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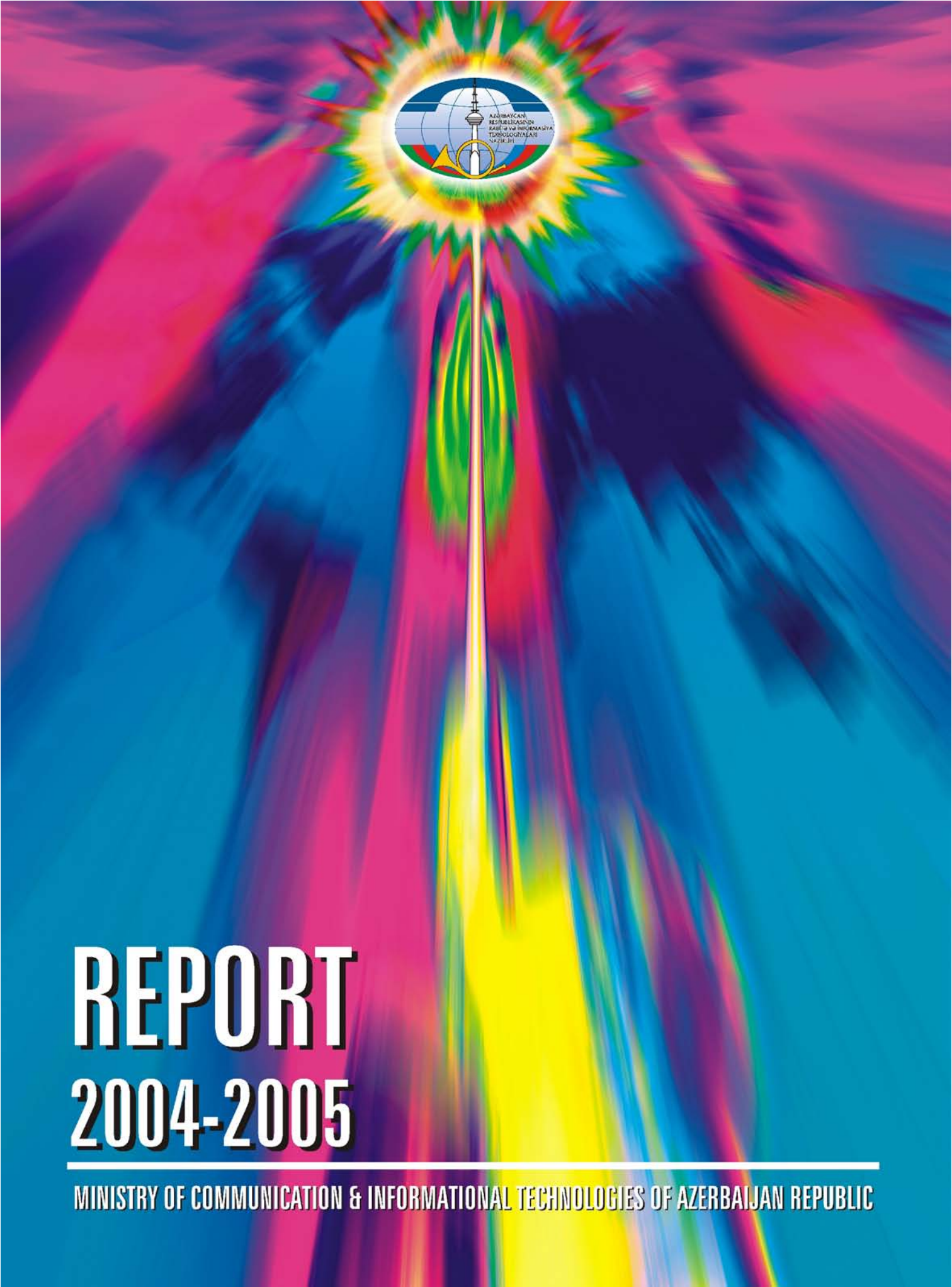


REPORT
2004-2005

MINISTRY OF COMMUNICATION & INFORMATIONAL TECHNOLOGIES OF AZERBAIJAN REPUBLIC

“Let’s convert black gold into human gold”.

PREZİDENT OF AZERBAIJAN REPUBLİC
İLHAM ƏLİYEV

Dear reader,

The years 2004 and 2005 were successful and productive years for the Ministry of Communications and Information Technologies of the Azerbaijan Republic. Thus, the goals and objectives set before the Ministry created in accordance with a decree of the President, Ilham Aliyev, on 20 February 2004 were duly carried out and we achieved the results higher than we had planned in terms of many indicators within these two years. These years remained in our memory thanks to a number of remarkable events which should be considered to be positive steps towards our overall development.

The "National Information and Communication Technologies Strategy (2003-2012) for the development of the Azerbaijan Republic" that was adopted in 2003 set forth a general direction for the Azerbaijan Republic in respect of the work to be carried out in the nearest 10 years on this direction.

Further to this policy, the preparation of the state program in the field of ICT (Information and Communication Technologies) was put forward as an important matter and the State Program for the development of communication and information technologies in the Azerbaijan Republic in 2005 2008 (the Electronic Azerbaijan) was approved. The achievements of E-Government made as a result of implementation of the State Program will create significant conditions for state structures, business circles and a civil society.

The organization of AzDATACOM network in connection with the State Program covering all regions of the Republic was commenced jointly with the UN IP within the framework of the E-Government project. The work in the field of "distance learning" is underway as well. In fact, Azerbaijan is ahead of other countries of the region in this respect. Azerbaijan expressed its attitude to human resource development in the field of ICT by a thesis entitled "Let's turn the black gold into human gold" pronounced at the Geneva Summit. The Virtual Silk Way project of the Science Program of NATO implemented in the country created conditions for higher educational institutions and the joint AzNet project of UN IP, AzRENA and RtTN enabled secondary schools to access the Internet.

The establishment of the legislative base was hastened in the past years and new Laws of the Azerbaijan Republic "On electronic signature and electronic document", "On mail", "On legal protection of information collections", "On telecommunications", "On electronic commerce" and "On freedom of information" were adopted.

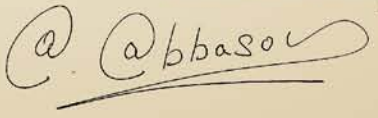
It can now be stated with confidence that all conditions are in place and the directions are known for the integrated development of ICT in Azerbaijan. In the past years the scope of international ICT events held in Azerbaijan, such as the "BakuTel" International Telecommunications and Computer Technology Exhibitions, the Global Information Communication Technology Conference entitled "The digital abyss and knowledge economics: Problems and solutions", the IVth Information Science Forum of Turkic countries, and UNESCO's international forum entitled "Distance learning" corroborate the above statements.

Currently the preparatory works are underway in the field of creating communications and information technology, and electronic production and software market in Azerbaijan, i.e. creation of the specialized free economic zone scientific and technical parks. The creation of TT Technical Park will contribute to attraction of foreign and local companies, as well as potential investors, to the country's ICT market and opening of new jobs in the Republic on production and export of electronic equipment. It will also ensure that our Republic, having an advantageous geographical location, existing technical infrastructure and, most importantly, possessing human resources maturing up in the past years, will turn into a leading ICT center and exporter of ICT products in the region.

All of the above mentioned is the evidence that Mr. President Ilham Aliyev's words pronounced during his speech at the World Summit on Information Society held in 2003 have shortly become a reality: "A great significant is attached in Azerbaijan to creation of information technologies and, at the same time, to building of information technology infrastructure. Our country has both the scientific potential and technological achievements, what allows Azerbaijan to be a leading country of the region in this field". This means that the "Electronic Azerbaijan" will be the next stage of overall rapid development observed in Azerbaijan. In this way an important step will be taken for realization of an economic thesis saying that the successful oil strategy will pass on the baton to high technologies.

In the end, I would like to extend my appreciation to all our partners for efficient cooperation. I hope that 2006 will be as rewarding and full of success as last years.

Minister of Communication & Informational Technologies of Azerbaijan Republic
Ali Abbasov



REPORT 2004-2005

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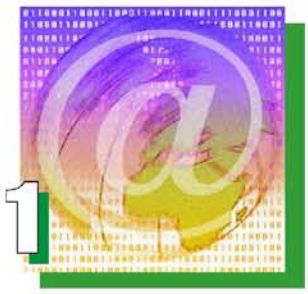


CONTENTS

1

THE ESTABLISHMENT OF THE MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGIES

Comprehensive work is being carried out in the Azerbaijan Republic to establish statehood, create a strong economy, democratize society, increase the welfare of the population and ensure human development. The work that is being carried out also serves to expand Azerbaijan's international relations in the political, legal, economic, social and other spheres, to strengthen its position in the globalizing world as a reliable partner and is directed at increasing the country's defensive capability, restoring and preserving its territorial integrity and ensuring sustainable development. Telecommunications and information technologies play a special role in solving the aforesaid issues and are one of the factors that affect the goals to speed up the development of the sphere.

The use of telecommunications and information technologies in all spheres in the globalizing world is one of the most important and topical tasks facing mankind. The rapid development of modern information technology based on the latest achievements of scientific-technical progress has become one of the priority issues facing the Azerbaijani government in the last 10 years. To this end, various states, especially developed states, are making efforts to form an information society and an economy based on knowledge and this work is completely relevant to the development goals defined at the

UN Millennium Summit. The special importance of information technology in the development and modernization of the country's economy has been repeatedly discussed by the government in the last few years. The state policy pursued in Azerbaijan creates favorable conditions for the development of communications and information technology as a new priority sphere. Thus, being the most important infrastructure of the modern society, a sector of the economy, a factor that increases labor productivity and a catalyst of modern humanitarian development, communications and information technologies are the second most dynamically developing sphere after the energy sector in Azerbaijan.

With the return of our national leader Heydar Aliyev to power at the insistance and demand of the people in June 1993, Azerbaijan's communications systems, postal services and the sphere of TV and radio broadcasting entered a stage of modern development, and the important directions of state policy in this sphere were determined. As a result of complex reforms carried out in the recent period, mobile telephone communications and the Internet started developing rapidly in Azerbaijan, the application of digital systems took on a large scale, a great amount of investments were brought in to develop new technologies, electronic automatic telephone stations were launched and other important work was carried out. These years can also be regarded as a serious and important milestone in the rapid development of all types of communications. With the aim of preserving and developing even further the achievements that were made, our national leader Heydar Aliyev signed "The national strategy on the Communications and Information Technologies in the behalf of the development of the Republic of Azerbaijan (2003-2012)" on 17 February 2003 and determined priority tasks in the application of modern information technology in Azerbaijan for 10 years.

After the worthy follower of Heydar Aliyev's political line, Mr. Ilham Aliyev, was elected president by winning a vote of confidence from the people in October 2003, one of the issues that he paid special attention to was to ensure the rapid development of telecommunications and information technologies in Azerbaijan and to turn our republic into a favorable transit country and regional center in this sphere. This is how the country's president assessed the importance of information technologies: "It is impossible to be successful in the modern world without knowledge and new technologies. This is very difficult both for people and the country. If we take a look at developed countries, we will see that their progress and at the same time, the increase in their gross domestic product are mainly determined by technologies, new methods and scientific achievements. It is not by chance that we are paying great attention to the development of communications and information technologies in Azerbaijan." The fact that after being elected president, Mr. Ilham Aliyev paid his first foreign visit to the World Summit on the Information Society held in Geneva under the aegis of the UN proves this once again.

During the aforesaid summit, the President of the Republic of Azerbaijan

declared the development of communications and information technology in the 21st century as a priority of Azerbaijan's socioeconomic development. He thought it is very important to channel Azerbaijan's profits from oil into the non-oil sector and into applying high technologies, including communications and information technologies, and stressed that "it is necessary to turn the black gold of our country into human gold".

The first structural change made by the head of state was related to the sphere of communications and information technologies. On 20 February 2004, the President of the Republic of Azerbaijan issued Decree No 94 and set up the Ministry of Communications and Information Technologies (MCIT) on the basis of the former Ministry of Communications.

At the same time, under Decree No 96 of the President of the Republic of Azerbaijan dated 20 February 2004, Mr. Ali Mammad oglu Abbasov was appointed minister of Communications and Information Technologies.

The regulation of the MCIT was approved by Decree No 111 of the President of the Republic of Azerbaijan on 10 August 2004. If the functions of the former Ministry of Communications were restricted to the management of state-owned communications enterprises, according to the new regulation, along with its old functions, the MCIT is also a central executive body that forms, regulates and develops state policy in the sphere of communications and information technologies in our country and coordinates the activities of other government agencies in this sphere.

The MCIT is in charge of the management of 11 government agencies operating in the sphere of telecommunications. These are the Aztelecom Production Union, the Azerpost State Enterprise, the Baku Telephone Communications Production Union, the Teleradio Production Union, the Center for International Relations and Calculations, the State Department of Radio Frequencies, the Information-Calculation Center, the Azermarka Company, the Militarized Security Department and the Azermatbuatyayim production association. At the end of 2005, 14,825 people were working at the MCIT and organizations under its jurisdiction.

Along with that, joint ventures have been founded by the MCIT at various times and are still operating. These are the joint ventures Azercell Telecom MMM, AzEuroTel, KATEL, the limited liability companies ULTEL, Azerfon, Azerin, the closed-type joint-stock company ADANET, the joint ventures Aztel, Baku and Boston TV, Kodincom, the limited liability company Azersat, the closed-type joint-stock company New Communication Technologies, the limited liability company Azintel, the joint venture Telecommunication Trade and Supplies and the the limited liability company Kur producing electronic equipment.

The main task facing the ministry is to create a modern information infrastructure that will be able to meet the requirements of the 21st century in Azerbaijan and a sector of information and communications products that will play the main and priority role in our

economy. The main means for implementing this goal is to form a fair competitive environment that will meet the requirements of the market economy, to develop the private sector, to create reliable investment conditions, to ensure regulatory functions that will be able to protect the rights of manufacturers and consumers and to create an intellectual potential that will serve to develop this sphere in the country.

