widely attract private foreign capital, preferably, invested directly to business entities.

Kyrgyzstan has already, adopted legislative documents on foreign investments and concessions, which meet international standards both in favorable treatment and protection. However, foreign companies and businessmen are not enough yet ready for action. This means that the legislative basis is not yet adequate to the needs of investors.

The Government shall convey a protectionist policy to attract private investments, direct foreign investments, and encourage creation of joint ventures.

We shall create a friendly environment for the investors, that is to simplify entry & exit regulation as much as possible, to have the documents processed the easiest way, provide with necessary information. This is a decisive point that helps the capital be invested in this Republic.

Creation of joint ventures would contribute to:

- introduction of new methods of industrial organization and management; quality enhancement and competitiveness of the products;
- bringing a new technology to a commercial use;
- shortening the transition period in a big industry;
- enriching hard currency resources due to export operations;
- creation of opportunities in foreign distribution practice and marketing.

The most important asset in establishing a JV is a new technology, since, as a rule, the owners are not much willing to disseminate it losing their control over it. So, the JV, where the owner is a shareholder and has new technology, is undoubtedly preferable.

From our point of view, there must be a stipulation that would enable our engineers and mechanics to have training services.

## Chapter 6: FINANCIAL STABILIZATION

The first-priority task for the Government and the National Bank of Kyrgyzstan (NBK) is financial stabilization, which includes the following:

1. Effective management of the money turnover, slowing down emission and inflation process, and stabilizing fluctuations of the exchange rate against Ruble and USD;
2. Creation of a modern banking system to provide gradual development of all major bank functions, such as saving, credit, commercial, investment, and elimination of the banking services deficit;
3. Provision of strict control over observance of tax legislation, accuracy of tax operations, complete and timely tax and other payments, to secure the budgetary stability, as well as financing urgent economic and social programs;

Let us look into each of the components of financial stabilization in detail. The most important problem is to stabilize the money turnover by:

- a) hardening the Som and making it a marketable currency tied to the USD;
- b) reducing inflation down to one digit amounts and keep the level;
- c) following a strict, but reasonable reduction of money emission.

How to overcome inflation?

One of the major reasons for inflation is the deficit of the state Budget. That is why a transition to a balanced budget, on account of elimination of subsidies and donations, concessional state financing of industries and general reduction of overheads is the main tool to defeat inflation around the world.

We must cultivate this approach to the Budget formation, because the treatment of the budget is an indicator of economic knowledge of society.

The Government and The National Bank of Kyrgyzstan (NBK) must make a strict budget and credit policy their own. It is important to abandon all unnecessary donations to enterprises and the industries, which cover overheads and other non-production costs. The legalized

freedom of the NBK enabled it to resist any inflationary trends to cover the gaps of the Budget.

We must define the goal and reach the decline in the monthly inflation rates by the end of the year down to 10%, and in 1994 - 3% to 5%!

If Kyrgyzstan will succeed to stabilize inflation, the marketability of the Som will increase both inside the Republic and outside of it. There will be possible then to make economical estimations of the enterprises, profit forecast, and economical activity will increase.

Thus, a stabilized money flow is the basis of the future dynamic development of the economy. The full weighed money is the most important element of market economy, a powerful incentive for more and better production.

The Government and NBK must work against an artificial support of the Som and go along the way toward unification of the exchange rates mode by eliminating restrictions on auction participation. However, it is the high time to strive for making the difference between the national currency rate, and the parallel market one, less than 10%.

To make the Som more reliable, it is important to stimulate the people make savings in the banks. This will become an additional stabilization factor. The increase of bank savings deposits, in turn, will secure anti-inflationary investment for economic restructuring. However, banks should offer high interest rates in favor of public depositors. This might be compensated through softening bank taxation policy.

The amount of outstanding money, so called monetarization rate (M.R.), is another important issue. Rise in the amount of paper money, no doubt, leads to a worth inflation conditions. Every phase shall be balanced in money amount and the output. Today, the rate of monetarization is about 16% GNP. Is it little or much? For instance, in West European countries it amounts to 25%. This was approximately the same in the FSU Republics. The M.R. generally is higher in the countries, where economic growth and advanced financial relationship have taken place, e.g. in India - 40%, Chinese PR - 100%.

Kyrgyzstan has a low M.R. because of the underdeveloped system of financial relationships. We, apparently must not hurry to raise the M.R.; instead we shall raise it stage by stage, gradually and

together with the raise of the output, and streamline the operations of the financial machine, that is banking system, tax collection, and customhouse services. Otherwise, the Government will loose control over trade and services operations, and the Budget - the main part of its tax collections.

