



Roundtable: “Reforming the Energy System of Kyrgyzstan: Issues and Solutions”

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Participants:

1. Tayirbek Sarpashev, Member of Parliament
2. Nurdin Abdyldaev, Member of Parliament
3. Ilyas Davydov, First Deputy General Director of the OJSC “National Electric Network”
4. Abdyrashit Mukanbetov, Head of the Department for Development of Strategic Objects under the State Committee on the Property of the Kyrgyz Republic
5. Nadejda Davletalieva, Chief Energy Expert of the Prime Minister’s Cabinet
6. Aigul Sultankulova, Chief Expert of the Fuel and Energy Industry Department of the National Agency on Anti-Monopoly Policy and Competition of the Kyrgyz Republic

Chair: Muratbek Imanaliev, President of the Institute for Public Policy

Muratbek Imanaliev: We, politicians and energy specialists, have all noticed that major investments currently flow into the energy sector of Tajikistan. As is known, Russia has invested big money into the construction of hydroelectric power stations; Iran will also invest about 300 million dollars; and investments have come from the EU and even from America. One gets the impression that all energy belts and lines bypass our country and run geographically to the left – to Tajikistan and Afghanistan. I believe that the day is not too far in the future when the power systems of Tajikistan and Afghanistan will be linked in some way. In light of the events in Afghanistan, an alternative option appeared, and Tajik policy has skillfully taken advantage as far as I know. The other line also bypasses Kyrgyzstan and runs through the territory of Kazakhstan and China.

From my point of view, our country is becoming isolated. Even transport arteries have begun bypassing Kyrgyzstan from south-west and south-east, heading to China and other Asian countries. Unfortunately, financial flows have always evaded our country. Although it is known that one trillion dollars circulate in the world each day, not a single penny flows here. What does this situation indicate to us? First of all, it indicates the lack of energy policy. At the core of such a policy, I see the issue of energy security as one of the three main constituents of overall economic security; energy is the basis for any development. Even humanitarian problems are interlinked with the energy sector. A person with energy capacity is ready for development. Human communities that mastered fire moved forward, while those that could not master it as a tool of development were not able to develop further. Therefore, the challenge today is to develop and implement energy policy. This issue is about our internal problems. It not only involves the development of conceptual issues, but also the personification of energy issues in Kyrgyzstan, as well as some economic projects that could enable us to secure ourselves. The question is also about our international relations, because

in such a small country as Kyrgyzstan, the export of electric power and energy resources in general is a very important element.

I think that if we linger this way further, there will soon be no one to whom we may sell electric energy. Ten years ago, we had the task to export electricity to China. Currently, there are two obstacles hindering the export of electricity. First, the increase in power production in China – according to their eleventh five year plan, production in 2006-2007 will equal a colossal figure – approximately eighty thousand megawatts. For comparison, in Russia this figure constitutes 1.6 thousand megawatts: thus, the volume produced in China is forty-five times greater. Uzbekistan, as far as I remember, was not heavily in need of electricity, and we had fragmentary cooperation with Tajikistan. Kazakhstan remains; however, it is not particularly interested in our electric power, as only two regions of Kazakhstan border Kyrgyzstan. I believe that entities will nonetheless appear that need electricity from Kyrgyzstan, although we may be late.

I would like to address a question to Tayirbek Duyshenovich: Does such a policy exist in our country? If yes, what is the concept of it? If no, what should be the essence of such a policy?

Tayirbek Sarpashev: It is painful for me to see how money that should had been invested into the Kambarata-1 and Kambarata-2 hydroelectric stations flew away into Tajikistan. As far as I know, negotiations first started with our country. We met several times with the top management of the Russian Federation and major energy industries of Russia. However, nothing went beyond negotiations for some reason. Of course, here I see problems in the legislative framework as well – one must start from oneself and not blame others. A certain role was played by the special status of the Toktogul Hydroelectric Power Station and by the fact that that all hydroelectric power stations belong to the state, which cannot sell them.

Second is the high level of corruption amongst not only powermen, but also the top political leadership in general. Here we have not the power of law but the law of the powerful. There is no transparent policy, not only in the power sector, but also in other fields. The instable political situation that persisted in Kyrgyzstan over the last year also played a considerable role. We lost a year, which is equal to losing 2-3 years. I blame the corrupted system in this regard.