One of the factors that characterize the activities of the MCIT in the last two years is its global approach to the problems of the sector. The bottom line of this approach is to ensure the development of private businesses in this sector and to make effective use of their labor resources and economic potential. The ministry has already taken a number of steps in this direction and is continuing its activities in order to implement the aforesaid tasks. A plan of telecommunications policy, a relevant state program to develop communications and information technologies, a new licensing system and other legal documents have been drawn up.

INDICATORS OF THE COUNTRY'S MACROECONOMIC DEVELOPMENT

The dynamic development of the country's economy, which started 10 years ago, reached its apogee in 2004-05 and a significant increase was observed in macroeconomic indicators that graphically show new achievements in the economic and social spheres in comparison with previous years.

As can be seen, as a result of the consistent and deliberate policy which is still continuing in the country, GDP increased even more in 2005 and totaled 11.876 bn manats, considerably increased in comparison with 2004 and accounted for 26.4 per cent. (Table 1)

Per capital GDP increased by 25.1 per cent in 2005 and totaled 1,435.1 manats.

Table 1. Azerbaijan's main macroeconomic indicators (in millions of manats)

Indices	2004	2005	2005 in comparison with 2004 in percentage	2004 in comparison with 2003 in percentage
Internal business-to-business sales	9395	11876	126.4	110.2
Volume of industrial products	6634.4	8857	133,5	105,7
Volume of postal and telecommunications services	321	437	136,0	135,8
Investment in fixed assets	4842	5424	112,7	136,1
Agricultural products	1610.2	1731	107,5	104,6
Retail turnover	4083	4622	113,2	113
Paid services	762	961	126,1	116,4
Income from budget	1511	2055	136,1	123,0
Budget expenditure	1509.9	2141	142,5	121,6
Foreign trade turnover (million USD), including:	7134.4	8547.1	119,8	136,7
Import million USD	3514.8	4200.3	119,5	133,8
Export, million USD	3616.4	4346.9	120,2	139,5

Sources: State Statistics Committee

3

THE RESULTS ACHIEVED IN THE SPHERE OF COMMUNICATIONS AND INFORMATION TECHNOLOGIES IN 2004-2005

2004-2005 saw a rapid increase in the telecommunications sector, which plays an important role in the country's socioeconomic life and is one of the leading spheres.

Although according to the increase observed in 2004, the telecommunications sphere was the second after the construction sphere in the non-oil sector, in 2005 it left other spheres of the economy well behind by its pace of development.

In 2004, communications enterprises operating in our country provided enterprises, organizations and the population with services worth of 323.7 mln manats or 35.8 per cent higher than in the previous year. In 2005, enterprises operating in the sphere of communications provided consumers with communications services worth 437.2 mln manats, which is 36 per cent higher than in the previous year. (Figure 1) 24.2 per cent of all services were provided by state enterprises and 75.8 per cent by private communications enterprises and their volume increased by 16.6 and 43.6 per cent respectively.

The increase in revenues in the sphere of communications and information technology in the country is linked to

Figure 1. The main indicators of the telecommunications sector

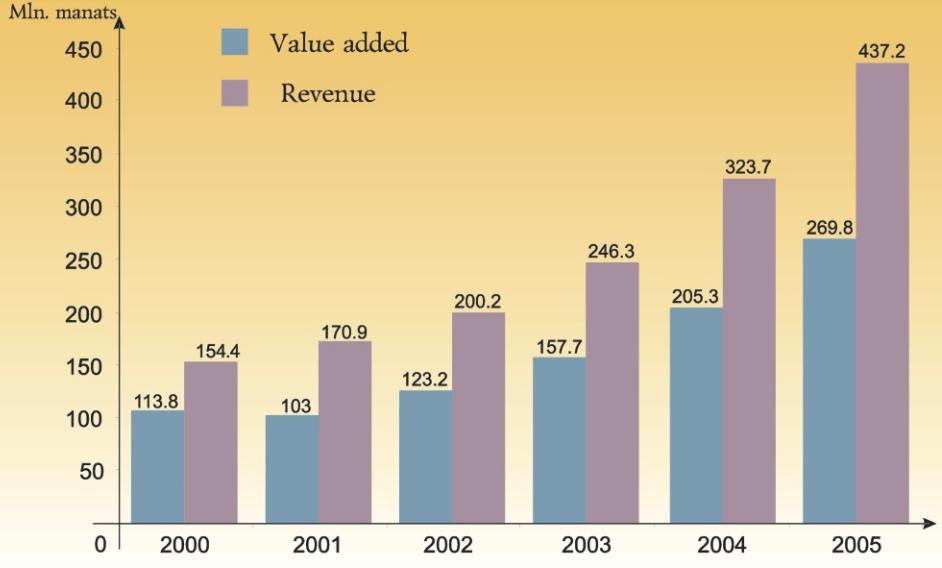
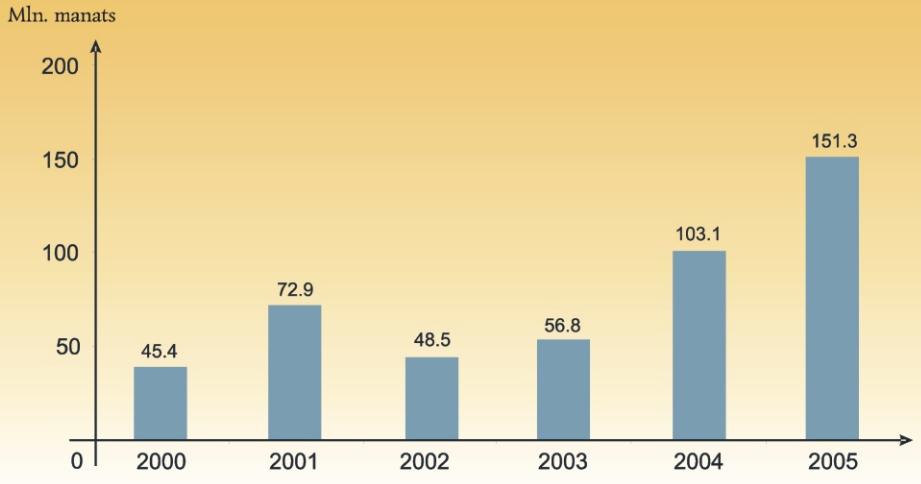


Figure 2. The dynamics of investments made in the communications sphere

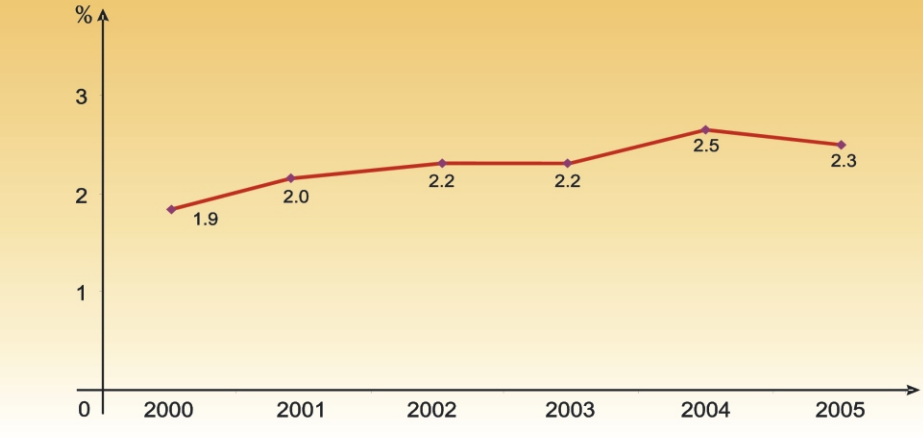


local and foreign investment in this sphere. If in 2004, the volume of investment in the sphere of communications and information technology in Azerbaijan totaled 90.1 mln manats, in 2005 this figure totaled 151.3 mln manats, of which 16.94 mln manats fall to the share of foreign investment (Figure 2).

Such stable development has led to an increase in the share of communications and information technology in GDP over the last six years. If in 2000 the share of the sphere in GDP accounted only for 1.9 per cent, in 2004 this indicator increased to 2.5 per cent and accounted for 2.3 per cent in 2005. (Figure 3) The main reason for the slight fall in the share of the communications sphere in GDP is related to the sharp increase in oil revenues.

The share of the private sector in the revenues has been increasing year by

Figure 3. The share of communications in GDP



year and accounted for 71.4 per cent in 2004 and 75.8 per cent in 2005, which is a profit of 331.4 mln manats. The volume of telecommunications services provided to the population has rapidly increased over the last six years, especially in 2004-05. The revenue from the telecommunications services provided to the population totaled 236.9 mln manats in 2004 and increased by 45 per cent in 2005, totaling 343.6 mln manats.

Table 2. The volume of communications services provided to the population (in actual prices, millions of manats)

	2000	2001	2002	2003	2004	2005
Total	154.0	170.9	200.2	246.3	323.7	437.2
Including:						
Postal	5.0	4.4	5.7	7.0	8.3	9.7
Telegraph	0.7	0.6	0.4	0.3	0.2	0.2
International phone	48.9	49.1	51.1	58.8	67.3	76.4
Phone communications city-village	16.7	16.2	17.4	20.1	23.4	22.5
Mobile telephone communications	70.9	86.7	106.7	141.1	208.3	304.2
Hard-ware transmission of voice	0.1	0.1	0.1	0.1	0.1	0.1
communication by courier and special communications	0.3	0.2	0.2	0.2	0.2	0.2
radio communications, TV and radio broadcasting	5.5	4.8	4.8	5.6	5.8	6.2
control on radio frequencies	0.8	1.1	1.5	1.5	1.4	1.6
Internet	1.6	1.7	2.5	3.1	3.7	6.5
Other communications	3.5	6.0	8.3	8.6	4.9	9.6

3.1. The results achieved in the country's telecommunications sphere

The sphere of telecommunications in our country consists of the mutual infrastructure of local and mobile operators. This infrastructure includes the Aztelecom and Baku Telephone Communications production associations, the AzEuroTel, Ultel and Katel joint ventures and the Aztrank limited liability company of the Ministry of Communications and Information Technology and unites local communications networks and at the same time, the Azercell, Bakcell and Azerfon GSM mobile communications networks.

In 2005, after about 10 years, new operators - Azerfon in GSM standards and KATEL in CDMA standards - entered Azerbaijan's market of mobile communications. Aztrank entered the Radiotrank wireless telephone market while Delta Telecom LTD entered the general communications market (except for the cellular one).

The increase in the telecommunications market is accompanied by the development and modernization of the infrastructure. If we analyze it in terms of quality, it turns out that although the increase in the number of telephones totaled 72,500 in 2004 as a result of the work that was carried out, in 2005 the number of telephones increased by 81,100 and new automatic telephone stations with a capacity of 164,185 numbers were put into operation. (Figure 4)

Mobile communications is most dynamically developing sphere in the telecommunications sector. In 2005, the number of mobile telephone users was twice as many as the number of lPSTN users. In 2004, the capacity of stations in the local network reached 1,098,300 numbers, the number of PSTN users 1,025,100 and the number of mobile network customers - 1,456,500. In 2005, the number of PSTN lines increased to 1,106,600 and

Figure 4. PSTN growth dynamics

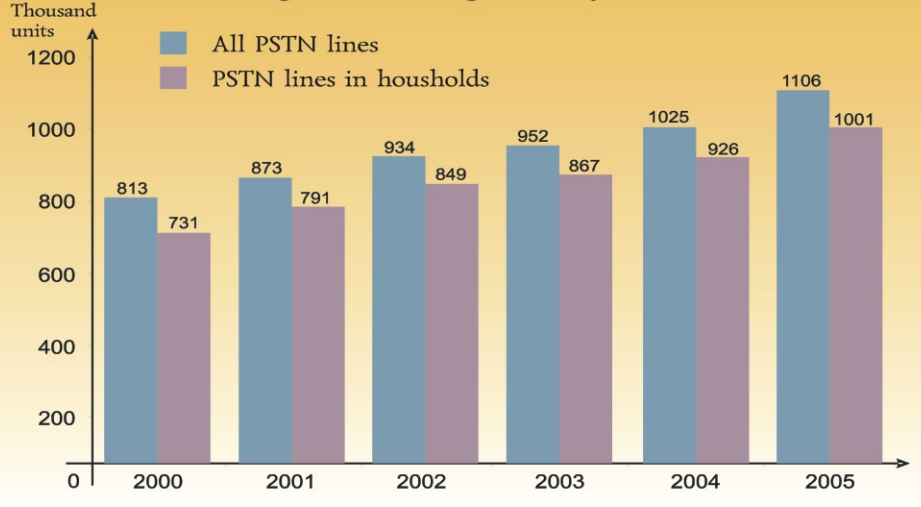


Figure 5. Mobile and PSTN growth dynamics

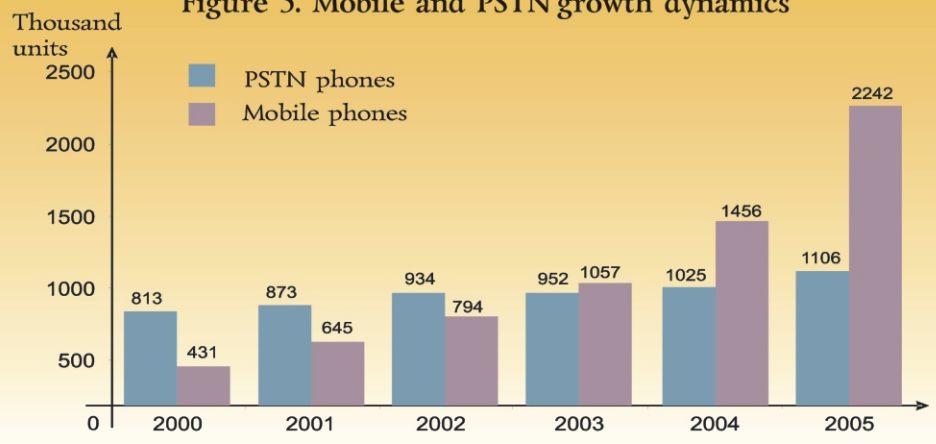


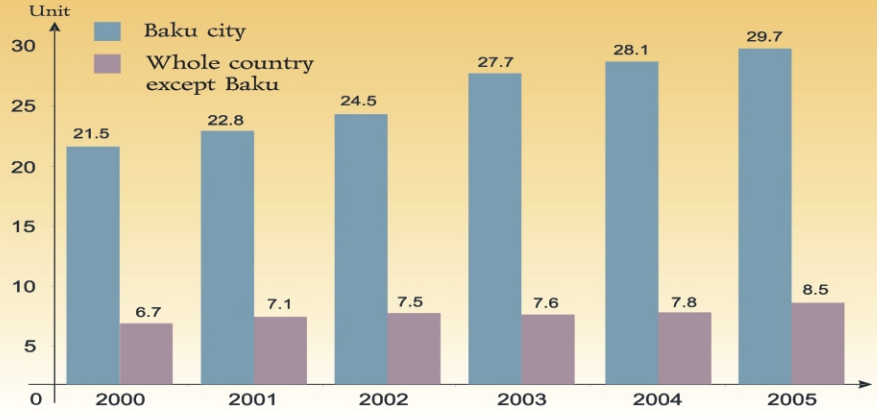
Figure 6. PSTN penetration per 100 inhabitants (whole country)

the number of mobile telephone subscibers to 2,242,000. (Figure 5)