The deficit of the Republican Budget this year is expected to be 7.9% GNP and exceeds 33% of the expenditure items. The deficit is covered approximately by 2/3 from NBK credits, and by 1/3 from international credit loans. The Projection plan has indicated 6.7% GNP deficit in 1994, or about half of the expenditure items (48%), supposing that it will be covered by 1/3 on account of the NBK credit, and 2/3 by international loans, i.e. on account of growing internal and external Government debts.

What are the ways to reduce the Budget Deficit and what goals might be workable here?

The reality is that in the near future we can not eliminate all the Budget deficit, but we may plan to reduce the deficit by 4-5% GNP, which is considerate to be a quite common limit according to the modern economic theory and proved by activities of many nations around the world.

To say something about the ways to reduce deficit, we would start that we need to have a strict control over money flow in every industry, cut down all state expenditure, and commence its reduction in bureaucratic structures first.

Here I would like to emphasis the relationship between the state and the enterprises.

Development of industrial production in the market economy is based on the freedom of price and wage determination along with the Governmental control over aggregate expenditure in the economy and the emission of money. This is the only way to reach optimal balance between demand and supply that will stimulate non-inflationary growth of production. That is why it is the time to make separation between state and entity capital, i.e. to separate state and entities expenditure.

At present our state still assumes debts of the enterprises to secure survival of the industries, so industrial expenditure automatically becomes a debt item of the State the Budget. This happens either by way of directed concessional loans to industries and

inter-supplies between enterprises (barter), or by creation of uncontrolled debts between them, which then are imposed on the Government for coverage. More over, the growth of mutual-debts is a reaction of conservative managers against the strict monetary-credit policy of the Government.

In the long run, financial recovery is not the purpose in itself, but a factor of the economic growth. Financial separation of the state and an enterprise budgets, as well as necessity to earn money in the market will make the enterprises to seek a better profile along technological structure.

The state must have targeted and fast support to stir up this process, bearing in mind the priority industries like agriculture, food and light industries, etc.

That is why we should tie up the privatization process to restructuring and changing the profile according to the processing sequence in the Medium Term Development Program.

Extreme importance is that the top management of enterprises shall understand all these, and immediately switched to the studies of the world heritage pertaining to enterprise management in conditions of financial scarcity, methods of reducing production costs, new markets research, differentiation of the products, efficient financial management.

Many people are still unaware of where the credit money come from. So far we were receiving investment funds from CIS countries, first of all Russia, Kazakhstan, and Uzbekistan. Our debt to these countries was US\$ 114,251 million at the turn to the new national currency. The total amount of the negative saldo of the trade balance with CIS countries forecasted, regardless of the expected rise of oil-products prices on January 1, 1994, is KS 1,323 million! Today we live hoping that we will be granted by credits from the CIS brother countries. But could they afford granting Kyrghyzstan with such credits in 1994? After all, they have their own problems, in no way less than ours. Besides, we receive credit funds from them on rather strict terms. The risk rate in Kyrghyzstan today is 444%, that is 4.4 times exceeding the norm!

Hence, the Government has to strictly specify the level of saldo in trade with the CIS countries. We must adopt our economy to a more lower level of financial support, promptly lessen the deficit of the



trade and payment balances, and attentively check that we do not exceed the amount. The 1989-1993 Trade deficit was 8-11% GNP. We must specify that we shall reduce the deficit down to 4.5% GNP as the nearest objective.

Today we are facing two alternatives: either to assume that most of our enterprises are insolvent and begin reorganizing them, or we are to carry our Republic into bankruptcy.

To implement what was said above concerning the new style of relationships between the state and the enterprises, we have to first of all establish and put into operation a reliable mechanism of the state control over aggregate expenses and funds, as well as tie up to these the credit inflows of the turnover funds.

The transfer to the market economy has shown, that a successful solution to this task might appear only if the banking system is operating efficiently.

Today our banking system does not meet the requirements of the said above due to certain objective and subjective reasons.

To be just, it must be told here that the activities of the National Bank of Kyrgyzstan, considering the uncertainty of the period, as well as during introduction of the national currency, were thoughtful and highly qualified. The NBK has been able to convey and secure the least possible operation level of the banking system during this difficult period, despite that it has a rather obsolete technological level.

At present, experts from the Central Bank of Japan upon our inquiry have started elaboration of the banking modernization project to last 3-5 years. This project will be implemented on account of concessional loans from the Government of Japan. As a result the banking system shall have been entirely adjusted to a market economy. There will be computer systems fully adjusted to the needs of the market economy, and new systems of computer settlements and transfers will be introduced, while all banking operations will be tied up with the steady channels of electronic communication, highly protected and providing direct links with other correspondent banks around the world, through the satellite communication.