Third, I am surprised by the position of the Government. When a member of the previous Parliament, I worked as the Committee Chairman and faced energy issues closely. Governmental structures worked with us deputies very poorly. We discussed all the issues in a dialogue format, and would raise them by means of the mass media. People themselves would choose the position they deemed right; we did not impose anything. It was decided that there was need to reform the energy sector, and that it was necessary to bring it closer to international standards. Investors will not come only due to our hospitality; they will come when business becomes standardized. Businessmen rely on business standards that were developed decades ago, and we are not the ones to change them. Over the last year, the Government has done nothing to come closer to those standards besides blaming the parliament about blocking projects. I will not deny that during the previous parliament the Government resorted to utilizing its own administrative resources. Nowadays, the Government does not have the objective of reforming the energy sector. There are significant controversies between the Government and the Parliament, between the President and the Government. The tandem plays a negative role in cadre issues today, as each is interested in strengthening his own position. Unfortunately, the energy sector, Kumtor and Djeruy in particular, became not an economic issue, but a political tool for the liquidation of opponents from the political arena. In such a case, truth is always lost somewhere, and with the aid of such polemics the opposition and the Government speculate on this topic, using it as

propaganda, drawing people to their side. This is a real obstacle, one of the major factors which impede our development.

Just yesterday evening, we met with a representative of the World Bank who said, “This is our last attempt to help you reform the energy sector; you should ‘jump on the last wagon of the departing train.’ If we leave, we will not be here any more.” The World Bank is an international institution, and it often applies a firm approach to the solution of many issues. It wants to bring us closer to international standards. They imply European standards, but our social “cushion” and economic capacity does not allow us to implement such cardinal changes. We are late by 5-6 years with concessions and other issues, as things that could have been done in 2001 have not yet been done. The opposition of that time, which currently holds the power – President Bakiev, Ishenbay Kadyrbekov, Ismail Isakov, Usen Sydykov – were actually the ones who blocked the project on reforming the energy sector in order to depose the power. They used the project for ideological purposes, and assured everyone that the leadership wanted to sell the energy sector. The current opposition, after giving some thought to the matter, took up the same weapon, and is using it against the current power.

When elections were held last year, I compared the composition of the old convocation of the 60-person Legislative Chamber with the composition of the new 75-member parliament. The current convocation of the parliament mainly consists of economists, the ones who created the system. They know the market, administrative resources, and evolutionary development of the market. They know what these factors are, and they also know that the laws of the market are fundamental and cannot be replaced by anything. However, the opponents of the reforms of the energy sector prevailed. When I talk with them, I explain to them the need for reforms, and they agree.

Now, no political resources are left to carry out the reforms. In order to realize reforms, the top political leadership should have a strong capacity. Because of their corruptibility, family business, the capacity is exhausted and any undertakings of the President and the Government will be blocked by the Parliament. Why is this the case? It is so because the Parliament does not trust the President or Prime Minister, as they see how they tackle the power industry and what scheme they promote. Over the last year, they rose to a qualitatively new level of corruption, at the level of ideology now. When the opposition tries to do something, they are divided into Southerners and Northerners. It is impossible to carry out reforms in such an environment, as there is no trust. I know that when reforms are under way it hurts. Comparing it with a living organism, I see reforms in the state as surgery on the organism. If one trusts the competence of the surgeon, one lies on the surgery table. If one does not, one takes painkillers and goes to a shaman. Parliament does not trust the current power.

Muratbek Imanaliev: As I have understood, there is no energy policy per se; it is nonexistent. There are populist statements related to politics and the struggle for power. The next question is for Nadejda Stepanovna and Ilyas Abdulovich: How does the Government understand energy policy, and how can it be implemented?

Nadejda Davletalieva: Currently, we have very many proposals on the investment of resources into the construction of the cascade and the renovation of the Heating and Power Station of Bishkek City, where there are significant problems as well. Nonetheless, as the Heating and Power Station also falls under the jurisdiction of the law on the special status of the Toktogul Hydroelectric Power Station, the basis for reform is to introduce amendments into that law, regardless of what is proposed or by who. Even back in 2004, when we signed a Memorandum with Mr. Chubais, one of its provisions stipulated the introduction of changes through the legislative framework. In the same year, a contract on the development of Feasibility Studies was signed, meaning that we proceeded forward considerably in 2004. In

addition, in June of 2004 the Government came up with a draft bill on the introduction of changes into the law on special status. The draft bill proposes to exempt uncompleted construction from the jurisdiction of the law on special status. However, this draft bill has neither been considered nor adopted. When the negotiations were resumed this year, the issue on how to amend the legislative framework arose again, as it is one of the major obstacles impeding cooperation. Members of Parliament Mr. Mamyrov and Mr. Artykbaev submitted a draft bill again. The draft proposes not only to exempt the uncompleted construction, but also mentions the Bishkek Heating and Power Stations 1 and 2, as investors for the construction of Heating and Power Station 2 may be found. This draft bill is currently under review.

We also talked about the necessity to give all distribution companies to concession. We visited Ust –Kamenogorsk recently, where there is a company which invested significant resources into all redeemed assets. Several big objects have been constructed; that is to say, we saw specific investments made. They had taken distribution companies under their administration, as they understand that electricity and heating energy are generated, but money is not returned, which is the same problems that we have. Tedious and daily work with distribution companies must be carried out. Therefore, they incorporated the distribution into their administration. There the investments go to management. In any case, they used the administrative resources for ten years, and only last year did they divide District Electric Networks (RES) from the Power Distribution Companies (REK). Therefore, the policy of the government is unambiguously for restructuring. We support what was started back in 2001. All problems arise from the fact that we stopped even before halfway. Regardless of the number of draft bills submitted by the parliament, there are probably some deficiencies. Perhaps parliament is not that active. Possibly this is because until last year we had the State Energy Agency, which directly worked with the parliament very closely.