Moreover, the number of new fixed lines also continued to increase. If in 2004, the number of PSTN users per 100 inhabitants in the republic was 12.4, this figure reached 13.1 in 2005 (Figure6). This indicator increased from 28.1 to 29.7 in Baku and from 7.8 to 8.4 in other parts of the country. (Figure 7)

As a result of the wide spread of mobile communications, the number of mobile telephones also considerably increased in the country. In 2005, the mobile telephone subscribers per 100 inhabitants increased by 43.6 per cent in comparison with the previous year (18 in

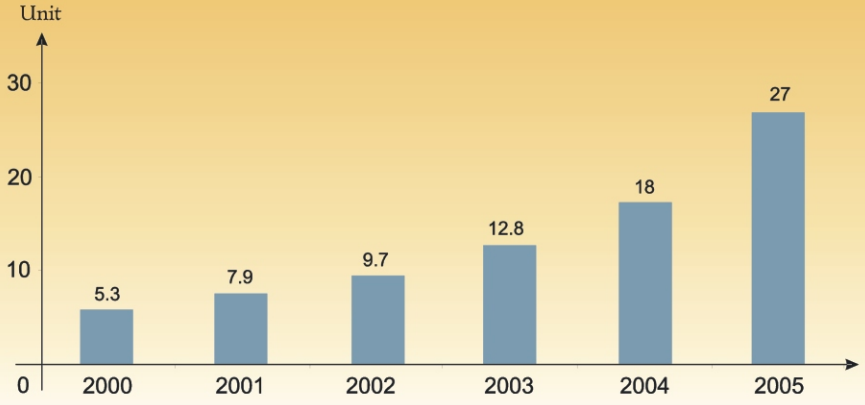
Figure 7. PSTN penetration per 100 inhabitants Baku city and other regions

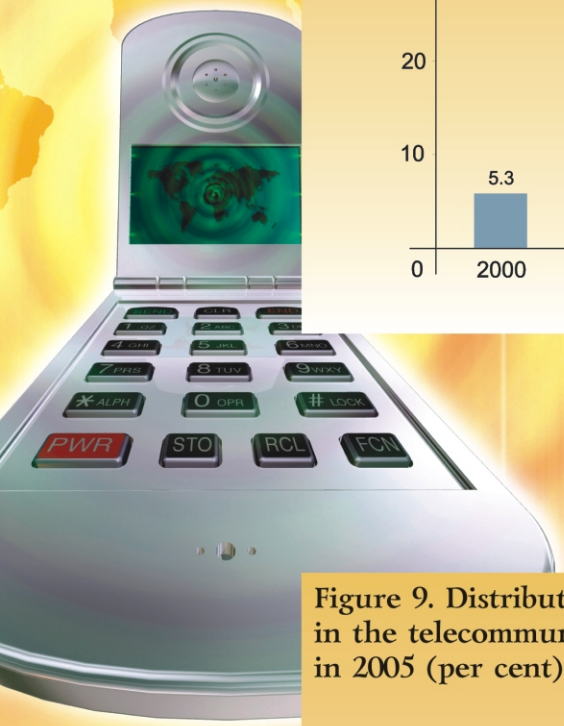


2004) and totaled 27 subscribers. (Figure 8)

It is not by chance that the main part of revenues in the sphere of telecommunications in 2004-2005 fell to the share of the mobile sector. If in 2004 this

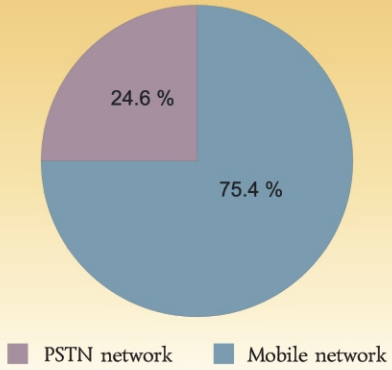
Figure 8. Mobile telephone penetration per 100 inhabitants in the country





indicator was 208.3 mln manats, in 2005 revenues made from mobile communications increased by 46.6 per cent and totaled 304.2 mln manats. This accounts for 75.4 per cent of the overall profits in the telecommunications sphere. (Figure 9)

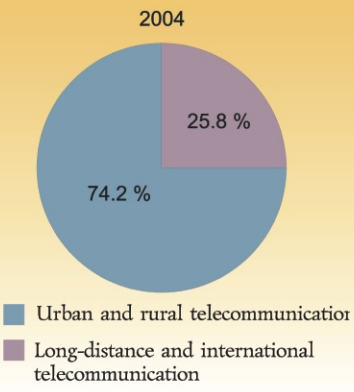
Figure 9. Distribution of incomes in the telecommunication sphere in 2005 (per cent)



On the other hand, an analysis of revenues from the fixed network in 2004-05 shows that revenues from intercity and international calls are playing the main role here and this indicator is on the increase. The share of intercity and international communications increased from 74.2 per cent in 2004 to 77.2 per cent in 2005. (Figure 10)

In this period, morally and physically outdated stations were replaced with new modern digital ones. The overall weight of electronic automatic telephone stations in the republic's telephone network accounted for 55.5 per cent at the end of 2004 and in 2005, this indicator

Figure 10. The structure of revenues from PSTN network



reached 64.6 per cent(Figure 11). In the Baku city telephone network, it increased from 63.9 to 71.5 per cent (Figure 12).

In other parts of the republic, the overall weight of automatic telephone stations increased from 47.3 to 57.6 per cent (Figure 13). Apart from that, new technologies are being used to provide the population with various communications services along with telephone services.

The general volume of the incoming traffic of international calls coming into Azerbaijan in 2004 increased by 40.4 per cent in comparison with 2003 and totaled 217 mln minutes, while the volume of the outgoing traffic increased by 25.6 per cent and totaled 53 mln minutes. Respectively, the volume of the incoming traffic of international calls coming into Azerbaijan in 2005 increased by 14.6 per cent in comparison with 2004 and totaled 249 mln minutes, while the volume of outgoing traffic increased by 27.4 per cent and totaled 67 mln minutes. (Figure 14 and 15)

With the aim of increasing the volume of international outgoing and incoming traffic and at the same time, expanding communications services, new direct channels were organized with a number

Figure 11. Digitalization of swithes (in %) in the country

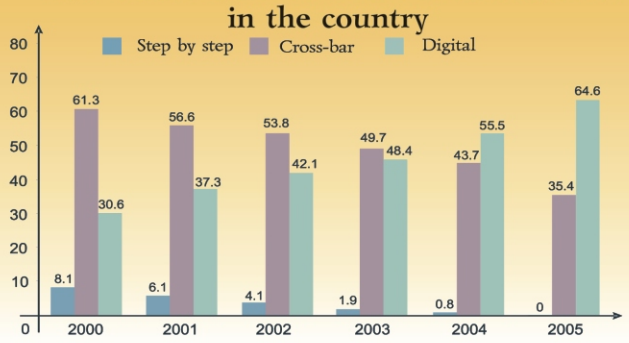


Figure 12. Digitalization of swithes (in %) in Baku city

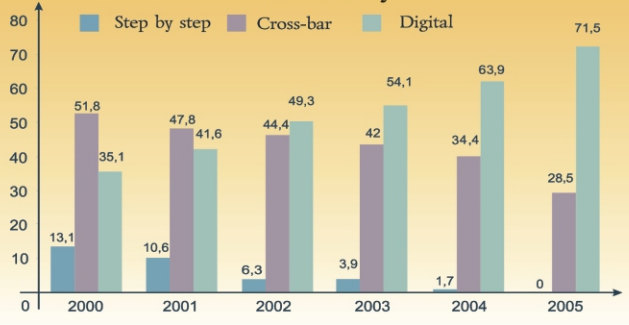


Figure 13.Digitalization of swithes (in %) in other territories of country

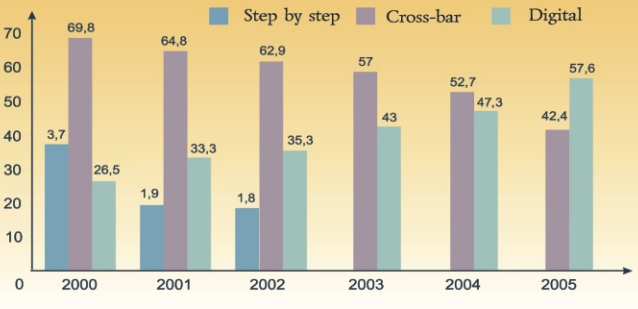


Figure 14. Dynamics of the international incoming traffic

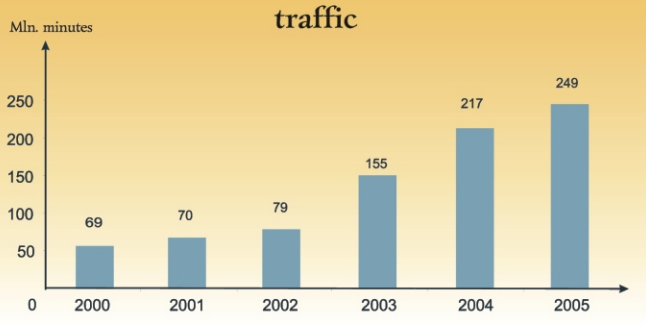
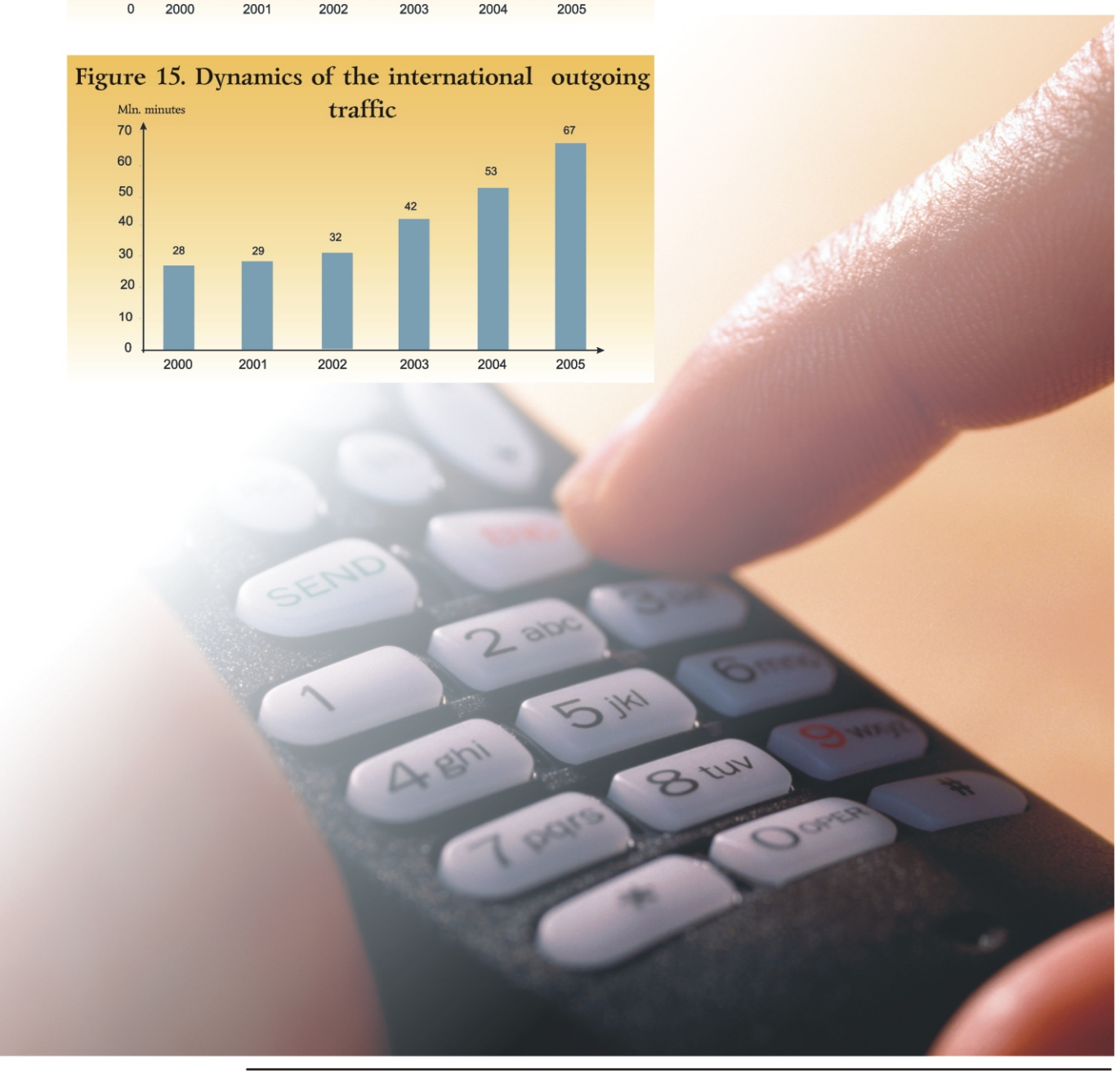


Figure 15. Dynamics of the international outgoing traffic

of companies. As a result of work to increase the number of channels, the number of international satellite and fiber-optic channels increased by 1,200 in 2004 and reached 3,300, while in 2005 it reached 3,463. Up to 90 per cent of international channels are based on fiber-optic cables and the remaining 10 per cent on satellite channels.