What are the NBK objectives today? These are: development of the banking system, money turnover regulation, reducing inflation rate, accelerating the speed of settlements, providing a variety of banking

services, improving surveillance over commercial banks activities and other financial institutions. Commercial banks that were established on the basis of the old ones were supposed to, or dedicated to finance base industries (such as light and heavy industries, agriculture, etc.), as well as to serve the new coming small and medium-size businesses. What do we see now?

Actually, the major part of the credit resources is extended according to recommendations of the Government on the targeted basis. The rest part of it is used by the commercial banks to serve clients mainly in the trade businesses, i.e. they are far from serving production industries.

The second level of the banking system shall turn from "merchandise" style into the system that provides high quality services both to large and small producing customers.

There might be two ways to dissolve this problem.

First of all, the commercial banks shall assume their part of social obligations in contributing to the development of production industries and services by the credit policy, to organize progressive production enterprises into some healthy financial & industrial groups.

Second, it is the time to establish special development banks to provide long- and medium-term investments into industrial production, and support priority sectors of economy. Such banks are reasonably and apparently to be established on the basis of certain large commercial banks.

In any case the NBK must use the rights to inflict force on the commercial banks in order to rationally design the allocation of the credit resources. Today, there shall be a diversified approach to the banks that extend loans for mainly trade projects or investing into the development of industrial production.

As a recent examination of the commercial banks held by the State Inspection (Auditing) has shown, the scarce credit resources are being dissipated and often wrongly allocated infringing the terms of the credit agreements. The banks do not provide a proper control over targeted loans allocation. The currency, bought by commercial banks in the interbank auctions, is spend on supply of commodities of secondary use. Practically, there are no agreements to supply new technology and know-how. However, such currency has been received by the Republic via considerable difficulties.

In one word, all the said above reveals that we still did not carry out effective credit policy, which has been directed to create more incentives in production industries.

It should be stated here that the main function of any bank lower than the first level is - to attract money, which has been treated in Kyrghyzstan as a secondary importance. One of the main principles of bank activities must be to provide attractive opportunities for the customers to create deposits in the banks. Banks, like magnets, must attract the money savings of the people.

Taxes, as it is well known, constitute the economic foundation of the country and serve in two ways - to fill up the Budget and provide control over economic activities.

Despite that we have an independent State Taxation Agency (Inspection) with special division for tax investigations (the Tax Police), both of the mentioned tax functions are working extremely unsatisfactorily. So, the amount of tax-inflows during 9 month of this year turned out to be lower by 35% than the forecasted level.

The current taxation system does not prevent disproportions in the economy, it does not always serve the interests related to the development of entrepreneurship (small businesses) and satisfy social needs. This really requires substantial adjustments.

Hard fiscal policy does not have a good perspective in the conditions of recession, narrows up the sources of potential money inflow, initiates the rise in budget expenditures, which was confirmed by the results of the 1993 tax collection.

We must convey the policy of holding back the rise of the taxes. Simultaneously we shall make the control more forceful over tax payments, impose and enforce considerable penalties for non-payment of the taxes, incorrect or non-timely tax transfers to the Budget.

The tax policy shall become the main goal of the Ministry of Economy and Finance, the major tool to convey the economy.

At present, the countries of the FSU have chosen the implicit taxation system, the core of which is the Value Added Tax (VAT). Introduction of the VAT and the excise tax is an important step toward improvement of taxation here. This conforms to the international practices. Theoretically, advantages of VAT are well known, which is confirmed by the experience of the advanced economies. The CIS practice, in this transition period, has shown that VAT stimulates

slow capital turnover and the increase of prices. Thus, a rather long time and good experience is needed to prove the righteousness of this strategy. Probably, in the future, we shall have to switch on to the direct taxation methods for the most parts.

A desire to have unified tax rates, with no regard to the forms of property and specialization of the entities, is rightful for the developed economies, but not for the transferring economy, which is establishing new forms of relationship and functioning. Today, we need to introduce also differentiation of the tax rates.

It is obvious that we must not defer introduction of the land tax, as the major one for the farmers. This is a simple and comprehensive tax for a farmer, as well as comfortable to the Government. It might put all agrarian producers into even conditions and become a true incentive for efficient and thoughtful use of our main treasure - the land. Of course, it must be differentiated and dependent on the quality of the land plot.

In general, a system of rent agreements shall be widely accepted, i.e. on land use, mineral resource, water, timber resources use, etc., which are simple and reliable sources of the Budget maintenance.

Thus, our taxation policy shall be urgently improved. We need a flexible and differentiated taxation policy. It must be carried out on a strictly scientific basis, with inclusion of a very careful taxation analyses of the past years. We must not act "by eye", as we have been doing it during recent years.

