

Kyrgyzstan: Where's the Money?

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New government needs to stop money leaving the country, find out where its predecessors kept funds, and keep the electorate happy – all at the same time.

Of all the challenges that Kyrgyzstan's new leadership has to face up to, the country's dire economic situation surely tops the list. As it struggles to meet the expectations of those who brought it to power, the interim government is trying to identify what money it has available and is asking Russia for emergency funding.

Soon after taking over after the popular unrest of April 6-7 which swept president Kurmanbek Bakiev from power, the new administration began getting to grips with the numerous urgent problems facing the economy.

Deputy prime minister Almazbek Atambaev visited Moscow on April 9 and then again on April 14 to secure emergency funding.

The new administration is moving to prevent capital flight, including the danger that money held in off-budget accounts by institutions created by former head of state Kurmanbek Bakiev will be spirited out of the country.

At the same time, it has met a key demand of the anti-Bakiev protestors who thronged the streets of Bishkek and other towns and helped it to power – abolishing price rises for electricity and central heating, and persuading mobile phone operators to reverse an increase in charges that had added to popular discontent.

According to economist Almaz Tajibay, who heads the Peremena Centre for Innovative Education, it is of paramount importance to get economic policy right.

"Yesterday's opposition has come to power, and the fate of the country depends on how successful it is in pursuing economic reform," he said.

BAKIEV'S POLICIES REVERSED

On April 8, Roza Otunbaeva used her first press conference as head of the interim administration to announce plans to annul utilities price hikes which had been the root cause of the spontaneous eruption of popular protests. A pledge was made to repay the additional money people had paid since the new rates were imposed.

Bazarbay Mambetov, head of Kyrgyzstan's Association of Oil Traders, welcomed the move, saying it would have a positive effect on the nation and on the economy as a whole.

"The former authorities were lying when they said the increase in utility rates was a justified measure," he said.

Tajibay said that while he understood why the authorities axed the price rises for heating and electricity, this would inevitably reduce budgetary revenue streams, amid reports that the government's coffers accounts are all but empty.

Otunbaeva also promised to renationalise major state enterprises whose privatisation under Bakiev gave rise to controversy and suspicion that they were sold off below their true market value.

Bakay Junushov, who heads a financial services firm called iCAP Investment, supports the renationalisation of energy companies and power stations, and believes the same should happen to a number of banks associated with people from Bakiev's entourage, including Azia Universal Bank, AUB.

ACCOUNTS FROZEN AS GOVERNMENT LOOKS FOR ITS FUNDS

As the new administration tries to pin down the location of state funds, the Kyrgyz National Bank has taken AUB and a number of affiliated banks into temporary administration. AUB holds substantial public funds as almost all public sector organisations held accounts there. It was also the repository for the national pension fund.

Officials believe these banks were controlled by the president's son Maxim Bakiev, who was in charge of the Central Agency for Development, Investment and Innovation – an economic planning and decision-making body that operated outside normal government. The agency itself is currently under investigation.

Commenting on the decision, Edil Baisalov, head of the interim prime minister's office, told AFP news agency on April 9 that there were fears that government funds had been transferred elsewhere when Bakiev was forced out of power.

"That is why we have frozen the banking system," he said. "We fear that banks controlled by Bakiev want to take it [money] out of the country."

At a press conference the following day, the central bank's interim chairman Zair Chokoev reassured the public that the budgetary funds were safe.

A staff member at AUB, who did not want to be identified, said there was particular concern about state funds allocated to the central investment agency.

"The national bank told us that the reason why the new rules were introduced was that these banks were used by family members of the president [Bakiev]," she said. "AUB, in particular, used to issue loans to farmers on behalf of the Central Agency for Development, Investment and Innovation."

Junushov commented that "the principal task for the new authorities is to prevent any attempt to get money out of the country".

The AUB staffer said that as a precaution, all transactions apart from those relating to budget spending had been frozen, and the financial police service was looking into any transfer over 20,000 US dollars.

Meanwhile, private account holders have been set a limit of 2,300 dollars per withdrawal.

PLEA FOR MOSCOW TO BAIL KYRGYZSTAN OUT

In a bid to secure enough money to tide them over, Kyrgyzstan's new leaders have approached Moscow with cap in hand. The purpose of Atambaev's two visits was to secure agreement on a number of fronts – first and foremost to increase the scale of a loan agreed last year.

In February 2009, Moscow unveiled a dollar package of loans, investment and debt write-off worth just over two billion dollars. The sum included three hundred million in direct support to the Kyrgyz government budget, and that is the amount the Otunbaeva administration wants to increase.

Russia's Itar-Tass news agency Atambaev's second visit to Moscow resulted in a pledge of 50 million dollars in loans and grants.

Russian finance minister Alexei Kudrin said 20 million would be for immediate social spending needs, and the rest was a loan to keep the Kyrgyz central bank in funds.

After Kudrin told him about the package, Itar-Tass said, Prime Minister Vladimir Putin spoke about the critical situation in which Kyrgyzstan found itself.

"According to the interim government, the coffers are empty. The previous leadership stole, took away or destroyed everything," Putin said. "That isn't for us to judge, of course, but we've always had a special relationship with the Kyrgyz people and it goes without saying that at a difficult time we must support our friends."

Another request the Kyrgyz authorities are making is for the Russians to drop higher customs duties on petroleum products in place since April 1. Moscow introduced the export tariff – 5.6 per cent higher than the old rate – because Kyrgyzstan is not a member of the customs union which Russia set up with Kazakhstan and Belarus at the beginning of the year.

As well as the direct impact on prices at the fuel pumps, the Kyrgyz fear the higher cost of imported petrol and diesel will drive up domestic transport, food and other costs.

"I raised the issue of export duties for oil products with the Russian leadership, and I noted that the same was not done with regard to Tajikistan, for example," said Atambaev after his April 9 meeting.

"There may have been some cause that prompted these measures earlier, but the Kyrgyz people need help now."

The Tajiks have not joined the customs union but on the other hand, they are not members of the World Trade Organisation as Kyrgyzstan is.

DOMESTIC REFORMS COULD RAISE REVENUE

External assistance aside, analysts say the best hope for the government's revenue-raising challenge is to reform the tax and customs systems.

Tajibay sees an overhaul of tax collection as a priority. "If all the 'grey' [illegal] schemes around tax and

customs duty payment are done away with, the interim government will have an opportunity to double its budget revenue, as there are figures that show that the customs duties officially received are only half of what the state should be getting,” he said.

More generally, said Tajibay, economic management should become more transparent, and a more open climate created in which business can operate.

“The authorities should set out transparent and fair rules for doing business – only then will they be able to count on the people’s confidence and support,” he said.

Junushov pointed out that it was important for the new government to act so as not to fall into the ways of its predecessor.

“If the interim government fails to pursue such reforms, then there’s a risk that corruption will continue to flourish, and new faces and clans similar to Bakiev’s will emerge,” he said.

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