3.2. Indicators of the country's development in the sphere of information and communications technologies

The rapid increase in demand for information worldwide, wider use of communications and information technologies and global steps to establish an information society have seriously increased interest in communications and information technologies worldwide. It is not by chance that three of the 48 statistic indicators in the goals set by the Millennium Development Goals adopted by the UN General Assembly, which have to be fulfilled by 2015, apply to communications and information technologies, and the expansion of the application of communications and information technologies and the establishment of an information society have turned into priority spheres in all the member countries of the UN.

The use of communications and information technologies by a country's population is regarded as an indicator that characterizes their social welfare. Important work has been carried out in Azerbaijan as well in order to establish an information society and this process is continuing. The use of communications and information technologies equipment in society is rapidly rising and the role of communications and information technologies in the country's socioeconomic development has increased.

Since it is necessary to follow developments in this sphere more accu-

Figure 16. The main indicators of the ICT infrastructure per 100 people of the population

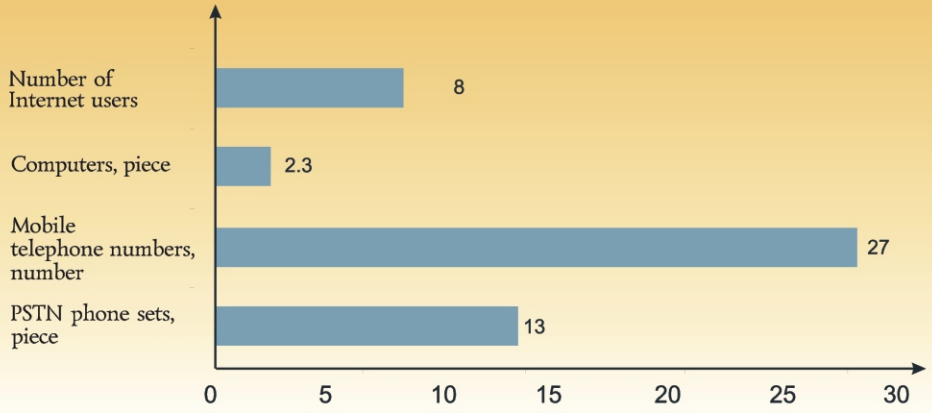


Figure 17. The dynamics of the increase in Internet channels

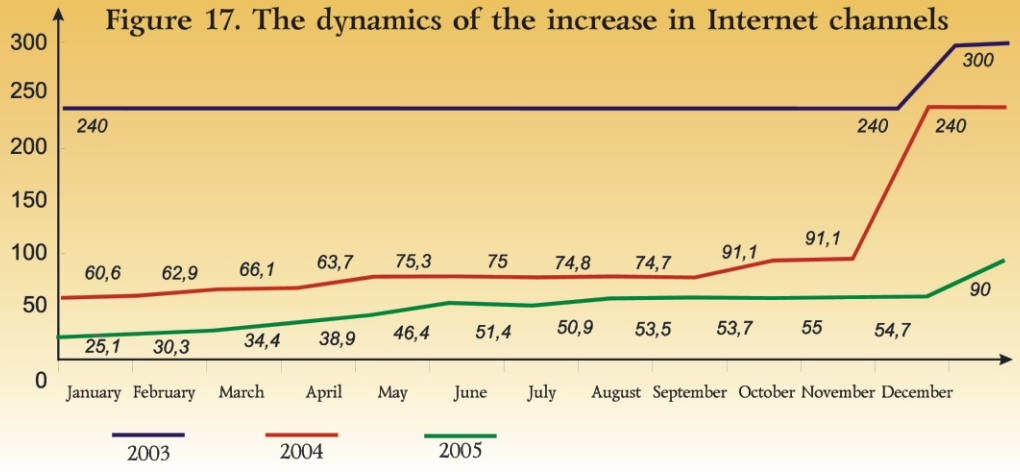


Table 3. Main infrastructural indicators in ICT

Names of main infrastructure indices	2005
Number of users of Internet using broadband per 100 persons of the population, subscriber	0.5
Share of population residing on the territory covered by the mobile network in the population of the country	99.0
Average tariff for 20-hour access to the Internet per month, manat s	5.0
Proportion of tariff of Internet access fee to the monthly average income per person, in percentage	4.3
Average tari ff for 100 minutes of mobile calls per month, mantas	18.0
Proportion of tariff of mobile calls to the average monthly nationwide income, in percentage	15.5

rately, the State Statistics Committee and the Ministry of Communications and Information Technologies have been compiling and recording statistical indicators since 2005. According to these indicators, there are 194,700 computers in the country, including 135,900 in households, 50,200 in legal entities and 8,600 in commercial entities with less than 4 employees and private entrepreneurs operating without setting up a legal entity. On average, there are 2.3 computers per 100 inhabitants of the country. (Figure 16)

By the end of 2005, the overall number of Internet users reached 678,800 while the number of Internet users per 100 inhabitants of the population reached 8. More than 450 Internet clubs opened mainly in Baku and in some districts. At present, there are 22 Internet providers and only two of them are state-owned enterprises. As a result of the wider spread of the Internet, the volume of Internet services increased from 3.8 mln manats in 2004 to 6.5 mln manats in 2005. In 2005, the connection of the republic's Internet providers to the global Internet network exceeded 300 mbit per second (3.3 times more than in 2003). (Figure 17) Apart from that, five in every 1,000 Internet users used a broadband connection, that means in 2005 the number of users who joined broadband Internet services reached 2,184. (Table 3)

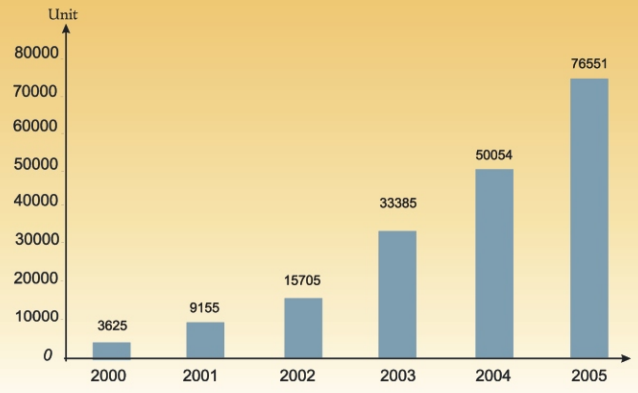
As a result of the increase in the number of Internet channels and the improvement of their technical equipment, the number of Internet connections significantly increased in 2004-2005 (Figure 18).

A total of 98.9 per cent of households in our country had a TV set and 7.3 per cent a computer. People using computers accounted for 15 per cent of the country's overall population, while people using the Internet accounted for 8 per cent of the country's overall population. 16.6 per cent of all households had access to the Internet at home.

Enterprises using computers accounted for 20.5 per cent of all enterprises operating in the country, while the number of employees using computers accounted for 4.8 per cent of all staff at operating enterprises. 3.8 per cent of all enterprises operating in the country had access to the Internet, while the number of all paid staff accounted for 0.9 per cent of people who worked in enterprises using the Internet regardless of whether they had access to the Internet or not.

As for the production of communications and information technologies products in the country, enterprises working in the sphere of communications and information technologies produced products and services worth 450.5 mln manats in 2005. The volume of added value in

Figure 18. d The dynamics of Internet connection



the sector of communications and information technology totaled 298.3 mln manats, while its special weight in GDP accounted for 2.5 per cent. Investments made by communications and information technologies enterprises totaled 152.7 mln manats in 2005.

The process of registering import and export indicators in the sphere of communications and information technologies started in 2004 and communications and information technologies equipment in the amount of 237.6 mln US dollars was imported and equipment worth 4.2 mln US dollars was exported in 2004. 166 products in the amount of 237.6 mln US dollars were imported into the country in 2005, including 17 types of telecommunications equipment worth 136.2 mln US dollars, 10 types of computers and computer equipment in the amount of 35 mln US dollars, 39 types of electronic equipment in the amount of 7.8 mln US dollars, 44 types of audio and video equipment in the amount of 12.3 mln US dollars and 56 other types of communications and information technologies products worth of 46.3 mln US dollars. The special weight of communications and information technologies products accounted for 5.7 per cent of all types of products imported into the country.

In conclusion, we have to point out that the level of the use of computers and the Internet in the republic is still low, however, an increase is being observed. Along with all that, with the aim of developing communications and information technologies in the country and taking into account the demand for computer and communications equipment, the construction of the "Kur" limited liability company, which produces electronic equipment, was completed and in 2005, and it started making products. This shows that the state is developing national production in the sphere of communications and information technologies.

3.3. The main TV and radio broadcasting indicators of the country

In 2005, the overall number of TV channels broadcast in the republic totaled 23 (one state-owned, one public, four private, five foreign and 12 local) and radio channels 14 (one state-owned, one public, seven private and five foreign) (Table 4). The programs of radio and stations broadcast in the republic in 2004-2005 and their coverage percentage were approximately as follows (Table 4).

Table 4. Local radio and TV channels

1.	Kapaz	Ganja city
	Alternative	Ganja city
2.	Mingachevir TV	Mingachevir city
3	Janub TV	Lenkoran city
4.	Gutb TV	Guba city
	Khayal TV	
	Guba TV	
5.	Simurg TV	Tovuz city
6.	Aygun TV	Zagatala city
7.	Khachmaz TV	Khachmaz city
8.	Dunya TV	Sumgait city
9.	Gulustan TV	Goranboy city
10.	Channel 35	Nakhchivan city

State owned TV Channels (on population)

1. AzTV-1 - 99.9 per cent (in 2004 99.8 per cent)
2. Public TV - 85 per cent

Private TV channels

1. Lider TV - 78 per cent (75 per cent)
2. ANS TV - 70 per cent (65 per cent)
3. SPACE TV - 72 per cent (65 per cent)
4. ATV - 72 per cent (42 per cent)

Foreign TV channels

1. TRT-1 (Turkey - state owned) - 65 per cent (70 per cent)
2. RTR (Russia - state owned) - 70 per cent (65 per cent)

State owned radio-channels(on population)

In diapason FM

1. Republic - 95 per cent (95 per cent)In the

medium wave range

1. Republic - 90 per cent (90 per cent)
2. Azadlig (Freedom) - 70 per cent (60 per cent)

Private radio channels

In FM diapason

1. ANS CM - 78 per cent (78 per cent)
2. Lider FM - 70,0 per cent (70 per cent)
3. Space FM - 45,0 per cent (45 per cent)
4. ATV - 106 house - 25 per cent (10 per cent)
5. ATV - 106.3 - 10,0 per cent (10 per cent)
6. 101 - FM - 20 per cent (10 per cent)
7. Evropa Plus - 10 per cent (10 per cent

Foreign radio channels

(In FM diapason)

1. France radio - 10 per cent (10 per cent)
2. Radio of Russia - 10 per cent (10 per cent)

The possibility of the republic's population to receive television channels in 2005 is shown below:

One channel - 99.9% (99.8% in 2004)

Two channels - 99.4% (99.1% in 2004)

Three and more channels - 96% (95% in 2004)

The coverage of the rural population with radio and TV channels in shown below:

One channel - 98.2%

Two channels - 57.9%

Three channels - 41.4%

At present, there are six TV channels and eight radio channels broadcasting in the national language. 100 per cent of the population of the republic's capital Baku and Absheron peninsula are able to receive state-owned, private and foreign radio and TV channels broadcasting in the republic.

Beginning from 2004, DVB-T overground digital test broadcasts were launched in Azerbaijan for the first time in the South Caucasus and in the Middle East. It is predicted that the switch from analogue broadcasting to overground digital broadcasting in Azerbaijani regions will be completed in 2015.

Substantial measures have been taken over the last few years to cover the country's territory with radio and TV broadcasts. Development in the sphere of television and radio is characterized by the number and scope of television and radio channels broadcast in the country (Table 5).

Table 5. Dynamics of radio and TV channels broadcasting in Azerbaijan

Channels' dynamics	2000	2004	2005
Number of TV channels, unit	19	22	23
From them:			
Those broadcasting in the territory of Azerbaijan	11	11	9
With satellite access	7	9	11
Number of radio channels, unit	9	14	14
With satellite receiver	6	9	12
Number of TV channels broadcasting translations in the national language, unit	4	5	6
Number of radio channels broadcasting their transmission in the state language, unit	4	6	8

3.4. The main indicators of the country in the postal sphere

The postal system plays a special role in the country's economy. Post communications play an important and irreplaceable role in strengthening statehood, developing the economy, regulating public-political processes, expanding the country's economy and business relations, educating the population, etc. Joint projects implemented by the World Bank and MCIT will bring the postal infrastructure to such a state that spheres of services will expand and there will be a possibility to provide the population with various banking services.

Another innovative project is that Azerbaijan is the fifth state among CIS republics after Russia, Ukraine, Kazakhstan and Belarus to have joined the STEFI electronic system of remittances set up by the Universal Postal Union.