There is a good reason to consider simplification of the customs procedures in relationships with the other CIS countries. The customs policy shall contribute positively to the business activities of the entrepreneurs. The best advantage will be if we had mutually agreed with the CIS countries upon elimination of the export and import duties.

It is extremely important to quickly streamline statistical services and make more effective use of the data making managerial decisions, if we really want to progress in financial stabilization. We need to learn how precisely forecast the dynamics and the structure of the economy. This is - the source of our future success.

## Chapter 7: IMPORT AND ITS SUBSTITUTION

Kyrghyzstan trade import amounts to about 1/4 of the total national output consumption.

The Republic is entirely and practically dependent on the imports of oil, rolled ferrous metals, lumber, mineral fodder, chemical fiber and synthetical pitch, technological equipment for light, publishing, and food industries, shaft drilling and ore mining machinery, bulldozers and auto-vehicles.

The major countries of the Kyrghyz import are as follows: Russia, Kazakhstan, Uzbekistan, Ukraine, Belorassia, and Turkmenistan. Although three of them are the largest trade partners to Kyrghyzstan: Russia, Kazakhstan, and Uzbekistan. In 1992 these countries provided 91% of imported transfers, while 92% were delivered over to them. However, first half of 1993 has shown respectively 98% and 90%. That is why our first task is to constantly maintain and strengthen the mood of friendship and mutually beneficial cooperation and assistance with these countries.

In the near future, there will apparently be international transactions taking place, on the basis of clearing discounts, until there appear sound economic relationships, timely and prompt settlements, until an efficient association of bank and payment will come to life.

Thus, the task of the Government is to recover accuracy and responsibility of supply under clearing barter negotiations, and intergovernmental ones in dealings with the major trade partners. Purchases for the maintenance of supply operations shall be conducted now under the agreements, which shall envisage the free will of the entities to carry out orders under mutually beneficial and responsible basis. For instance, when entering a contract with producers of agricultural products, it is important to consider part of the donations into fuel and oil products, technology, spare parts, and fertilizers when granting concessional credits. This will attract agricultural producers to participate in inter-republican trade.

The said above emphasizes that Kyrghyzstan shall energetically convey the import substitution policy.

The goal of this policy is to meet the requirements of the people to consume first-need food products (bread, sugar, oil, and salt), as

well as use cloths, spare parts. This must be through the use of domestic raw materials, and organization of their production at domestic enterprises, binding it all up with the cooperative supplies.

The implementation of the imports substitution policy provides an opportunity to save foreign currency, and thus to saturate the domestic market with the major food and consumption products. Besides, this opens thousands of new employment opportunities.

You only need to study, every time, what is less expensive and more profitable: to purchase products from outside or expand (install) its production at the same local area, i.e. the criteria that always shall be considered is economic efficiency.

For our economy the efficiency of import substitutions might become very high. The planned transfer of the most local entities, including former military ones, to production of competitive export items shall provide a better unemployment conditions and make the currency use more effective, so needed for the technological modernization here.

We are able to increase the grain yield up to 1.8 million tons in the nearest future, and solve the problem of sugar and oil supply.

The problem of gas and fuel oil substitution by the domestic coal and electricity will become essential for Kyrghyzstan in 1994 and later. We can not allow ourselves such a luxury as to purchase the gas every year for US\$ 150 million.

The import substitution strategy is especially important the pharmaceuticals industry. We need to create a true pharmacy industry, which would be oriented on production of the medicines preferably of the domestic origin. This has began with the introduction of "GALEN medicines" business project. We also need, as soon as possible, to put into operation "BISHKEKBIOFARM" plant at full capacity.

We might also be able to install, for example, a ceramics and china production, building and electrotechnical ceramics from domestic resources through the usage of the relevant high technology, as well as basalt fiber materials and products, which are highly demanded in the constructional and other industrial areas. We have good backlogs in all these directions, there is a need to just a stir from the Government and the local state authorities in order to start up these profitable industries.

However, strategic goal in most of the industries is then to replace substitution policy by the competitive export strategies. The growth in the export policy shall be harmonized yet with continuing import items substitution.

## Chapter 8: FOREIGN ECONOMIC POLICY

Foreign economic activities (FEA) must assist in effective positioning of the national foreign economic interests among other nations. It must be accompanied by the respective advantages of our economy and support the structural reforms and contribute to the rise of production efficiency.

It is the breakthrough into the international export markets, luck in the foreign trade, that might become the major lever to lift the economy. We must: learn how to earn the hard currency on the basis of the export of our goods.

Today the major part of our export items consists of the products that are supplied to the CIS countries, mostly to Russia, Kazakhstan, Uzbekistan, Ukraine, and Turkmenistan. Of course, these countries were in the past and will be during next decade the main partners of Kyrgyzstan, who must be taken care of, and, respectively, expect trends for strengthening good trade relationships from us. We face the task to expand the product range, exported to that countries, quickly raise the volume of the exported goods in order to reduce the negative trade saldo.

