

Tulips from Kyrgyzstan

Revolutions and radical shake-ups in its gaming legislation make the Kyrgyzstan market a risky investment proposition

By the standards of most revolutions, Kyrgyzstan's 2005 Tulip revolution was relatively bloodless and – despite several nights of looting in the capital – relatively non-violent. However, where Georgia's Rose Revolution produced a new Parliament, swiftly followed by a new President; Ukraine's Orange Revolution created a President and, though the old Parliament remained in place for a while, produced a sizable change in the balance of power within Parliament – the toppling of Askar Akaev did not produce a new Kyrgyz President swiftly and it kept in place the parliament 'chosen' in the fraudulent elections that triggered the revolution. What the character and balance of power is in that parliament – and whether it will continue Kyrgyzstan's revolution – is hard to tell. What Kyrgyzstan needs is a transformation of the political system. In Ukraine, the revolution brought with it the promise of an eventual change in the political system, a move from a presidential to a parliamentary system (though it remains a promise yet to be kept in full). Kyrgyzstan, too, needs sweeping change. It would be folly for Kyrgyzstan to keep a very fragmented system in which scores of powerful local figures can bargain with the Government. If the new President wishes to reduce corruption, if he wants a more manageable political system and to reduce regional tensions, he needs to champion a new system that consolidates power. However, the possibility of holding a re-run of the elections has now all but disappeared. Instead, it seems almost certain the next parliamentary elections will be held in 2008. The immediate challenge for the President is how to deal with the problems of Akaev's system while operating within it. Reform might arrest an erosion in confidence about Kyrgyzstan's change. Confidence could be shored up by ensuring media freedoms and by transforming state media into public-service media. The next President's chief task is to make Kyrgyzstan's democracy function better, and to ensure Kyrgyzstan wins back the moniker it lost in the mid-1990s: 'island of democracy.' It's certainly been an island within Central Asia that has attracted gaming operators, though many have experienced difficult with the natives. Under the newly liberal laws, casinos started working legally in Kyrgyzstan in 1992. However, on January 8, 1999 they were closed (excluding those established by foreign investors, which at the time was a single location) by the order of the Kyrgyz Parliament. Back then, their activity was regulated by the Ministry of Internal Affairs. In 2001, casinos became legal again under the Regulations of the Jogorku Kenesh (Kyrgyz Parliament) and the casino licensing law dated June 29, 2001. Under this new law, casinos were issued a licence by the Ministry of Finance and Bishkek, the capital, fell under the gaze of external operators in 2002. Xanadu, a relative newcomer in the casino operating business, set-up Casino Bishkek, located in the Hyatt Hotel in the Kyrgyzstan capital. It was a brand new casino in a country in which Xanadu had not operated before. Nearly all the staff were trained from scratch and the company was justifiably proud of the result, earning back its investment within 12 months. At that time there were already six casinos in the city, though overnight the new casino became not only the most prestigious gaming



venue, but also the best night spot for entertainment, with nightly singers, dancers and live music. By the winter of 2003 the number of casinos in the capital had increased to 27, but it was at this time a number of local politicians proposed changes to the law, which effectively made it impossible for the majority of casinos to comply. Xanadu was not one of the eight to stay open and was closed on March 3, 2004 due to the suspension of its gaming licence. Xanadu, being situated in the Hyatt Hotel, was unable to comply with the law stating that no forms of gaming may take place within a property that is part owned by the State. Bishkek, being ex-CIS and in Central Asia, is not the easiest place to do business due to the legislation that's still regarded as being in its infancy. At the beginning of 2005 there were eight casinos in Bishkek, 25 arcades and a bingo hall, two bowling

centres and in the city of Osh, a further three casinos. Currently, the types of location allowed within the country include: casinos, slot machine parlours, totalizator and sports betting. In accordance with the Gaming Law of the Kyrgyz Republic a casino may not be established within the same grounds as kindergartens, schools, higher education institutions, and other community establishments, as well as in the premises of medical, religious, cultural, postal and banking institutions. The rules mirror in many respects those being discussed within the Russian Duma for its first Gaming Act, though where it differs is that a casino in Kyrgyzstan must be established in a private restaurant and/or private hotel. The restaurant must have not less than 100 seats, and the hotel must have not less than 20 properly equipped rooms. A casino may not be