Tayirbek Sarpashev: And who abolished it?!

Nadejda Davletalieva: The President. Now we have a National Agency for antimonopoly policy, and this department is subordinate to it. Overall, it results in dual policy. Officially, all functions of the state agency on energy seemed to be transferred to the permanent agency on antimonopoly policy. However, according to its status, the antimonopoly committee should not and cannot tackle many issues over which the state agency was formerly in charge. This is one aspect. The second one is that we are trying to do something now. We have the Verhne-Narynskiy (Upper Naryn) cascade on the agenda, as some investors contacted us regarding its construction. However, everything was planned until 2020; it was a long-term future perspective, and no specific feasibility studies were prepared. As a rule, all energy facilities should be tendered. In this case, it turns out that we have nothing for which to bid. We do not have the right to violate the law, and we decided that if there was a specific investor, then they would develop a memorandum and investment agreement which would regulate the relations between us. From the side of the Government there are no guarantees; we do Not give preference to any one. If an investor ready to invest money appears with a clear plan and develops an investment agreement, the Government guarantees him implementation of the legislative base that we have. This is the scheme.

A second investor arrived, willing to construct power stations in Sary Jaz, but his project is very expensive and we have the conclusion from Tashkent (Feasibility Studies would cost USD 120 million), but the investor rightly notes: “What if I prepare feasibility studies, and then someone else wins the bid? There are no guarantees that I will be able to regain at least half of the amount spent.” As a result, we told him that we agree in principle, and will support him if he wants to build in our country. Again however, he will develop an investment agreement and pass the approval of the Parliament.

Tayirbek Sarpashev: All over the world, energy resources will grow in price. This trend is very clear now. The price of oil increased from 12-15 dollars per barrel to 60-70 dollars: that is, it grew five times more expensive. Other energy consumers around us, as far as I know, produce a lot by burning black oil and coal in their heating stations. These resources are limited, and will be exhausted some day. Therefore, hydroelectric power generators have many opportunities emerging for them. They have a reliable source of energy: Once constructed, they can generate energy day and night without any need for a supply of mazut... It is possible to foresee the work of a hydroelectric station 10 -15 years ahead. If one investor comes, a second can also follow.

Nadejda Davletalieva: However, who has expressed such a desire? By the way, the Russians want to work in Sary-Jaz.

Tayirbek Sarpashev: I have heard of Sary-Jaz only this year. When the prices for oil went up, they started to look for alternatives, which means one person came. A second will also arrive; let's wait...

Nadejda Davletalieva: In principle, we think that there is nothing seditious here. They are very welcome to proceed with their work. However, no one provides any guarantees now.

Muratbek Imanaliev: I have such an impression that the question is not about perfect or imperfect legislation per se, but more about other things, such as a culture of abiding by law. I have also an impression that in our country (not originally and exclusively though) the legislation is abstracted from real life. Simply put, what is more effective in our country – the law or relative connections, the law or a telephone call? I do not want to say that we do not have a culture of abiding by law, or a political culture. Throughout the world, there are such examples as the Constitution of Mexico, which is the Constitution of the USA translated into “Turkmen language.” The issue is that in the States it worked, while in Mexico it does not, even though the Constitution of Mexico repeats every word of the Constitution of the USA.

Why does this happen? I think that the human factor plays a significant role in this case, and therefore it does not matter what laws we adopt (we do not invent laws; we simply rewrite them from the Kazakh and Russian arsenal). I do not mean to offend the deputies, but the thing is that there are some circumstances, human qualities that do not provide for the solution of our problems within the framework of what is written, for example in the Constitution of the USA. In the same way, not every Russian law can be applied here. Therefore, I want to understand what the meaning of such a policy is.

Regarding Sary-Jaz I can say that this is a very complicated issue, as there the issue has to be coordinated with the Chinese, while the unfortunate Kambar-Ata Hydroelectric Power Stations need to be coordinated with Uzbekistan. Everything has to be thought out until the end. Here, as it seems to me, the applied part of our work, besides the legislation, is still very poor. Ilyas Abdulovich, I would like to ask you whether there is need to build these Kambar-Ata Hydroelectric Power Stations. In my opinion, it is first necessary to put in order what we already have. The figures are horrifying: 42% losses. Though the specialists say that this is not true, these are catastrophic data, which may exist elsewhere in Africa. During the Soviet Era, what we had was in a rather good state, while deterioration was caused mainly by the lack of money and outflow of specialists.