The rapid development of technologies, especially electronics, radio, television and Internet services in our modern period did not weaken interest in post services, but on the contrary had some positive influence on the development of postal services. The statistics of developed countries shows that the number of types of postal services among the population, including the exchange of parcels, letters and remittances, is increasing day by day. The volume of postal services has

Figure 19. Written correspondence

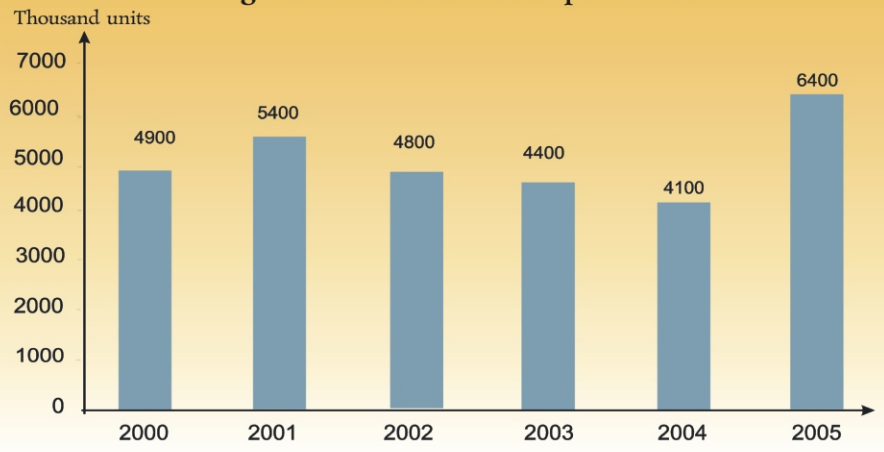


Figure 20. Dynamics of remmitances and telegrams

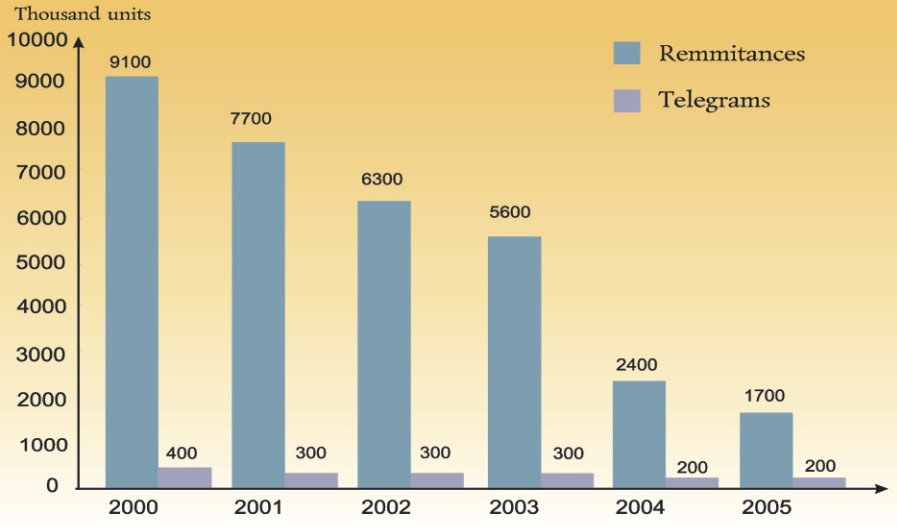
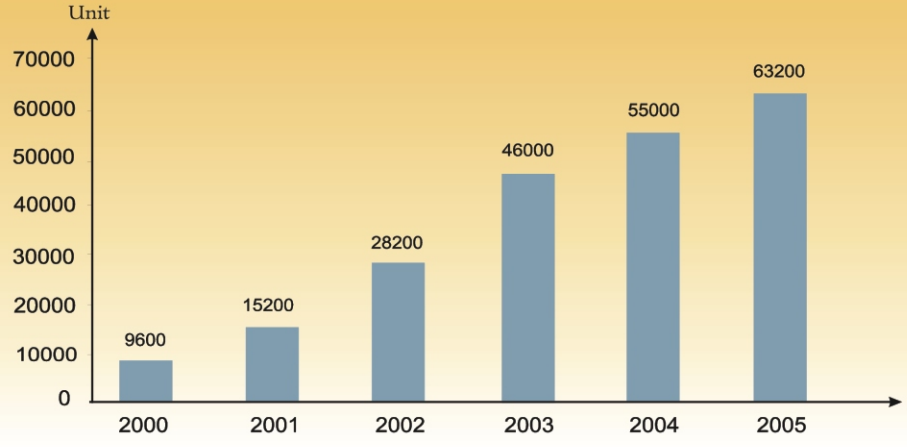


Figure 21. Dynamics of the postal parcels



expanded over the last four years. The diagram below shows an increase in the number of letters, parcels and money parcels and telegrams sent through the international post. (Figure 19, 20, 21)

The recent years have seen a significant increase in the sphere of express mail services in our country both in terms of quantity and quality. (Table 6) Along with the Azerexpress Post enterprise, there are 13 private companies operating on the market of courier and express mail services in Azerbaijan.

Table 6. Indicators of development in express mail services

	2000	2001	2002	2003	2004	2005
Postal curriers, outgoing						
Number, thousand pieces	4.1	9.3	457.6	600.3	897.5	953,1
nside the country						
Number, thousand pieces	–	–	438	579.1	867.8	922,4
international						
number, thousand pieces	4.1	9.3	19.6	21.3	29.7	30,7
Postal curriers, incoming						
Number, thousand pieces	–	13.1	60.9	67.5	85.8	95,3
Inside the country	–	–	0.8	2.3	3.1	3,3
Number, thousand pieces						
International						
Number, thousand pieces		13.1	60.1	65.2	82.7	92
Number of sent letters, thousand pieces	3.8	8.4	452.9	595.2	891.2	945
Number of parcels sent, thousand pieces	0.3	0.9	1.8	5.4	6.3	6,9
Income received from express mail service, thousand pieces	126.5	613.1	1356.1	1866.6	2565.3	4763.2
As a result of sending	126.5	580.6	1282.5	1779.5	2449.2	4603.9
As a result of receiving	–	32.5	73.6	87.1	116.4	116.4

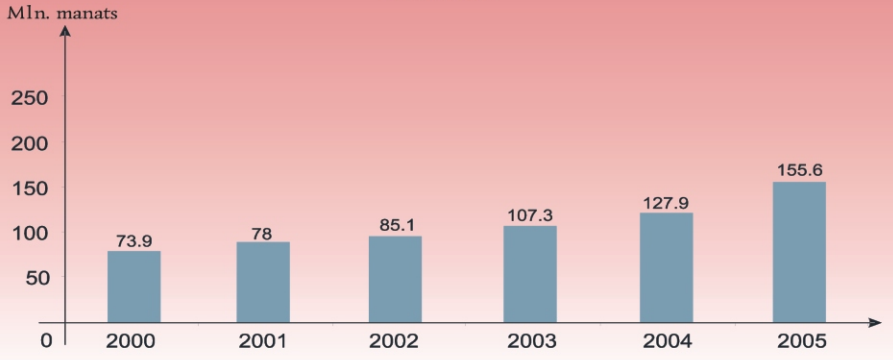
4

THE ACTIVITIES OF THE MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGIES

4.1. The financial-economic indicators of the MCIT

In 2004, the ministry and enterprises under its jurisdiction made a revenue of 127.9m manats against the planned 111,06m manats, which is 19.1 mln manats or 17.9 per cent higher than in 2003. In 2005, a revenue of 155.6 mln manats was made against the planned 138.6m manats, which is 27.7 mln manats or 21.6 per cent higher than in 2004. (Figure 22)

Figure 22. Revenue dynamics in state owned companies under the control of MCIT



With the increase in the profits of enterprises, the volume of payments to the state budget and the Social Security Fund increased as well. In 2004, 20 mln manats (11.6 per cent higher) were paid into the state budget against the planned 18 mln manats and 6 mln manats (61.3 per cent higher) were paid to the State Social Security Fund against the planned 3.72 mln manats. In 2005, 23.9 mln manats (16 per cent higher) were paid to the state budget instead of the planned 20.6 mln manats and 6.5 mln manats (6.6 per cent higher) to the State Social Security Fund instead of the planned 6.1 mln manats. Apart from that, dividends worth of 3 mln manats were transferred into the state budget from the independent profits of enterprises.

By observing priorities, the MCIT is implementing an effective state policy in the sector and paying special attention to the sustainable development of associations and enterprises under its jurisdiction. The establishment of the country's telecommunications system on the basis of modern world standards and the application of modern technologies are in the center of attention as the most important issue. With this aim, communications

enterprises made investments worth 18.22 mln manats in 2004, which is 3.72 mln manats higher than in 2003. According to the results of 2005, the volume of investments by the MCIT and its organizations reached 31.5 mln manats.

At present, extensive measures are being implemented to create new jobs in the country and eliminate unemployment. To this end, 1,141 new jobs were created at enterprises of the ministry in 2004 and 611 new jobs in 2005. The salaries of communications employees increased by 15-20 and10-25 per cent in year 2004 and 2005 respectively. In 2004, the average monthly salary in the ministry totalled 114.7 manats and in 2005, this figure reached 139.9 manats. (Figure 23) At the end of 2004, the average, maximum and minum were as follows:

- Average monthly salary - 114.7 manats;

- Minimum monthly salary - 13.2 manats;

- Maximum monthly salary - 1,200 manats.

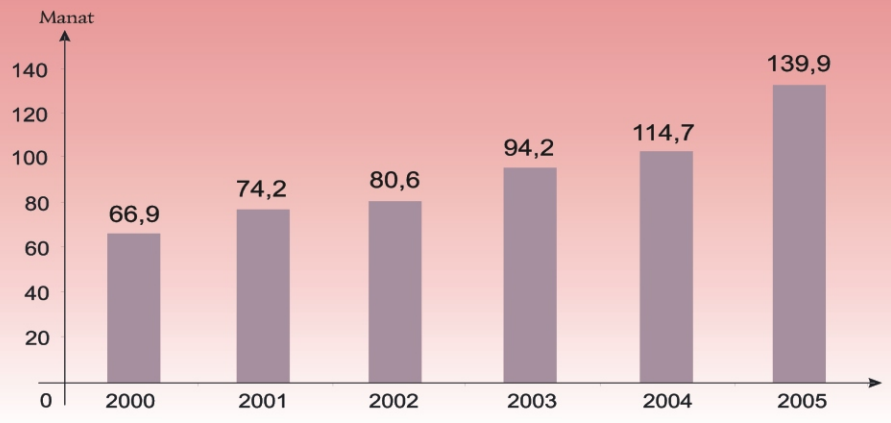
In 2005, the aforesaid indicators were as follows:

- Average monthly salary - 139.9 manats;

- Minimum monthly salary - 25 manats;

- Maximum monthly salary - 1,200 manats.

Figure 23. Growth dynamics of monthly average wages of employees



4.2. The legislative and regulatory activities of the MCIT

4.2.1. In the sphere of legislation

In 2004-2005, the Ministry of Communications and Information Technologies continued its work to create and improve the legislative base. In 2004, the laws of the Republic of Azerbaijan "On postal communications" and "On the electronic signature and electronic documents" were adopted at the initiative of the MCIT. The law of the Republic of Azerbaijan "On the electronic signature and electronic documents" made it possible to create a turnover of electronic documents in the country and to develop new processes that apply electronic signatures, including new spheres of economic activities.

2005 was also a very productive year from this point of view. The laws of the Republic of Azerbaijan "On telecommunications", "On electronic trade" and "On access to information" were adopted in this period. The law of the Republic of Azerbaijan "On telecommunications", which was adopted in 2005, determined the legal, economic and organizational foundations of telecommunications in the country and made it possible to plan and fairly use telecommunications resources.

In order to ensure the implementation of Decree No 277 of the President of the Republic of Azerbaijan dated 9 August 2005 on the application of the law of the Republic of Azerbaijan "On telecommunications", the following rules were prepared and approved:

- "The list of telecommunications means and installations used in the general telecommunications networks that will be subjected to compulsory certification in the Republic of Azerbaijan" - Approved by Resolution No 226 of the Cabinet of Ministers of the Republic of Azerbaijan dated December 14, 2005;

- "Rules to protect telecommunications networks, means and installations" - Approved by Resolution No 227 of the Cabinet of Ministers of the Republic of Azerbaijan dated 14 December 2005;

- "Rules to prevent radio interference caused by all types of radio broadcasting and other radio frequency installations"- Approved by Resolution No 238 of the Cabinet of Ministers of the Republic of Azerbaijan dated December 14, 2005;

- "Rules to build, exploit and carry out emergency reconstruction work on telecommunications means and installations in the border areas of the Republic of Azerbaijan, including in border rivers and in the Azerbaijani sector of the Caspian Sea (Lake) - Prepared and agreed with relevant government agencies in 2005 and approved by Resolution No 3 of the Cabinet of Ministers of the Republic of Azerbaijan dated January 6, 2006;

Moreover, in order to ensure the implementation of Decree No 65 of the President of the Azerbaijan Republic dated 26 May 2004 "On the application of

the law of the Azerbaijan Republic on the electronic signature and electronic documents", the following rules were prepared in 2005, agreed with relevant government agencies and approved by Resolution No 27 of the Cabinet of Ministers of the Azerbaijan Republic dated 28 January 2006:

- "Rules of checking the electronic signature";

- "Rules of using the electronic signature by state authorities and local government bodies";