A couple of centuries ago, Central Asia became the unwilling centre of the 'great game' fought between Russia and Britain. They both tried to establish their supremacy over the mostly tribal and Islamic peoples of The Steppes. Eventually, the Soviet Union annexed most of the area and Britain was left with control, though short-lived, over Afghanistan. More than a century earlier, China had already taken Turkestan, which is now called Xinjiang. By the end of the Russian civil war (1920), the West had largely lost control of this area. This situation remained more or less stable until the collapse of the Soviet Union, when all the republics of Central Asia (Turkmenistan, Uzbekistan, Tajikistan, Kyrgyzstan and Kazakhstan) declared independence. Forgotten for a century within the Russian empire, these countries are now again important entities. They happen to be at the intersection where Islam, Russia and China meet. Add the global reach of the West, which is now represented by the US instead of Britain (the US maintains a military base in Kyrgyzstan) and the new game among the powers is for control of Central Asian republics. The US is torn between its commitment to spreading democracy (only Kyrgyzstan and Mongolia are truly democratic) and its strategic interest in supporting regimes that distance themselves from Russia (all of them, although to varying degrees). The Central Asian republics expect Russia to try to return some day, and are also afraid of the booming Chinese empire. Thus their alliance with the US. Mongolia and Kyrgyzstan are strong supporters of the US. Others simply like to have the US in the neighbourhood.

established within any building fully or partially owned by the State and/or municipal bodies, or in the ownership of public associations and trade union organisations, nor may the casino be established in the real estate objects of enterprises, institutions, and organisations, which in one or another form, are partially owned by the State, local self-government bodies, or public associations and trade union organisations. In accordance to the state standard general requirements casinos should be mainly situated in non-residential detached premises in the centre of the city, and should have a proper and secure parking lot for the customers and casino personnel. To gain a gaming licence an individual or legal entity must submit the following documents to be licensed for slot machines parlours, slot machines locations, totalizators, and bookmakers:

- A copy of a document showing proof of state registration of a person as an individual entrepreneur
- A copy of a registration certificate of legal entity
- The notarised copies of the foundation documents of a legal entity
- The copies of the documents showing proof of the right for possession or usage of the premises, which are intended for the gambling activity
- A certificate of State Standards proving that the premises meet the fire safety requirements, sanitary norms, and are equipped with an intruder alarm
- The game rules and the operation rules for approval by the state body
- An agreement of security services to the gambling house
- A copy of a license fee payment receipt or payment order
- Filled application form
- The copies of the documents

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evidencing the ownership right as to the real estate object designated for the gambling activity

For casinos all of the above is applicable in addition to:

- copies of casino staff certificates of training
- document showing proof of the formation of a minimal mandatory reserve fund.

Having completed all these requirements, operators can choose from a list of games allowed within casinos in Kyrgyzstan, including: roulette, blackjack, poker, and punto banco, which are currently the games of choice. Management may introduce other games at its discretion as long as each game has a set of rules on display to the public. The government has also imposed minimum game restrictions on locations, whereby there must be not less than 15 slot machines per slot hall. Each seat on >>



>> electronic roulette is also considered as one slot machine and there must not be less than 10 gaming tables and 10 machines in a casino in Bishkek and not less than six tables in other regions of Kyrgyzstan. According to the Gaming Law, a slot machine's premises or part of the premises is a site where at least five slot machines must be installed. In describing the companies involved in gaming in Kyrgyzstan, there appears to be many individual operators and not one particularly large owner. Most establishments have many partners. The Gaming Law says that the gaming activity is regulated by an authorised state body, which at the moment is the Ministry of Finance. According to the latest law, State officials are entitled to spot check any part of the casino premises, it is presumed that any non-compliance with the law would result in a suspension of licence until the problem was rectified. This law was only put into force in 2004, so only time will tell. Most operators believe that the gaming laws are quite appropriate for the local industry, but it is difficult to understand why casinos should not be situated in hotels where the government has a share, if not to keep foreign investors out of the market. The only other aspect that operators would like to see improved is the stability of the country's legislation. Three major changes in the laws in the last 12 years does not give owners and operators much confidence in making investments in Kyrgyzstan. Operators must pay fees for gaming tables, slot machines, and an exchange office every month. The fee for each table is US\$1,220, \$61 for each slot machine and \$200 for an exchange office. Employees