Ilyas Davydov: Dear colleagues, first of all, thank you for the invitation. I came because open discussion takes place here. I have worked in the energy sector for 40 years, and frankly speaking, my heart aches now. The power industry is currently experiencing a terrible and difficult crisis. I think nothing like this has happened anywhere. Why is it happening this

way? I think that not only we, the deputies, but also the people in general know why this is happening. First, I want to say that the Kyrgyz energy system is unique. As we all know well, hydroelectric resources were built during the Soviet Union, and there was excess supply of electric power. With the collapse of the Soviet Union, we managed to shift from 2.5 million cubes of gas, 600 thousand tons of black oil, and 4.5 million tons of coal to electricity by the introduction and construction distributors of other networks. We occupy the second place in the world after Norway in using electricity for communal and household use. If in summer the daily consumption of electricity is eighteen million kilowatt-hours, in winter it increases up to sixty-six million kilowatt-hours. Electricity is consumed for electrical heating, food preparation, and by 4000 facilities: schools, hospitals, and communal facilities. For example, in winter, in Naryn alone about 91-92 % is used for these purposes, and the average winter consumption on the national level is 72%. Even if we drive through the country and look around, there are practically no houses with smoke from the chimney. The use of electricity is safe; they should pay us for it.

I used to work in the Ministry of Energy Industry of the Soviet Union, and of the Kyrgyz Republic. Commitment to the energy sector was high in all aspects – technical equipment, cadres, professionalism, patriotism, etc. Great people worked at that time, heartily committed to the development of the energy industry.

The second positive aspect is that upon the collapse of the Soviet Union, world prices on gas were limited, the supply of black oil stopped, and the volume of coal mining decreased. We were the first country in Central Asia by the volume of coal mining, which stood at 4.5 million tons at that time. Later, the president made a decision: “Let’s produce at least a million tons.” Yet, even that was beyond our possibilities. Currently, a maximum of 100 thousand tones are mined; aside from that, we import it. Therefore, a positive moment in the development of the electric power industry was that instead of these expensive resources, we resorted to the use of electricity. Earlier, the voltage in lines was about 130-140 V, while now there is not a single region where it is below 220 V, including even Batken, Naryn, and Issyk-Kul.

The most adverse factor, as I see it, is a lack of management. No one tackles the issues of the energy industry in the republic. I think that the Prime Minister and Vice-Primer Minister should be managers of the company. Reform and a shift from state ownership were carried out at a rapid pace. I took part in the meeting with Chubais, the president of the electric power council. In 2000, we announced restructuring. “Who on Earth restructures and implements reforms in a winter period?” said Chubais. “You need to prepare for winter. Let me call A. Akaev.” I replied: “Let me call the president of the World Bank,” and we stopped it. After 3 years, Chubais came again and told me: “Davydov, I told you that we should call and stop everything. How can reforms be carried out when only 40% of the payment for electricity is being collected? You applied a negative upon another negative.” That is, mutual offsets impacted the situation in energy sector.

The second factor is that energy industry issues are tackled in distribution companies by unprofessional, unpatriotic people who lack special knowledge.

The third factor is that when the reforms were being implemented, I used to argue with Mederov [former Minister of Finance], insisting on launching a pilot project first, developing normative acts with the parliament and the agency, and further moving to specific measures, etc. What were the results? Very high losses. In the winter period, we overload the power lines due to objective reasons, but we loose 48%. I also believe that we need to work on loss reduction. It should be done not under the activities plan, but at the level of a political and organization decision. How can the power industry be headless in a country where it is the

basis of the national economy? The Vice-Prime Minister should work on water and power issues with the neighboring countries.

Earlier, we earned 85 million dollars, supplied water, etc, while now we do not earn at all, or only 10-12 million dollars at the best, together with Kazakhstan. Moreover, we are the only country that does not have a national program on its power industry. Sixteen years have passed, and we have not yet agreed upon a plan with the parliament. I understand that this is complicated and hard work, but it has to be done. Furthermore, the development of hydroelectric power stations and the development of network facilities should be fully considered as part of the power complex, in connection with the gas and coal industry, etc. I think that the first task is management. The World Bank has not yet provided us with justifications. Though we paid 300 thousand dollars, we have not yet received the final documents. Therefore, I repeat that our first task is management. The second is restructuring the management of the power industry. Concession is needed. I support privatization, as the collection of payment is at a minimum level. The debt of the national network alone is 2.25 billion soms – how can energy sector manage this?

I prepared our proposals about how to improve the situation both for the presidential administration and the government. Here is what they say about energy sector workers: “They are all thieves. They are all corrupted!” It hurts to hear these words, because there are electricians, mechanics, and repairmen who work day and night on the same cascade in the mountains, 4,000 meters above sea level. Recently, we spent 12 days in Frunzenskiy and Ala-Archa (on Sunday, a program “Energy Express” will be on TV). Ninety-eight persons worked on lines in the mountains; we organized food for them. Kazakhstan put a condition for us to leave parallel works. We told them: “Leave. We have possibilities to work with you only if you do not play for transit.” They raised a question on the transit of their consumption. I believe that hydroelectric stations should be built simultaneously. There is shortage of electricity in the south of Kazakhstan, and the shortage will persist even if a second line is constructed.