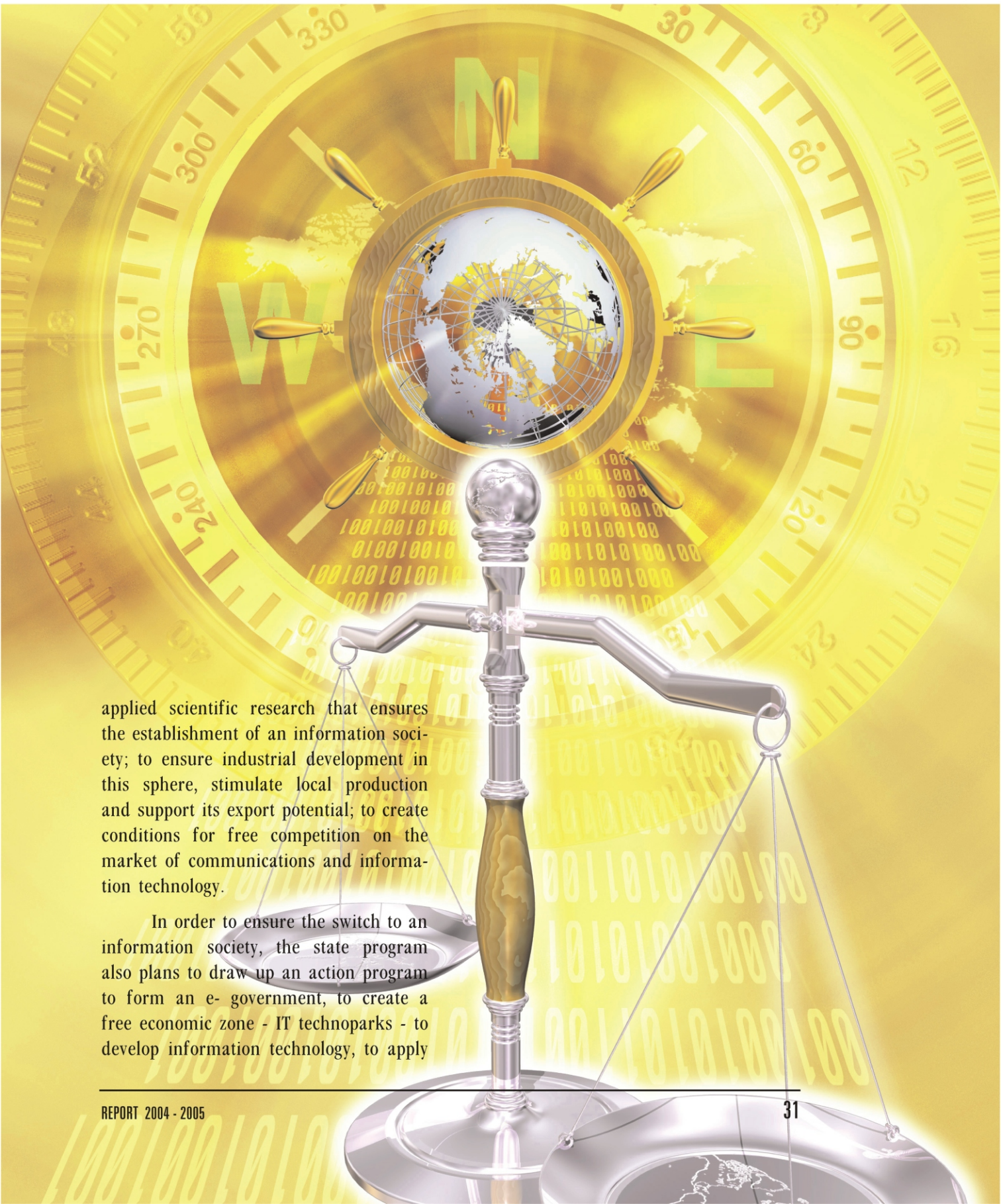
- "Rules of providing certificate services, issuing certificates and making records";

- "Rules of exchanging electronic documents"

The state program was one of the most important documents adopted in 2005. On 21 October 2005, the President of the Republic of Azerbaijan signed a Decree to approve "The State Program on the development of communications and information technology in the Azerbaijan Republic in 2005-2008" (Electronic Azerbaijan). In connection with the rapid development of the sphere of communications and information technology, in 2005-2008 it is planned to implement the first stage of the national strategy until 2012. This State Program provides for effective use and development of Azerbaijan's current potential, the modernization of the sphere of communications and information technology from an organizational, legal, technical and personnel points of view, the formation of a communications and information technology industry, new investments in this sphere, expansion of entrepreneurship, observance of principles of free market and healthy competition, the implementation of projects of social importance and ensuring of Azerbaijan's transformation into an information society as a result.

The purpose of the State Program is to ensure the development of communications and information technology in Azerbaijan and to serve the country's comprehensive progress in this way and at the same time, to ensure the implementation of the national strategy on the development of communications and information technologies and to plan and implement projects that meet certain goals and directions of activities.

In this connection, a solution to the following issues is of special importance:
- to implement reforms for the future development of the sphere of communications and information technology, to form an effective mechanism, to ensure the possibilities of society, the economy, government agencies, private individuals and legal entities to connect to the general network of communications and information technology and to ensure their increasing demand; to improve the legal base for the development of communications and information technology; to organize the regulation of standardization, certification, radio frequency and number resources in the sphere of communications and information technology in line with international standards; to create conditions for investments in the sphere of communications and information technology and to develop the private sector; to determine a policy of innovations and carry out fundamental and



applied scientific research that ensures the establishment of an information society; to ensure industrial development in this sphere, stimulate local production and support its export potential; to create conditions for free competition on the market of communications and information technology.

In order to ensure the switch to an information society, the state program also plans to draw up an action program to form an e- government, to create a free economic zone - IT technoparks - to develop information technology, to apply

communications and information technology in order to improve the educational system, to train personnel that will be able to apply and develop new technologies, use electronic textbooks and to implement other projects. Taking into account that the state program is of strategic importance to the general development of the country and to the strengthening of its economy and other spheres, it is planned to use the following financial sources: funds from departments, enterprises and organizations regardless of their form of ownership, funds from private organizations; technical-financial aid from international and foreign organizations, credits, grants and other sources that are not banned by the law.

The implementation of the state program will make it possible to weaken "the digital divide" between social strata of the population and between the center and regions, attract potential investors in the country's market of communications and information technologies, to develop innovative small and medium-sized businesses in the sphere of communications and information technology, to produce and export software and other high technology products for electronic equipment and allow the Azerbaijan Republic to become a regional center in exporting communications and information technology products in the South Caucasus and the Transcaspian region. Along with that, it will be possible to improve the regulatory system in the sphere of communications and information technology, to form a legal base in this sphere, to expand and liberalize the market of services, to regulate prices on the basis of free and fair competition, to improve the quality of services, to form an "e-government", to organize an exchange of electronic documents in government agencies, to create opportunities for citizens to access state-owned information resources, etc.

As a result of realization of the state program, the solution of such questions will ease the situation for the socially vulnerable categories of the population and centers and regions. It will attract potential investors to the ICT market of the country, development of small and medium-sezed businesses of innovative orientation in the ICT sector, manufacture and export of software electronic equipment and other products of scientific importance, transformation of the Azerbaijan Republic into a regional centre in the sphere of information and communication technologies in the export of ICT products to Southern Caucasus countries. Alongside with that, such results as the improvement of the system of regulation in the sphere of communication and information technologies, formation of the normative and legal framework in this sphere, expansion and liberalization of the market of services, price control on the basis of a free and fair competition, improvement of the quality of services, formation of "the E-government", the organization of an exchange of electronic documents in state bodies, creation of opportunities for the reference of citizens to the state information resources, etc. will be provided as well.

4.2.2. In the regulatory sphere

With the mediation of the coordinating bureau for the European Union's international technical assistance to the Azerbaijan Republic, foreign experts were hired to help the Ministry of Communications and Information Technology to regulate the sphere of telecommunications within the framework of the project Support-II for the implementation of the agreement on partnership and cooperation between the European Union and its member states on the one hand and the Azerbaijan Republic on the other". After familiarizing themselves with the current state of the market, those experts prepared the following recommendations regarding the experience of European countries in the regulatory sphere:

- "A comparative analysis on bringing Azerbaijani legislation on telecommunications in line with the legislation of the European Union";

- Analyses and a comparative memorandum on legislation that can be used with regard to the national regulatory organization on communications in Azerbaijan";

- The structure and organization of the national regulatory body";

- Interconnection expenses;

- "A booklet on the determination of the market in the sphere of telecommunications"

World Bank experts made some proposals to the MCIT to help organize regulatory work, on the work of regulatory bodies and on separating regulatory

functions from market functions in the sphere of telecommunications. Some work on this sphere has already been carried out. It is also planned to separate state regulatory functions from market functions in the sphere of telecommunications in the main principles and directions of telecommunications work in the law of the Republic of Azerbaijan "On telecommunications" and to set up an independent regulatory body in the sphere of telecommunications until 2008 in the State Program of the Republic of Azerbaijan on the development of communications and information technology in 2005-2008 (Electronic Azerbaijan).

In order to implement measures envisaged by the memorandum on understanding signed in Istanbul on 21-24 May 2004 in connection with cooperation between Eurasian countries to regulate telecommunications and with the aim of establishing cooperation in the regulatory sphere, working cooperation was established with Turkey's Telecommunications Authority.

In connection with regulatory issues in the sphere of telecommunications and in order to assist the work of the MCIT, a high-ranking delegation of the communications organization visited the MCIT in September 2005, held discussions and reached an agreement to train MCIT specialists at the telecommunications organization and to organize seminars by experts of the telecommunications organization on various subjects.

Within the framework of the agreement that was reached, representatives of the MCIT attended a seminar on standardization in the sphere of telecommunications on 12-16 December 2005.

With the aim of regulating relations between telecommunications operators working in the general telecommunications network of the Azerbaijan Republic, signing agreements on interaction and making mutual settlements, discussions were organized at the MCIT with representatives of all operators in attendance, the proposals and opinions of operators were studied and an appeal was adopted to all operators in order to ensure the conclusion of agreements on interaction according to Article 12 of the law "On telecommunications". The Katel joint venture, the Azercell Telecom limited liability company and the Aztelecom joint venture carried out work in order to increase the capacity of existing channels. Bakcell customers were given a chance to access the “102” service.

In order to make some changes to the list of licensed communications services, proposals were prepared in 2004-2005 and submitted to relevant government agencies for consideration. Two licenses in the sphere of telecommunications and six licenses in the postal sphere were issued in 2004. (Table 7)

In 2005, the Ministry of Communications and Information Technology received 23 requests to license communications services, issued licenses to 12 enterprises in line with the law and replied to 11 enterprises in connection with shortcomings in documents required for issuing a license. (Table 8)

Technology and international experience in this sphere, proposals were prepared on additions and changes to the

Table 7. Licenses issued by MCIT in 2004

Name of companies	Kind of activity
«YAPS» LTD	Fast mail services
Company «Aselsan Baku»	Radio -trunk communications
JV «UPS-AZ»	Expreess mail services
«Shimshek»	Expreess mail services
«Azeriexpress»	Expreess mail services
«BakExCurrier»	Expreess mail services
Enterprise of communications «Azerexpresspost»	Expreess mail services
«Skaybel»	Telephone communications services (wire)

law on the licensing of communications services and submitted to relevant bodies.

With the aim of regulating number resources in the general telecommunications network of the Azerbaijan Republic and making effective use of them, rules, a contract on the allocation and use of number resources and draft tariffs for allocating and using number resources were prepared and submitted to relevant bodies for approval. The approval of the aforesaid rules and application of tariffs will make it possible to use more effectively and regulate the number resources belonging to the telecommunications network of the republic.

In 2005, enterprises and organizations operating in the network were given more than 110,000 prefixes to meet the demand, including four area codes and 4,000,000 prefixes handed over to the Aztelecom production association, the Catel joint venture, the Aztrank limited liability company and AzEuroTel joint

Table 8. Licenses issued by MCIT in 2005

№	Name of companies	Kind of activity
1	Azerbaijan -American joint venture with limited liability «Caspian American Telecommunication LLC»	Services of wireless telephone communications
2	Limited Liability Society «Famko Cargo»	Express mail service
3	Limited Liability Society «Aztrank»	Services of radio -trunk wireless telephone communications
4	Limited Liability Company «Pegasus»	Express mail service
5	Limited Liability Company «Ultel»	Service of city communications
6	Limited Liability Company «Royal Express»	Express mail service
7	Representative of Anonymous Company «Ace Asiya Avrupa Tashimachilik» of the Turkish Republic in the Azerbaijan Republic	Express mail service
8	Limited Liability Company «N -Trans»	Express mail service
9	Limited Liability Company «Azerfon»	Service of cellular (GSM - mobile) communications
10	Azerbaijan -American JV of limited liability «Caspian American Telecommunication LLC»	Services of cellular (CDMA - mobile) communications
11	Limited Liability Company «Delta Telekom LTD»	Services of communications (excluding cellular)
12	Limited Liability Company «M&M MILITZER & MÜNCH BAKU LTD»	Express mail service

venture to provide wireless communications services based on the CDMA technology in some parts of the country. In addition, the network was given Index 5 and prefixes 564, 565, 510, 511 and 598. At the same time, the Azercell Telecom MMM joint venture was given Indices 4 and 7 (one million each).

On 28 May 2005, the telephone network of the Nakhichevan Autonomous Republic switched to a new system of six-digit numbers, which created additional number resources in the network of the autonomous republic. On 1 August 2005, the Sumqayit city telephone network switched to a system of seven-digit numbers.

On the other hand, in order to make effective use of the republic's radio frequency resources, an inventory of frequency resources was carried out on the basis of recommendations from the International Telecommunication Union, relevant measures were taken to vacate those frequencies in connection with the organization of services on various frequencies and proposals were made for discussion at the State Commission on Radio Frequencies.

Under Article 13 of the law of the Republic of Azerbaijan "On telecommunications" and the statute of the State Commission on Radio Frequencies (SCRF), in line with the recommendations of the International Telecommunication Union, a draft table on the allocation of frequencies between the radio services of the Republic of Azerbaijan was prepared on the basis of the application of new technologies under classification approved by the SCRF in 1998 and submitted to relevant bodies for approval.

4.3. Measures taken by the MCIT to implement the "Electronic Government" program

One of the tasks set to the MCIT after its establishment was the implementation of the "Electronic Azerbaijan" program. With the aim of increasing the volume of capital investments, negotiations are being held with local and international companies and projects are being implemented to develop this sphere. In order to analyze the local and regional base and estimate the steps that were taken, joint projects have been prepared and are being implemented together with the US Trade and Development Agency, the International Finance Corporation, the German government and international consultancy companies. Special attention is being paid to cooperation with scientific and educational institutions, non-government organizations and public associations in order to solve the tasks that were set.

From this point of view, we can cite as an example the project "Internet infrastructure for science and education", which is being implemented jointly with the Azerbaijani National Academy of Sciences, the Ministry of Education, the Soros Foundation and the UN Development Program and costs 1.3 mln US dollars, and the project to set up a digital information network, which is estimated at 7.5 mln US dollars, is being implemented jointly with UN Development Program and has no analogues in eastern Europe, Central Asia and the Middle East.

The Decree of the President on "The program of provision secondary schools in the Azerbaijan Republic with communications and information technologies (2005-2007)" dated 21 August 2004 has once again proved the role of modern technologies in improving the quality of education in 2005-2007, developing youth and in general, in Azerbaijan's progress. Information centers, as well as about 30 Internet providers have been set up in regions of the country. The establishment of the Super Computer Center and the AzDATACOM network will create conditions for wider use of information technologies. This program is aimed at creating a single educational-information system that will make it possible to integrate into the world's education system and to prepare the population for the information society by using new information technologies in the country. As a result of the implementation of the tasks that ensue from this document, the use of communications and information technology in education will rise to a new level. The implementation of the program will make it possible to create new jobs, create an opportunity to set up Internet schools, organize education from a distance, form a new information environment and ensure transition to an information society.