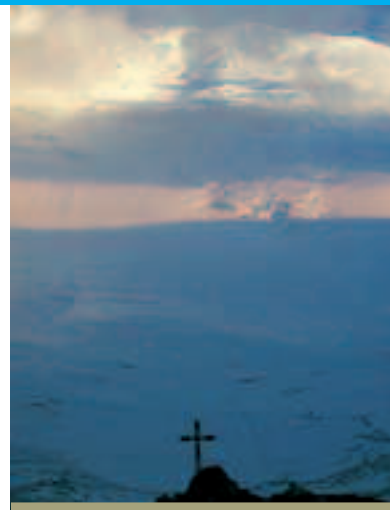
pay an income tax of between 10-20 per cent and a social contribution of eight per cent. The employer pays 31 per cent of each local salary for social fund contributions.

In addition, taxes for overseas entities:

- dividends paid overseas 10 per cent
- credit repayable overseas 10 per cent
- Management fee 30 per cent

From the player's perspective, automated roulette and reel poker are without question the most popular games. PC games are however becoming more popular due to their ability to emulate live table games. As of 2004 there were approximately 116 slot machines within the country's casinos and approximately 300 in its arcades. The gaming show in Almaty (Kazakhstan), as with most exhibitions, is becoming more and more popular and being only a three hour drive from Bishkek, most local operators attend. Successful slot manufacturers in Kyrgyzstan include Aristocrat and IGT, which have been very popular for quite some time, but due to the expansion of the Kazak market in recent years more and more manufacturers are breaking into Central Asia including those from Russia and China. Kyrgyzstan is also making great strides to develop its tourist industry as it has a lot to offer in terms of sports, such as skiing, rafting, hunting etc. alongside spectacular scenery. Unfortunately, the infrastructure is not quite there yet although there is constant building of hotels and resorts. The majority of foreign clients that visit casinos in Bishkek are the business travellers, who just happen to stay in the Hyatt as it is the only five star hotel in town. Visitors sample the local cuisine, hospitality and, of course, the gaming.

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Location: Central Asia
Area: total: 198,500sq.km.
Border countries: China 858 km, Kazakhstan 1,051 km, Tajikistan 870 km, Uzbekistan 1,099 km

Natural resources: abundant hydropower; significant deposits of gold and rare earth metals; locally exploitable coal, oil, and natural gas; other deposits of nepheline, mercury, bismuth, lead, and zinc

Land use: Kyrgyzstan has the world's largest natural growth walnut forest
Population: 5,146,281

Age structure: 0-14 years: 31.6% (male 827,751/ female 796,029)

15-64 years: 62.3% (male 1,571,476/ female 1,632,506)

65 years and over: 6.2% (male 123,992/ female 194,527) (2005 est.)

Religions: Muslim 75%, Russian Orthodox 20%, other 5%

Languages: Kyrgyz (official), Russian (official)

Country name: Kyrgyz Republic

Capital: Bishkek
chief of state: President Kurmanbek Bakiyev (since 14 August 2005);

Economy: Kyrgyzstan is a poor,

mountainous country with a predominantly agricultural economy.

GDP \$8.495 billion (2004 est.)

GDP - real growth rate: 6% (2004 est.)

GDP - per capita: \$1,700 (2004 est.)

Labour force: 2.7 million (2000)

Unemployment rate: 18% (2004 est.)

Household income or consumption by percentage share: lowest 10%: 3.9%
highest 10%: 23.3% (2001)

The Kyrgyz people themselves are extremely hospitable, and the staff in casinos reflect this friendly attitude toward foreigners and local customers alike. And despite the set-backs of revolutions and erratic gaming laws, there remain opportunities both in Bishkek and in Osh, a city in the South West of Kyrgyzstan, 20 minutes drive from Uzbekistan. But for foreign investment it will take a further legislation shift to enable operators to truly capitalise on this market.