In conclusion, I want to speak about the neighboring countries. In Tajikistan, electricity is supplied for only 4-5 hours per day. A large aluminum complex works there; 30% of the Tajik budget is spent on aluminum. Kazakhstan wants to build Mainap Hydroelectric Power Station by 2008. The issue is on the installation of one more line and working with China. Therefore, I believe that a political decision has to be adopted in Kyrgyzstan. If management will be created, I guarantee that losses will be reduced by 10% within a year. This statement is realistic. It is 1.5 billion kilowatt-hours. Out of these savings, it is possible to withhold tariffs, develop the economy, and contribute to the national budget. Kyrgyzstan is the only country where management is not in place. Uzbekistan is a state of joint stock companies, as you know. In all CIS states there are management systems, as management means energy security. If we gave away the National Electricity Network and stations, then there would be no need to drop bombs on Kyrgyzstan: just switching off two knife-switches could leave the country in complete darkness – that would suffice. Therefore, the power industry should belong to the state. In Russia, the situation is as follows: 51% of all hydroelectric stations are state owned. The system operator is state-run; the federal network company is also state-run. Everything of a lower level is given to competition, privatization. I think that this experience should be used. I rely on the wisdom of our president. On the 29th, a meeting will be held in which I hope the most serious decisions in favor of the energy industry and our people will be adopted. Thank you.

Aigul Sultankulova: I will start by saying that when the State Agency for Energy Industry (actually a regulative body, the first regulative body in Central Asia) worked closely with deputies, I speak with no intention to offend the deputies, it took us three years to explain

what a regulator was. For us, that was something unclear, new. It is a normal situation however, as regulative bodies are perceived as something negative in all countries. They are bodies that no one likes. They are meant to ensure a balance between the consumer and the producer.

Secondly, all current problems existed before as well; it will take a long time to resolve them. We lack the most important thing – a strategy for developing the energy industry. What has been done was not a strategy, but a simple development plan. What does a strategy mean? We want to attract investors. What can attract investors? Clear, consistent plan and respect for owners' rights. Investors will come only when they know that the rights of owners are respected in this country, and market and entrepreneurs will gain by this. Currently however, we have a situation in which the top level possesses a political will that everything must be elaborated two steps in advance. There is a layer of working people, and a layer of those who try to "hit the jackpot." The latter attracts people who need to launder money. What strategic plan can we talk of in such a situation? The same type of investors, those who want to launder money, will come so long as we will sit with our interests as we do now.

Paradoxical cases do happen. One company wants to come to the local market and submitted its proposals. This company wants to participate in the bid on the transfer of distribution companies to concession, which is the fourth stage of privatization, at which we have remained for 5-6 years, unable to manage to move further. This company was very heartily welcomed in Tajikistan. The issue is that they want to open a line that will run through Tajikistan to Afghanistan and Pakistan, but also want Kyrgyzstan to be involved.

We want to live on benefits gained from selling electric power. However, it can happen that they will talk with them, accept their proposals, and that is all, because one of the principles that specialists of the AES (international energy company) abide by is not to bribe state officials. Absolute transparency must be in place. One of the conditions runs as follows: if bribery is evident, the management of AES will suffer. This principle is adhered to, as they do not want to lose either their image or their work. Therefore, however we position ourselves, investors with the same approach will come to our country.

Regarding tariff policy.... Deputies always reprimand us for a lack of tariff policy, but the quality and composition of the parliament was observed to have changed significantly. Economists sit there, yes, but their interests have acquired a political tinge. The previous leadership of the country, though also having economic interests, at least pretended that it was trying to reform the energy system. Now, in spite of the fact that educated economists are in the Parliament, there are open conflicts of personal interests taking place. They all have their own businesses, and not a single business can exist without a supply of power. Therefore, many things are blocked at the level of the deputies' personal interests.

We have been accused of raising tariffs for those who consume up to 150 kW, but the presidential decree on protection of pensioners is used simultaneously. When everything was analyzed and estimated, it turned out that over a million consumers (62%) have some benefits on payment. Those who consume much represent 5%, but pay for their consumption; budget employees represent another 5%; but believe me, they do not constitute a great number. The major part – the medium stratum – constitutes 28%, the part of the population which regularly pays for the consumed electricity. So the picture is not that scary. The most important thing that the deputies were accusing us of was when people paid double-rate tariff – 43-80 tiyins. If we look at the reports of energy companies, we see that 70% of the population of Kyrgyzstan consumes less than 150 kW. Average consumption is 110 kW. Not all consumers can use up to 150 kW. Therefore, people did not pay the difference between 43 and 80 tiyins. Today, those people who do not pay for electricity are automatically cut off.