As to the items exported to non-CIS countries, Kyrgyzstan has the lowest rate of exported items among the FSU countries. In 1980-1990 it was 0.9-0.7% in relation to the national industrial output. What does obstruct our growth:

- 1) low competitive level of the domestic goods;
- 2) insufficient special training for implementation of the FEA;
- 3) poor knowledge of the world market trends and absence of special marketing research organizations.

If we want to develop FEA we have to solve these problems. We must create appropriate infrastructure to serve foreign trade.

The hard currency income coming from export is of a vital importance for our Republic, both for settlements of debts and for investments into vast production and acceleration of industrial growth. The export volume in 1992 was only US\$ 80 million. During the next 5 years we have to raise this indicator up to one point, for which Kyrgyztsan has a real possibility.

Then, what shall we do?



First, we shall intensify production of the exported goods, produced in this Republic and competitive around the world. These are goods like those made of leather and textile, carpets, mountain honey, walnut, tomato paste, seeds, dried foods, tobacco, medicine grass, mineral water, electric apparatus and machinery, agriculture vehicles, antimony and antimonial compounds, mercury, rare elements, and semiconductors.

The building materials industry has a powerful potential for exporting cement, marble and ceramic facing elements, and granite.

Production of craftsman goods shall also be widely supported and developed.

Second, to use electric gadgets machine and equipment producing plants as a basis for the high-technology production.

If we take into consideration the high transportation costs for the goods exported from Kyrgyzstan, there are possibilities to choose a better direction from the very beginning as to produce a high quality goods with a higher ratio of the added costs, for example, high quality silk manufacturing. It would be enough for our specialists to raise the production quality at all phases, beginning from the silkworm breeding. It is necessary to utilize a new, for example, Japanese technology of the silkworm breeding, which have been designed on the basis of advanced biotechnology, and start up to produce high-quality cocoons at lower prices. All these shall open the way to the world market. More over, Japanese people are willing to help us with such projects.

Third, probably we shall create a special state export-import bank to credit export projects; a bank for raw-materials export revenue accumulation to purchase know-how and new technology, and to create or modernize the export oriented technologies. The export insurance and incentives system shall be created as soon as possible, as well as a procedure of the targeted investments and tax allowances for the exporters. It is necessary to eliminate the export tax and just keep reasonable customs duties.

Of course we have a dilemma - how to prevent an excessive export of raw materials and manufactured goods, which are important for the domestic industries, i.e. cotton, and have a limited supply. Concerning this matter, it is necessary to have a diversified approach to either a product and an industry that have a state wide importance.

The Government shall study this matter in detail and define a strictly limited list of licensed goods of the strategic importance. Besides the licensing shall be conveyed on an objective competition or auctioning basis, with the favor to the producers. The trading or other intermediates shall acquire them only at auctioning.

To summarize, I must tell that a special attention shall be paid to the development of the frontier trade with the Peoples Republic of China, and first of all, the Xing-Zang autonomous area of the PRC. Since Kyrghyzstan is situated at the automobile cross roads of Central Asia, probably it is a destination of the area to be a new knot in the Ancient Silk Rout, which would tie up SIC, PRC, and Middle East. Then, we must naturally become a free market state for all prospective partners in the area.

Tourism and recreational and resort services shall, no doubt, become a leading hard currency industry in future economy of the Republic. However, we must create an appropriate infrastructure, advertisement and other related services. That will require large investments, which are not available now in this Republic.

What shall we do in this situation?

1. We shall attract foreign capital to invest in tourism, as well as assist in setting up joint ventures.
2. We shall organize personnel training to improve tourist and recreational services in accordance with the international standards and requirements.
3. We shall create a powerful commercial advertising to attract attention of the tourist companies around the world.

Foreign investments may be of various forms, but the most realistic form is concessional. The concessional conditions might be as follows: the leaser might design, construct, and maintain the building during the time agreed upon, bear costs, and provide necessary income. The income of this period might be shared between the owner and the leaser in proportions imposed by the contracts.

During first period, apparently, the Kyrghyz specialization in the elite tourism along with the organization of nontraditional services is preferable. These are: hunting tours, national eagle hunting; mountain ski sports; climbing, and a combination of the mountain tourism with recreation at the coast of Issyk-Kul lake.

## Chapter 9: PRIVATIZATION

The purpose of the Privatization measures in Kyrgyzstan was to provide the people with private property, to transfer it, even partially, into the hands of honest, experienced, and work loving people, capable to operate at this premises efficiently in a short time. We also had a goal to provide ordinary people with the major part of the state property through the Special Payment Bills (SPB), so that the privatization process was fair and wide spread. Besides, we, of course, from the very beginning defined a task to make the privatization one of the major tools in the restructuring process that would be developed toward market economy in Kyrgyzstan.