The Ministry of Education has been authorized to implement this decree and the MCIT has signed an agreement on

basis for Azerbaijan's integration into the information society and e-management. This network will ensure speedy communications in regions of the country and in the capital Baku.

The second component of the project is to create a possibility of links by developing a platform of information exchange between government organizations and the infrastructure of communications and information technology between government agencies. Work carried out in this sphere is called Government-to-Government or G2G. They cover such extensive components as the basic public infrastructure, the government network, standardized government management information strategies, general information platforms and a collection of distributed information.

The third component of the project is to create and develop e-management services for citizens and businesses (G2C and G2V). The successful implementation of the first and second components of the project will create grounds for the implementation of a wide spectrum of services that e-management will give citizens, and this, in turn, will ensure the development of government services and create e-services.

cooperation with that ministry. Within the framework of the program, secondary schools will be computerized in three years in the amount of 20 mln US dollars. In general, more than 30,000 computers will be purchased and handed over to schools. In turn, the Ministry of Communications and Information Technology will provide schools with Internet services. Using this decree to stimulate production, a new factory called Kur, which manufactures electronic equipment, has been built and put into operation in Mingachevir. The factory has already started producing computers. Thus, on the one hand, new jobs are being created, and on the other, there is an opportunity to provide schools with inexpensive computers.

One of the most important components of the "E-Government" project is the establishment of the AzDATACOM network to transfer national information. The network is one of leading parts of the infrastructure that plays the role of a

4.4. International relations of the MCIT

After speech of the President of the Republic of Azerbaijan at the World Summit on the Information Society in December 2003, the country started paying greater attention to international cooperation in order to speed up the development and application of modern information technologies in Azerbaijan. Since the establishment of the Ministry of Communications and Information Technology, international relations have been developing in the following main directions:

- establishment of mutual relations with UN member countries in the sphere of communications and information technology;

- establishment and development of relations with international and regional organizations included in the UN system, specifically with the International Telecommunication Union (ITU), the UN Development Program, the UN Task Force on ICT , the World Bank and the International Telecommunications Satellite Organization;

- establishment and development of relations with international, foreign and local nongovernmental organizations, associations, societies in the sphere of communications and information technology;

- establishment of relations with famous scientific centers, universities, institutes and research centers of the world and mutual exchanges of scientific-research work with them.

Considering the aforesaid four directions, the MCIT carried out the following activities in 2004:

- Signed an exploitation agreement with the Intersputnik International Satellite Organization on 27 September 2004;

- Representatives of the MCIT participated in the 23rd congress of the Universal Postal Union in Bucharest (Romania) on 15 September - 5 October. During the congress, the postal administration of Azerbaijan was elected a member of the organization's supreme legislative body - the Administrative Council. Also a political statement was adopted in connection with the release of "Nagorno Karabakh" and illegal postage stamps;

- The Bakutel-2004 exhibition on telecommunications and communications and information technology was held on 29 September - 2 October 2004;

- On 28-29 October 2004, members of the working group of the Economic Cooperation Organization on the construction of the TAE (Trans-Asia-Europe) line, which is one of the biggest construction project of the 20th century, covers 20 countries of Europe and Asia and has the total length of 24,000km, held their fourth session;

- A Conference on global communications and information technologies called "Digital technologies and economic knowledge: problems and solutions", which was organized jointly by the World Summit Award (Austria) and the UN Development Program, was held on 25-28 November 2004. The conference was attended by more than 80 participants from 35 countries, including Yoshio Utsumi, secretary-general of the International Telecommunication Union, Ahmed Toumi, director-general of the International Telecommunications Satellite Organization, Stanley Escudero, chairman of the US Chamber of Commerce, and ministers of communications Turkey, Bangladesh, Pakistan. More detailed information about the conference is available on the website www.global-ict.mincom.gov.az

The purpose in organizing a number of authoritative events in our country as a sponsor of the second World Summit on the Information Society (Tunisian phase) is to draw the attention of the world community, the United Nations and the International Telecommunication Union to our republic and to turn Azerbaijan into a center of communications and information technology as a leading country in the region.

Among projects implemented jointly with international financial-crediting and humanitarian institutions, there is an agreement with the US Agency of Trade and Development on the allocation of a grant of 734,800 US dollars to assist structural reforms in the sphere of communications and information technology.

In 2005, the MCIT also carried out significant work to develop foreign relations in our country in the sphere of communications and information technology:

- An agreement on the grant allocated by the US Trade and Development Agency to support reforms at the Ministry of Communications and Information Technology was signed on 18 January,

and work is being implemented by the SPR Company at the moment;

- On 3-4 February, Minister Abbasov had a speech at the Ad-hoc Committee of the Council of Europe on the World Summit on the Information Society in Strasbourg;

- On 21-22 March, an Azerbaijani delegation led by the minister took part in the 3rd Summit of Asian Ministers of Information Technology in Bahrain and was especially active in the adoption of Article 6 of the Bahrain Declaration;

- On 23-24 May, a delegation of the MCIT led by the minister participated in a regional meeting in Baku and Quba organized within the framework of the RCC on the subject "Financing of the WSIS" and in a session of the CIS coordinating council on information;

- On 24 May, the International Development Association of the World Bank and the MCIT signed an agreement "On the development credit" (A project on the development of financial services) to develop financial services provided by the Azerpost state enterprise. The sum of the credit was 8.4 millions SDR (12.25 millions US dollars) and it was issued for a period of 30 years;

- On 8-11 September, the Minister visited Ukraine at the invitation of the Ukrainian minister of transport and communications and the rector of the Odessa National Academy of Communications. During the visit, Minister Abbasov was awarded the diploma of an honorary doctor of the Odessa National Academy of Communications.

- On 19-22 September, the Minister

paid a working visit to Germany at the invitation of the German ambassador to Azerbaijan and German officials. During the visit, a memorandum of understanding was signed with the D-21 Initiative group and a number of meetings were held;

- On 26-30 October 2005, the Caspian International Conference was organized for the first time within the framework of the 11th BakuTel exhibition. In 2005, about 100 companies from 20 countries of the world (in 2004 this figure was 70) exhibited their latest innova-

tions in the sphere of the communications and information technology, networks, security systems, communications, information technology and office technologies, equipment for cable and wireless communications, satellite communications and TV and Radio broadcasts, software and automated systems. Twenty-five of the 50 foreign companies participated in the exhibition for the first time. The 2005 exhibition presented new sections on bank technologies and the electronic government for the first time. Participants familiarized themselves with the latest technological achievements, technological solutions and products in the sector of banking technologies and in sphere of the application of information technology by leading banks. The participants were also offered an opportunity to use the wireless Internet free of charge. Video conferences were held with seven regions of the republic;

- On 16-18 November 2005, the 2nd Tunisian stage of the ICUS, sponsored and attended by the MCIT, was held in Tunisia. An Azerbaijan delegation of 64 people participated in the summit. In parallel with the summit, more than 300 presentations, conferences, round table discussions, symposiums and seminars were held. Three of these events were organized by the Republic of Azerbaijan. Besides that, the ICT4All exhibition (ICT for all) was held on 15-19 November within the framework of the summit. Our country was represented in this exhibition by a stand called Azerbaijan where organizations operating in various sectors exhibited their national projects on communications and information technology and software products and established contacts with foreign partners;

- On 27 November - 5 December 2005 a Swedish delegation visited Azerbaijan within the framework of international cooperation on information technology and a protocol of intent was signed between the MCIT, the Ministry of Education and the Chalmers University to establish Caspian International University of Information Technology in the future;

- On 4-7 December 2005, Minister Abbasov paid an official visit to Rome at the invitation of Italian Communications Minister Mario Landolfi. During the visit, an agreement on cooperation in the sphere of network security between the government of the Republic Azerbaijan and the government of Italy was signed with Italian Communications Minister Mario Landolfi. Negotiations were held between our countries on the development of relations in the sphere of communications and information technology.

Along with all this, intergovernmental agreements on communications and information technology have been signed with Pakistan, Moldova, Ukraine (from 1999), Italy, memorandums on understanding with China, Egypt and Germany's D-21 Initiative society, intergovernmental agreements with the governments of Turkey, Kazakhstan and the Russian Federation. In order to expand international relations of the MCIT, employees of the ministry had more than 100 international business trips in 2005.

4.5. Charity and sport

4.5.1. Charity activities of the MCIT

Over the past period of time, along with its primary activities, the MCIT has constantly shown interest in the problems of refugees, internally displaced persons, martyrs' families, war veterans, sportsmen and other needy people and has always helped them. The ministry provided financial and food aid to displaced persons to the tune of 440,000 manats in 2004 and 545,000 manats in 2005. Besides that, the MCIT provided 11,200 displaced persons living in six settlements in Bilasuvar District with aid worth 0.2m manats in 2004 and 0.3 mln manats in 2005.

4.5.2. The MCIT's attention to sports

In 2004, the Rabitachi Sports Club, which is sponsored by the MCIT, received financial aid worth about 76,000 manats. In the same year, Rabitachi sportsmen took part in national championships and international contests in boxing, king-boxing and ushu and won 19 medals, including six gold, six silver and seven bronze medals. Along with that, the women's team of the Rabita volleyball club was set up in 2004.

According to the contract on sponsorship signed between the MCIT and the Rabitachi Sports Club , 149,900 manats were paid to the club in 2005. As a result of this, sportsmen took part in national championships and international contests and won 30 gold, 14 silver and 32 bronze medals. The men's and women's teams of the Rabita volleyball club, which is sponsored by the MCIT, demonstrated high professionalism during the volleyball season of 2004-2005 and won bronze and silver medals in the Azerbaijani championship (Prime League). Members of the Rabitachi Sports Club were given bonuses to the tune of 26,060 manats for their successes in 2005.

4.6. The work of the Ministry of Communications and Information Technology of the Nakhichevan Autonomous Republic

4.6.1. Financial and economic indicators

The Nakhichevan Autonomous Republic has seen sustainable development in the sphere of communications and information technology over the past few years. In general, enterprises of the ministry have mobilized all their forces to implement the tasks that have been set. In 2004, the MCIT of the Nakhichevan Autonomous Republic fulfilled the plan of tariff revenues by 121.2 per cent, 2.18 mln manats was made in stead of the planned 1.8 mln, which is 1.9 mln manats more than in 2003. In 2005, this growth was a little lower and totaled 109.7 per cent. In 2004, the plan of communications services rendered to the population was fulfilled by 127.5 per cent and by 111.1 per cent in 2005. In 2004, 1.48 mln manats were made instead of the planned 1.16 mln manats, while tariff revenues increased by 0.26m manats in comparison with 2003 and by 0.35m manats in 2005.

4.6.2. Technical-investment indicators

With the aim of meeting the need for telecommunications services, in 2004 the existing number capacity was increased by 1,870 pieces by laying new cables of various diameters with the total length of 123.4km. In 2005, communications departments put into operation 3,034 telephone numbers, which is 1,164 more than in 2004. 981 telephones fall to the share of the urban population and 2,053 to the share of the rural population. In order to ensure the normal operation of automatic telephone stations, eight new generators and 207 batteries were purchased and put into operation. In 2005, with the aim of ensuring a link between new automatic telephone stations, five sets of HDSL equipment were purchased. In order to improve energy supplies to automatic telephone stations, seven gen-

erators and 218 batteries were purchased and handed over to communications departments in 2005.

Communications departments were set up in the newly-established district of Kangarli in 2004, the building allocated for the department was refurbished and put into operation and provided with all the necessary equipment. In order to install a telephone line in the Kangarli district center, a new telephone line was laid from the Givrag automatic telephone station. Eight communications houses were put into operation in 2005. The two-storey office building of the communications department in the Shahbuz district center was put into operation after major refurbishment and provided with the necessary equipment. On 1 June 2005, the transfer of the Autonomous Republic's communications network to a 6-digit system was successfully completed, which brought the numbering system in Nakhichevan into line with international standards and made it possible to create additional 30,000 numbers. Also, conditions were created in the newly-established Kangarli district for allocating 48 prefixes.

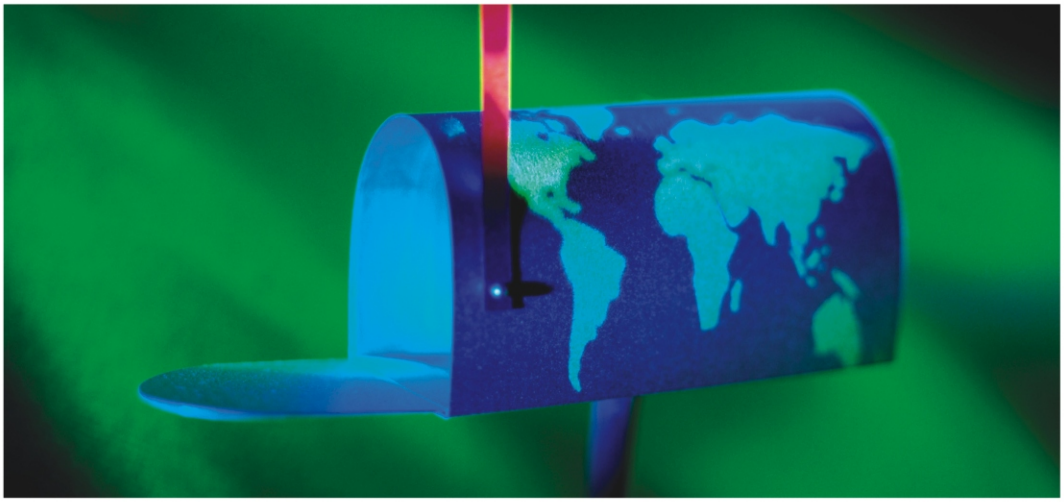
In 2004, on the occasion of the 80th anniversary of the Nakhichevan Autonomous Republic, the Internet portal www.nakhchivan.az was set up for the first time in the history of the autonomous republic and six types of post cards, stamps and envelopes depicting Nakhichevan's historical monuments were issued. In 2005, the English version of the main Internet portal of the Autonomous Republic www.nakhchivan.az was designed with the help of the MCIT of the Azerbaijan Republic and ADSL broadband DSLAM equipment for 48 subscribers was installed and put into operation.