The difference goes somewhere, right? Where? To someone's pocket, but not the national budget. The energy industry, besides influencing life all over the country, also impacts the quality level in the country. Now it is possible to control this factor. I agree that we need to look at internal reserves, but this process is very difficult. We proposed in the past, and propose now to create programs and control the process, to see how it is done. It is very difficult to do so however. Much depends on the fact that we have institutional problems as well. I would be lying if I said that the composition of management cadres have changed qualitatively in comparison to what existed before.

Muratbek Imanaliev: Thank you. Now we address the most critical parameters of what is called energy policy in Kyrgyzstan. It is important to look at the management of cadre policy as a critical policy component, and the financial and investment base. In countries with transforming economies, there is a problem with privatization. It is also part of politics, as it raises many discussions, especially here. The question on whether or not it is necessary to privatize was always the subject of ardent discussion in Kyrgyzstan. I would like to ask the following question: Should the energy system be privatized? If yes – then how? By a shock method, or like it was done in China – slowly gradually, etc?

Abdyrashit Mukanbetov: According to our legislation, all issues on reorganization, restructuring, and privatization should be resolved according to the integral programs approved by Parliament. Such a program was approved with the participation of international experts and world donors from international banks. The program was successfully developed, derived from the experience of other developed countries, but neither the management team nor the staff were prepared for it. Certain problems appeared over the long years of Soviet power, and further within the vertically-integrated unitary systems of “Kyrgyzenergo.” This network was divided practically into seven independent companies. Managers were appointed over the distribution companies, who turned out to be unready for this position, and did not understand how to do accounting, energy balance, etc.

The program on reorganization and privatization of “Kyrgyzenergo” included four stages. Three out them we successfully completed by 2001, when the system was divided into seven companies. At this point, our reforms were delayed. One might say that we entered a mighty river, crossed almost half of it, and then stopped. Excuse me for saying this, but standing there all this time, we froze already. We cannot turn back in any case. Therefore, it is not right to discuss whether change is needed or not. We cannot stop the process: if we try to return to the previous state, it will lead to even worse consequences. When some say that “Kyrgyzenergo” had good indicators earlier, when it functioned as one entity, I do not agree with their opinion, as it is not fully correct. At that time, at the expense of the export of electricity, we had income. Consequently, the supply of fuel to Bishkek housing and fuel system was not that painful. Critical problems of a lack of resources for repair, upgrading the lines and equipment, were resolved by the supply of a sufficient amount of money. When dividing the dividends on the state package of shares in electrical stations, generating companies were divided in certain ratios. Up to now, a 250 million som electrical station cannot pay dividends on its state package of shares, which is in principle ownership by the state. Electrical stations have 125 million soms of debt on their dividends, which is caused by the fact that distribution companies do not pay for their consumed energy on time. On the other hand, the policy pursued by joint stock companies or power generating companies leads to certain reflections: up to the present, we have not been able to ensure transparency in formulating a tariff policy. Though the former president, Akaev, said: “There is a consumer; sell a good and negotiate,” how are the negotiations held? This system still exists.

I would disagree with Ilyas Abdulovich in the opinion that all problems are derived from the lack of a single administration body. In the 2003 session of the Security Council devoted to

this issue, a decision on the creation of a special committee and a special presidential representative on nuclear and electric power security was adopted. In three months, the rights given to this institution started to be taken back. Through three Presidential Decrees, the authority and jurisdiction of this institution were gradually curtailed. Actually, it turned into a statistics center, while in the beginning the secretariat of this representative tried to replace administration cadres. Here, phone calls from all different sides were made: the presidential administration and deputies. That is to say – nothing could be done. It is possible to recreate the state agency on energy and the base of the Ministry of Industry – which is the Ministry of Energy. However, if not provided with rights, it is useless and nothing will come out of it.

Tayirbek Sarpashev: I want to add that this meeting is important, as it is not always possible to gather so many professional specialists together. You talked about special representatives and that the power is gradually taking their authorities. As we have touched the issue of corruption, I want to say that 20 thousand energy workers exist in the country. However, only 2-3 persons who were there under the presidency of Akaev remain there now as well – the same people; they have not even changed their surnames. They left on 24th, but returned the next day. Each time, policies are dictated by these 2-3 persons. They constructed the system in such a way that money flows directly to their hand; they pump money from the energy industry. The political leadership is not willing to conduct reforms. They somehow report to international institutions, but continue to do the same thing as they did before. Until we overcome this obstacle, we will not move further. Deputies can be divided into three groups: The first one includes people who understand the need for reforms, but do not trust the current government or the president. The second are people who know what to do in order to depose the current power; they will work against it, using this problem as an ideological weapon. The third group does not understand anything.