In a highly developed country a privatization process pursue a secondary goal as to provide a substantial income to the state through auctioning the state property on relatively high prices. If we were to put such a task, we wouldn't succeed in the main target of privatization here - the wide coverage, since our population does not have sufficient funds.

The scale and pace of reforms are widely known, and they are quite satisfactory. However it is yet early to talk about the results. Therefore the Government concentrates upon todays quality changes rather than the speed.

The anticipated improvement of economic financial health due to privatization will not come automatically, by itself. The major task of privatization is to transfer to another state of control, which will be oriented toward the fastest possible adaptation to the market environment, freedom of competition, better quality, rather than just to liberate an object.

During privatization there were serious disadvantages:

- 1) Company employees were given too much priority, which brought about property 'collectivization' trend and vast illegal privatization by officials in the name of the employees;
- 2) Lack of publicity, open competition tenders at the initial phase were also contributing to illegal privatization and creation preferably closed joint stock venture;

- 3) Unjust delay of the implementation of one of the major goals - wide privatization involving all people into the process.

The "collective" property, which we have created during privatization, is not better than the state property, unless market mechanism and competition is enacted. More over, they reduce market relationships, since they have an exclusive priority concerning the approach to the concessional credits, imported goods (raw materials, manufactured goods, spare goods, etc.). Then, what are the most important measures for this moment?

First of all, we shall settle the problem of state property pricing, seas to sell on extremely low prices, which sometimes surprises even the buyers. The price of the privatized units shall be defined objectively and include remained costs, other costs, as well as forecasted profit, which they may bring about. It is a mistake to give out assets only to the private sector. It was a habit in the past to do so, having the debts left to the state. If the price of a privatized unit is high, there shall be a credit method used. Beforehand, a precise system of the debts payment to the Government shall be introduced.

Second, it is an extreme importance to carry out a regular campaign on a wide publicity of the privatized units, to attract the community to convey the process of privatization, to set up public control over this.

Small [state?] businesses, as a rule, shall be sold on auctioning for cash and other equity. Middle size entities are privatized, as a rule, only after consideration of the competitive bids. Here we need the objective criteria for selection of the best proposals.

Large enterprises require a special and careful consideration. Here no one shall hurry. In some cases one must use international assistance through invitation of managers and advisers, who might successfully solve all sorts of problems related to the company changes, including search for new markets, attraction of international investors, carry out business plans for the new investment projects.

One thing is evident, all state enterprises must be reformed into state owned joint-stock ventures (JSV), regardless of the

privatization period, with the corporate administration, where all 100% of shares are owned by the government. The Board of Directors of a JSV must become a link between the state and the executive body of the company.

This will have two important consequences, advancements at the transfer period.

First, the share property is entirely conformed to the necessity of peoples property system implementation. A system that is based on the peoples property of the means of production. On the other hand, this economic mechanism guaranties effective work of the very system of property.

Second, corporate managerial principles shall help improve management efficiency at the enterprises with the evolvment of personnel representatives, as well as experienced managing professionals. The key issue in this case is a task to separate the property right and the right to perform management. The international experience has shown that often it is not the owner, but the manager, who brings prosperity to the company.

Shared ownership shall allow to solve the problem of separation of financial funds of the state and the enterprises, which already has been discussed before, since price liberalization and assets sales possibilities will allow enterprises to accumulate their own financial sources for production activities.

Naturally, shared ownership shall be conducted at the "open" conditions, which is adequate to the real ownership transfer in accordance with the Constitution.

Apparently, for the implementation of what was said above it will be necessary to carry out urgently and adopt a law on new companies, to be able to create a legal basis for such restructuring of the enterprises.

Privatized entities today have encountered with considerable difficulties related to the possibilities to acquire technical and financial support. Therefore, we shall intensify privatization program design to support middle-size and large enterprises, which is carried out together with the World Bank, and establish a special Agency for structural reforms (ASR), dedicated for program implementation in practice.

The main functions of the ASR must be:

- technical assistance and managing support in conveying changes in enterprises to follow the need of streamlining efficiency of their activities;
- extension of credits via the Privatized Entities Fund, as well as financial resources of the local bodies of power.

We have agreed with the World Bank as to set up a fund of privatized entities amounting to US\$ 50 million, in the beginning of 1994.

ASR must have a rather high authoritative level, which might comprise authorized representatives from industrial ministries and institutions, concerns, Ministry of Economy and Finance, National Bank of Kyrgyzstan and two or three commercial banks under the conduct of one of the Vice-Prime-Ministers of the Government.

The Agency must begin its work with the enterprises whose affect on the related enterprises is the most dangerous and might cause a number of stops, i.e. serve as "trigger".

It is not advisable to provide no attention and no support to service businesses, which have in most parts shifted to the private sector. This area does not require large capital investments. However, it might generate enormous manpower, and what is most important - to develop market relationships and bring good income.

It is the time to start a wide use of vouchers in order to provide fair distribution of the companies stocks among ordinary people, and begin vast privatization measures.

We tried to secure our people from selling out their special payment stocks for nothing making the stocks inscribed. And this goal now is reached. But this is the time to make the stock workable, to make the people able to change it to any equity, which might be sold and bought, and freely circulate in the Investment Funds, in privatization auctioning. Therefore, Investment Funds establishment shall be accelerated, because they are to accumulate inscribed stock, and become major buyers at the special enterprises stock exchange. Privatization is the root problem of transitional period. However, it must be kept in mind, the shift to another form of property ownership will not be reasonable, unless the industrial monopoly is eliminated.

## Chapter 10: ENTREPRENEURSHIP

It is well known that private entrepreneurship has been the engine of the economic progress in the new industrial countries.

The right to the private property, its inviolability, guaranteed by the new Constitution of the Kyrgyz Republic, will surely play an revolutionary role for the development of entrepreneurship in Kyrgyzstan.

The way out from the economic crises, the rise of the welfare level of the people, every family, every Kyrgyz citizen, will in general be dependent on respective and honest business relationships of our business people.

During recent past there appeared a new layer of the society in Kyrgyzstan - private property owners. They created 9.5 thousand enterprises of different legal forms virtually in all industries of the Kyrgyz economy, of which only 5 thousand enterprises are currently active. In this industrial division there are about 135 thousand employees. The entrepreneurship proportion in the state GNP is now only 6%.

However, the new entrepreneurship forces with which we tied up our hopes for overcoming the crises, have made a certain advance, but does not yet substantially contribute to the economic recovery. They by major part are engaged in profit chasing businesses with little production results. They are generally involved into trade and intermediate operations. The exclusion is rural entrepreneurs. They established farms and cooperatives.

What is the reason?

Partially, it is because many problems are accrued. That prevents further development of the entrepreneurship. There is also lack of efficient relationships between governmental institutions and the entrepreneur entities.

It is necessary to undertake urgent measures for partial or total termination of different bureaucratic obstacles in order to develop private small and middle-size businesses, for example, such obstacles as licensing requirements, restrictions on export and import operations, price and profit control, credit restrictions, etc.

A small problem for small production-enterprises is to acquire bank credits for financing their production operations. Unfortunately, the banks have generally focused on providing loans to commercial operations that promise fast return.

To settle up all these problems we have to acquire the law "On the State Support and Protection of the Private Entrepreneurship", so that to confirm legally the measures for support and protection of the private entrepreneurs. Of course, the law shall define also the responsibilities of the entrepreneurs before the state and society.

However today, there shall be a sincere patriotic wish of the entrepreneurs to help their nation, their young State that has a weak economy. The true entrepreneur never overlooks the state and national interests.

Unfortunately, the negative tendencies, like the increase of criminal accumulations of money and property among the entrepreneurs is evident, with which the law enforcement bodies shall convey a merciless and uncompromising war.

The current taxation is a rather complex system, and, as the experience show, inefficient in regard to the entrepreneurs. Therefore, it might be advisable to come back to the suggestions of the entrepreneurs themselves and impose a unified entrepreneurs tax, so that at the beginning, suppose two or three years, it will relate to the revenue from the sales (commodities, operations, services). Such an approach has a number of very practical advantages: calculation simplicity; a better tax control. Then, after the efficiency of taxation services is improved, a net of auditor firms is appear, economic knowledge and skills of the entrepreneurs is improved, we may come back again to the multi-channel taxation system, which is of course more flexible and precise. Here, decisive words of the Supreme Council, the Government, and the Ministry of Economy are welcomed. At present, such a step shall serve as an incentive for the expansion of productive businesses and efficiency improvement.

It is also very important to create good conditions for the external economic relations (EER) of our businessmen through a certain softening of the customs policy, so that they always were under the influence of the international competition, in SIC markets first, then in the world market.



Thus, the state shall provide comfortable conditions and support for the new advantages in the development of the entrepreneurship activities. Expending the civilized relationship between the state and private businesses structures, we will be able to solve not only economic, but also social problems.