Muratbek Imanaliev: The question here is not that much about the energy industry and energy security. We have a deeper problem. Regardless of the regime, whether it is liberal or not, in our country, unfortunately, such a form of politics has established itself whereby personal interests, personal likes and dislikes, become involved in the framework of state policy. In such a situation, it does not matter what kind of reforms are carried out.

For example, all international institutions insist on extensive privatization, believing that it is the right thing to do. Right in which sense? Right from the point of view of the way in which western countries developed. I can say for sure that in Vietnam there are no privatized electrical stations. The energy system belongs to the state, and private investors do not have any share in it. Nonetheless, such a system works as well. We need to learn from our neighbors like China, Vietnam, and Cambodia. They have a unique system, which cannot be called either communist as the one we had or liberal as in the west. The Chinese gave a name to their system – “socialism with Chinese peculiarities” – avoiding definitions that could prove unstable. It is socialism, but everything else which is unusual they refer to as Chinese peculiarities. Reforms carried out for twenty-five years have shown that economic, legal, state, and sectoral management is rather good, flexible, and allows for the achievement of objectives.

How should the system of management of the energy industry be built in our country so that we will achieve success? With what does it correlate?

Nurdin Abdylidaev: If we glance back and look at who we have in power structures and who closes their eyes on all these problems, then, as a manager, I can say that we will not be able to avoid such a system. We are forced to adapt to it. People, especially welders, and electricians, need work. Above all, we need to advance to a new level of quality in state management and the management that administers us. We live in a society. Therefore, one

needs either to be a revolutionary, or to accept life as it is. While there is dependence on those who head the energy system, until private owners come to our facilities there will be no order. I believe that efficient control over the energy industry will be possible if electrical networks are left under state control, and everything else is sold.

Muratbek Imanaliev: Regarding corruption, it can be used either positively or negatively. For example in Northeast Africa, the interests of elite groups are not corporate, and therefore interests absolutely oppose each other; there are no common national interests. Meanwhile, in states of East Asia, China and South Korea, corruption exists, maybe to a greater extent than in Africa, but interests of the elite group are built upon the national interests, so that corruption actually acts as a driving force of progress. Here, unfortunately, we do not have such elite: business elite tried to rise, but were quickly defeated. Therefore, it is difficult to talk about any elite; but in any case, there are people who are trying to do something. However, the level of corporativity amongst the deputies is hardly reflected: each group promotes its own interests. The same deputies who previously supported reforms are against, them as they have particular interests now. I would like to address a question to our guest – Azamat Temirkulov. We would like to get the opinion of an independent expert: What should Kyrgyzstan do? Many nice words were spoken here, but how can we budge things?

Azamat Temirkulov: Having heard the opinions of the specialist in this field, I have understood that corruption is the main problem. Until this problem is resolved, it will be difficult to move further. I conducted a small study: I had an idea about transferring the energy sector to concession, probably represented by international companies. The first question that arose was whether these companies would work for the interests of Kyrgyzstan, or pursue their own economic objectives. Probably there is an alternative way, and I tried to find it. There is a concept of developing the hydroelectric power industry, which is now being developed by the National Agency for Antimonopoly Policy.

Aigul Sultankulova: Yes, there is such a concept, but it is similar to Kazakh concepts. Therefore, it is not possible to be sure of its success. So you understand, an analysis should be carried out to determine the necessity of it and whether it is applicable to our country.

Muratbek Imanaliev: In general, Kazakh concepts do not always fit for Kyrgyzstan. Regarding investment, the issue is that we have a simplified understanding of investment projects; we always try to politicize them. Let us take for example American investments in China: Americans invest money and create production. They produce certain goods, which are then transferred to the USA. What is the benefit for China? China gets taxes, work places, and some indirect profit, while at the national level China has a commodity circulation of over 700 billion USD. China invests this money into purchases of American state or private securities.

It seems to me that a reform should take place foremost in our thinking – it should be reoriented. A person who invests money is not necessarily one who comes to steal or to appropriate.

Nuridin Abdylidaev: Another moment: German investors work in our country exclusively within the framework of Kyrgyz legislation: they pay taxes, abide to all norms, etc. They get significant profits, and also pay significant amounts in taxes. What is the benefit for Kyrgyzstan? First of all, there are 2000 work places in Tokmok, 125 organizations that cooperate with these enterprises, which in turn imply several hundred work places. The Government did not have money to open and do what was done by the Germans. Protection of our national interests in the classical form should be as follows: before signing any agreements with an investor, it is necessary to discuss and reach agreement on everything:

terms, conditions, responsibilities, rights, etc. If the investor does not comply with that plan, then the contract with him should be annulled immediately. The country would have leverage to regulate, represent, and protect national interests at the same time. Today, we have many examples of the investment of state resources in absolutely unproductive enterprises, for which the state is responsible.