To do this, we need that one of the state institutions would concentrate in support and development of the entrepreneurship activities, especially that of the small and middle-size businesses. The most advisable in this case would be to establish a State Committee for the Development of Entrepreneurship and competition environment (SCE) through reorganization of the State Committee for Control over Prices and Antimonopoly Policy, and transfer its price policy responsibilities to the Ministry of Economy and Finance. The SCE shall be a medium between the entrepreneurs, their associations and the Government. The Committee shall use indicative tools as its only means of governing abilities, for example financial ones. Therefore, the Entrepreneurs Fund shall be established at the SCE to provide support for small and middle-size businesses. The World Bank and a number of state-donors are ready to donate into the Fund. Later, on the basis of this Fund there may be established an investment bank for entrepreneurship development, which would extend middle- and long-term loans for the small and middle-size businesses. In turn, the SCE might involve entrepreneurs into participation in the implementation of the preferable economic and social programs and projects.

What kinds of entrepreneurship forms are preferable for Kyrghyzstan?

For Kyrghyzstan, the most important and efficient form of entrepreneur activities is cooperation, various kinds of production and consumers cooperatives. First - the cooperative form for a long time has been a tradition for Kyrghyzes and the people of other nations of the Republic. Second - cooperation is a universal form of the entrepreneurship activities in the cities, as well as in the rural area. Finally, cooperation allows reasonably compose economic and social needs of the citizens.

The merge of small private entities into one, and sizing up small and middle-size enterprises provide the effect in the sense that livable enterprises are growing in number and the economic

activities are accelerated. The Government shall assist in this process; take care and establish favorable economic conditions for their development, through extension of credits and concessional taxes; help with consultation provided through consulting centers; provide information, etc. so that to motivate emergence of thousands of new small and middle-size enterprises. This will allow to preserve traditional sales markets for our goods and products, find out new ones both in the neighboring and world countries. The Government shall also assist small and middle-size enterprises to improve technological equipment, modernize production and management methods.

Extremely important forms of entrepreneurship are joint ventures (JV), which are established under mutual organization of the funds. Currently about 70 JV are registered, but only 20 of them are actually performing. The Parties to the JV's are from PR China, Germany, USA, Turkey, Switzerland, South Korea, Italy, etc. The JV's are very promising in the exports to the world market. At present, the JV share in the exports of the Republic is only 4.2%, however this is just a beginning. We must by all means encourage establishment of JV, eliminating all the factors that low down or make JV establishment difficult.

Small businesses - the most necessary part of the private businesses. They are vitally in demand for the economic flexibility and differentiation.

## Chapter 11: COMMUNICATIONS DEVELOPMENT

It is hard to overestimate the importance of advanced informational infrastructure for economic growth. In Kyrgyzstan there is a good basis for the advantageous infrastructure. It is important to energetically work over its expansion and improvement. We must seek international investors for major infrastructure projects, which aim at improvements in domestic and international transportation, as well as telecommunication facilities.

First of all, we have to streamline telecommunications connecting Kyrgyzstan to all CIS countries, friendly states around the world, prospective export markets. We must expand availability of telephone services to cover all parts of the Republic, provide reliability of such services like mail, telephone, and facsimile services.

Second, we must establish regular air flights from Bishkek and Osh to Moscow, Istanbul, Beijing, and other cities in order to provide more opportunities for business visitors from around the world to visit Kyrgyzstan. This year we shall finish construction of the international department of "Manas" airport. Unfortunately, such missed opportunities are numerous.

Concerning the first economic importance of the automobile roads, on which about 95% of freight carried in the Republic, it is necessary to start up road construction, so that regular and tourist coaches, and large trailers would have a use of it comfortably. Without this, the trailers, for example, will deliver goods with much more costs to and back from China, Pakistani, and countries of the Middle East. First of all we need to reconstruct the road Bishkek-Osh, other roads, that connect major regions and cities of the country, as well as large cities of the neighboring countries: Kazakhstan and Uzbekistan.

Destruction of the unified rail-road system in the FSU, as well as customs wars, cause difficulties for freight transfers within CIS, and entail unfair transportation costs. Let us hope that this obstacle will be overcome by strengthening of the economic cooperation between CIS countries. Therefore we must timely solve the problem and add more capacity to the Kyrgyz Rail Ways, switch it onto the electricity consumption. We must think about how to make a

better entrance to the Asian-Continental Rail Way Line, which shall soon connect Beyjin-Almaaty-Istan bul-Paris-London.

The most important strategic task for the people of Kyrghyzstan is to construct a rail-way road connecting Balykchi-Kochkor-Karakeche-Tashkomur-Jalalabad, which is devoted to become a road connection between the North and the South of Kyrghyzstan, and to contribute to the future unity and stability of the nation.

Generally, it is the time for the Government to elaborate a prospectives policy for the development of transportation communications for the entire infrastructure, and start its accelerated development.