Muratbek Imanaliev: What are the national interests in the energy sector? I think that Kyrgyzstan is one of the rare countries with no set of national interests per se. There is nothing to position, neither inside nor outside. This is the reason why we have failing foreign policy. It is not clear what we want. Talking in economic terms, national interests are a certain commodity, which should be packaged somehow: in some kind of force, either military, economic, or financial. What are our national interests?

Abdyrashit Mukanbetov: National interest is a requirement to ensure the reliability and corresponding quality of our energy supply. The objective is to gain a profit, and therefore there is a need to combine interests within the constitutional contract, which will be reviewed by the Parliament and which can be canceled if needed. The only concern is that concession within the framework of the political contract is actually a long-term lease of assets. If we transfer the energy system to companies, how will they leave us with them in 10-20 years? However, the concession is good, in the sense that the property remains in the ownership of the state or of a Joint Stock Company.

Ilyas Davydov: Much depends on the professional qualities of cadres: if cadres are well distributed, then there will be reliability. We need to learn, to gain experience from other countries like Kazakhstan and Moldova. The level of reliability, the level of operation and maintenance, is different to maintain everywhere. This is the first reason. Second is that in Almaty, the energy sector was sold for 5 years and tariffs were raised by 5 cents. The former mayor of Almaty said: "I would better shoot myself." They redeemed everything for 100 million USD. Therefore, when considering concession, it is obligatory to agree upon reliability, quality, returns, attraction of investments, and training of personnel. Investors also come for profit, if it is in their interest.

Muratbek Imanaliev: This is a problem of semi-literacy. All our problems arise from the fact that we first sign, and then start studying the conditions.

Nadejda Davletalieva: I was most surprised by the company "Alyans." We have had the possibility to directly communicate with their personnel. Everyone had the opportunity to ask questions, clarify unclear details, and get consultations. There was no comprehensive reduction in staff, as is often done in other companies. A special department of management worked, and everyone was engaged in management, even elderly specialists over sixty years of age. The head of the workshop said that he did not know what the management was per se, he was not interested in planning how it would be, as a department in charge of planning worked, and the specialist did not know where the money came from or who financed the production. Now the management starts from the employees. They assess the state of equipment, what should be done, develop a business plan and decide what to buy and what to produce. All decide together what to invest money in and discuss questions of security.

Aigul Sultankulov: All these problems would be resolved gradually, if energy security, our national interest, was a priority. I will mention the example of Armenia: they faced a similar situation: high corruption and poor energy supply. What did they do? The President of the country, Prime Minister, and Minister of Defense hired a manager, a citizen of Russia with rich experience, who proved his competence. His salary was 5 thousand dollars. However, when a person earns money legally and also enjoys the support of the top leadership of the

country, it is ok. When someone tried to pressure or give instruction on what to do, he would make one or two telephone calls, and that was it. This scheme started working slowly: He could turn off one mechanism and turn on another one.

Nurdin Abdylidaev: It is natural that we cannot demand much from a person until we provide him with decent salary.

Azamat Temirkulov: I agree with the idea that however we position ourselves determines what kind of investors will come to our country.

Shairbek Juraev: For an average citizen, the issue of national interests is related to the fact that Kazakhstan and Uzbekistan are very much in need of our water, which we waste as we want. If this process would be controlled by private individuals, then the government would lose water as a leverage point. Does this problem exist?

Nadejda Davletalieva: The thing is that it was stated from the beginning that for the time being, the national production networks of Kyrgyzstan would belong to the state; that is, they would not be transferred to concession or sold. Therefore, the issue of regulating water and energy resources is under the jurisdiction of the government, which is not disputed yet. Today, the question is only about the transfer of power distribution companies and the Bishkek city heating network. Even basic principles of regulating the water and energy process, developed by the Government, stipulate that investors can participate only in construction of new objects.

Abdyrashit Mukanbetov: Regardless of the fact that the control package belongs to the government, there are deficiencies. We have not signed a contract on regulating the water and energy balance of Baryn-Syrdarya basin with Uzbekistan yet. Today, unfortunately, we started letting water pass in order to export electric power to Kazakhstan and Russia. That is exactly what Uzbekistan needs: water is flowing in, and they are under no pressure to sign a contract to supply us with the gas that we need.

Muratbek Imanaliev: In conclusion I want to say that our country (at least in this region) is the only country where a national development concept is lacking. The word “concept” implies a certain strategy on the basis of national interests. Our neighbors – Kazakhstan, Uzbekistan, Tajikistan and others – have already elaborated a certain strategy for their national development, and we have nothing with which to oppose them. If we have nothing to oppose with, then it is difficult to be competitive in such a tough environment. Methods of force in the struggle for prosperity and a place under the sun cannot be abolished by anyone, no matter what we say as we witness it.

At this roundtable, we have once again become convinced about the necessity for a strategy for developing the energy system, at the base of which the problems of energy security would lie. As derivatives from this thesis – both cadre changes and financial and material bases will be resolved, provided that we put the whole system in order. Thank you all for your interesting statements.