In 2004, a new service to automatically identify phone numbers was put into operation at the Alcatel S-12 station in the city of Nakhichevan. The capacity of the station increased by another 512 numbers in one year. In 2005, the capacity of the Alcatel S-12 station was increased by another 1,024 numbers and reached 2,032.

4.6.3. Main indicators on Radio and TV broadcasts

In 2004, eight television and six radio channels were broadcasting on the territory of the autonomous republic. In 2005, on the basis of written requests from the Azad Azerbaijan independent broadcasting company and the Public TV and Radio company, they were given frequencies for two television and two radio channels and allowed to broadcast on the territory of the autonomous republic. Six television transmitters were installed in villages where the transmission of Nakhichevan and Azerbaijan TV was weak. A new video link was put into operation between Nakhichevan and Duzdaq. A 2.8km fiber-optic cable was laid between the new building of the radio and TV broadcasting center and the radio and TV broadcasting committee of the Nakhichevan Autonomous Republic.

On 14 July 2004, a scientific-journalistic TV channel called KANAL-35 was launched by the Nakhichevan Autonomous Republic and the MCIT to mark the 35th anniversary of the rise of our national leader Heydar Aliyev to



power in Azerbaijan. In connection with the first anniversary of the establishment of KANAL-35, KANAL-35 and Voice of Nakhichevan radio switched 18-hour broadcasts on 14 July 2005.

4.6.4. Achievements in the postal field

In 2004-2005, a number of projects were carried out in the postal sphere. As a result of improvements in the quality of postal services to the population, the number of postal dispatches and parcels significantly increased. More than 138 tonnes of parcels were received in 2004, while in 2005 this indicator increased even more and the Ministry of Communications and Information Technology of the Nakhichevan Autonomous Republic received 22,069 postal dispatches and parcels with the total weight of 143,327 kg. In 2004, the receipt and dispatch of remittances increased, 1.16m manats of MoneyGram transactions were carried out, 0.98m manats were received and the service yielded a profit of 14.08m manats. In 2005, the receipt and dispatch of MoneyGram transactions also considerably increased in comparison with 2004. In 2005, the amount of MoneyGram payments totaled 1.72m manats while 1.06m manats were received.

In 2004, the general services halls of the central post offices in Sharur District and in the city of Nakhichevan, as well as seven post offices in the autonomous republic were completely refurbished and central post offices were provided with electronic scales and copy machines. Besides that, with the aim of improving the quality of postal services in Nakhichevan, nine post offices were refurbished in the modern style and put into operation in 2005. With the help of the Universal Postal Union, 10 sets of computers and two vehicles were bought and 81 national mail boxes sent by Azerpost were put into operation in 2005 in order to improve the quality of services. Ninety-five new jobs were created in 2004 after the opening of new services spheres. The commissioning of new postal services and automatic telephone stations in 2005 made it possible to create 21 new jobs.

5

THE ACTIVITES OF ORGANIZATIONS UNDER THE JURISDICTION OF THE MCIT

5.1. Aztelecom Production Union

5.1.1. Directions of activity

The Aztelecom Production Unit provides telephone communications in the entire territory of the republic, except for international and intercity calls and Baku and the Nakhichevan Autonomous Republic. The association is a natural monopoly as an international communications operator. Along with 54 telecommunications enterprises under the jurisdiction of the Aztelecom production association, there are also the cable lines technical exchange and the international automated telephone exchange.

5.1.2. Financial indicators

According to the results of 2004, the Aztelecom Production Unit implemented forecasts on revenues from communications services to the population by 112.1 per cent (the forecast was 42.74 mln manats, but in fact it totaled 47.9 mln manats.). Accordingly, in 2005 the financial indicators of the Aztelecom production association were as following:

- Revenues of the Aztelecom production Unit totaled 88.74 mln manats, which is 30 per cent higher than in 2004.

The volume of Aztelecom's communications services to the population totaled 37.81 mln manats and exceeded the indicator of 2004 by 6.38 mln manats, or by 20.4 per cent.

5.1.3. Technical-investment indicators

- As a result of the implementation of investment projects, Aztelecom and the Baku Telephone Communications Production Unit ensured a 177.3-per-cent increase in the number of ordinary telephones in 2004. The overall capacity of automatic telephone stations increased by 69,400 numbers or by 6.7 per cent.

- In 2005 Aztelecom ensured an increase

in the number of ordinary telephones by 36,867.

- In 2005 the total sum of investment projects carried out in the communications network of Aztelecom amounted to 16.55m manats, the assembly capacities of automatic telephone stations increased by 56,812 numbers and 35 new automatic telephone stations were built.

- As a result of the measures that were carried out, in 2005 the capacity of electronic automatic telephone stations increased by 81,956 numbers and reached 303,484, while the level of electronic support for the telephone network rose from 43.2 to 54.1 per cent (city 61.1; village 40.6). In 2005, the telephone networks of Naftalan, Goranboy, Ali-Bayramli and Yevlakh and the central automatic telephone stations of Lankaran, Tovuz, Agstafa, Qabala, Dashkasan and Qobustan were provided with electronic equipment.

- The overall length of lines reached 2,300 km after the installation of 115km fiber-optic cables used in the international, long-distance and local network. With the direct connection of Naftalan and Khizi technical cable exchange to the main TAE fiber-optic cable, the number of such telecommunications exchanges reached 38.

5.1.4. The applied innovations

- In 2004-2005, associations created the following new services:

Internet services: the Aztelecom.net Internet provider was set up within Aztelecom, and service centers of the provider were set up in six regions of the republic. This was an important step directed at the development of information technologies in regions, and ensures high-speed connection to the global network from any part of the republic.

- TOLL FREE (088) service: This service, which is of benefit, first of all, to businessmen and corporate clients, makes it possible to reverse charges for long-distance calls.

- Measures to develop information technologies were continued and in 2005, and broadband communications services on the basis of the DSL technology were launched for the first time in regions, which ensured high-speed connection to the Internet.

- Aztelecom installed and put into operation CDMA equipment for 5,000 numbers covering Absheron and partially Sumqayit, and equipment for 1,000 numbers covering Shamakhi District.

- Tariffs for services were reduced. Tariffs for international calls to various tariff zones were reduced from 15 per cent to 40 per cent. At the same time, considering projects on the socioeconomic development of regions, tariffs for international phone calls in regions of the country were lower than tariffs in Baku for the first time. Tariffs for one-off connection and monthly use of intercity digital communications channels inside the country were reduced by several times, and at the same time, tariffs for using such channels were determined for the first time according to the distance between units where the channels were located.

5.2. Baku Telephone Communications Production Unit

5.2.1. Directions of activity

The Baku Telephone Communications Production Unit provides government agencies, state administrative bodies, departments, enterprises and organizations, foreign legal entities, their representative offices and the population in Baku with all types of uninterrupted and high-quality telephone and radio communications services. BTC is completely self-sufficient and is working on the basis of principles of total self-financing. BTC carries out part of its functions by means of its structural units such as the Khatai telephone exchange, Yasamal telephone exchange, Nizami telephone exchange, Sabunchu telephone exchange, Azizbayov telephone exchange, Qaradag telephone exchange, Baku telephone exchange, the Baku city radio broadcasting exchange, the Baku Cable Exchange, the department for the construction and repair of communications installations, Azerrabitalahiya project-research office and enterprises that have the status of a legal entity.

5.2.2. Financial indicators

- Revenues of BTC totaled 21.1 mln manats in 2004 and 22.9 mln manats in 2005;

- The volume of services provided by BTC to the population totaled 11.95 mln manats in 2004 and 12.45 mln manats in 2005.

5.2.3. Technical-investment indicators

- Capital investments by BTC totaled 8.4 mln manats in 2004, and 10.2 mln manats in 2005. It has to be noted that in connection with the provision of electronic equipment to automatic telephone stations in 2005, the capacity of electronic automatic telephone stations increased by 72,271 numbers and reached 331,899. This made it possible to increase the use of electronic equipment to 71.5 per cent;

- Besides that, BTC ensured a growth in the number of telephones by 23,883 in 2004 and 31,629 in 2005. The number of broadband communications services also significantly increased from 534 in 2004 to 1,432 in 2005;

- In order to separate Internet traffic from the traffic of phone calls, an Internet exchange was put into operation.

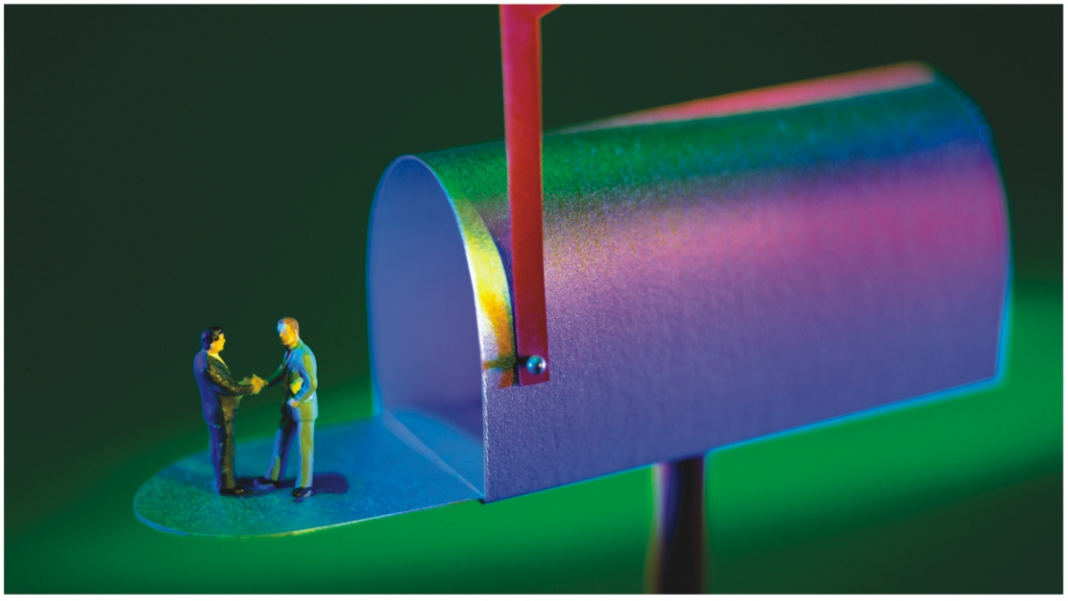
5.2.4. The applied innovations

- The 464 index decade-step automatic telephone station, which was used in the BTC network for a long time, was reconstructed on the basis of NGN technologies. As a result of the application of NGN technologies, it became possible to provide video telephony, IP telephony and IPTV services in Baku;

- BTC has installed and put into operation CDMA equipment for 5,000 numbers covering Baku;

- The 122-coded central bureau of repairs was put into operation to centralize the receipt of customer inquiries and repair damage.

5.3. Azerpost state enterprise



5.3.1. Directions of activities

Since the law of the Republic of Azerbaijan "On postal communications" took effect in 2004, the Azerpost state enterprise has been regarded as a national post operator of the Ministry of Communications and Information Technologies providing universal postal services since October 7, 2004.

The enterprise has 62 post offices, two daughter enterprises and 10 telephone exchanges.

The enterprise has 1,273 post offices, including 101 in Baku and 1,172 in rural areas, covering all the population centers of the republic. 27 new post offices were opened in 2004, which is three times more than in 2003. In order to improve postal services to the country's population and in line with decrees signed by the country's president on the creation of new jobs and on the socioeconomic development of regions, the Azerpost state enterprise opened 45 new post offices in 2005, which is 18 offices more than in 2004. Moreover, 21 post agencies were opened and are being used by the population.

5.3.2. Financial indicators

- The actual revenue of the Azerpost state enterprise in 2003 totaled 8.2 mln manats, while in 2004 this figure reached 8.8 mln manats, which means an extra revenue of 648,040 manats in comparison with 2003 (108 per cent). Accordingly, 2005 yielded 9.7 mln manats. Although the share of the postal sector in the communications sector was 6.9 per cent in 2004, this figure accounted for 7.5 per cent in 2005;

- Although the revenue from services to the population totaled 4 mln manats in 2003, the revenue amounted to 4.5 mln manats in 2004 and 5 mln manats in 2005, which is 476,000 manats (112 per cent) more than in 2003 and 530,000

manats (112 per cent) more than in 2004;

- Although the average monthly salary in Azerpost was 54 manats in 2003, this figure reached 64.5 manats at the end of 2004. Accordingly, the average monthly salary reached 73.4m manats at the end of 2005.

- In 2004, the republic's post offices received 310,203 remittances (MoneyGram) to the tune of 11.64 mln manats. In comparison with 2003, the amount of received remittances increased by 4.4 mln manats (1.6 times) and their number by 103,456 (1.5 times). In comparison with 2004, the amount of remittances that were received increased by 4.3m manats and their number by 80,992;

- In comparison with 2003, the number of international dispatches received from abroad increased by 13.2 per cent while the number of dispatches sent abroad increased by 32.2 per cent. If in 2004 the number of international dispatches received from abroad was only 5,656, in 2005 the number international dispatches received from abroad totaled only 7,237, i.e. increased by 1,581 (27.9 per cent) in comparison with the previous year, and if the number of dispatches sent abroad was 5,092, in 2005 their number totaled 6,051;

- Let's have a look at information about international postal dispatches in 2004. A total of 31,963 letters, 57,632 certified letters and 1,506 value letters were sent in 2004. 18,375 kg of parcels (international) were sent and their number totaled 2,528 (Table 9).

Table 9. The dynamics of postal dispatches by Azerpocht

Kind of money sending	2004			2005		
	Inside the republic	International	Total	Inside the republic	International	Total
Amount of written correspondences pieces)	2,457,250	237,689	2,694,939	4,497,902	273,133	4,771,035
Amount of parcels and small parcels (piece)	2,833	653	3,486	9,908	15,240	25,148
Quantity of post parc els (piece)	45,720	3,617	49,337	53489	3180	56669
Amount of mongramms (piece)	302,904	7,553	310,203	391,194	9.374	400,568
Amount of telegrams (pieces)	173,904	18,380	192,284	188,857	17,011	205,868
Number of fast post sending (piece)	395,592	5,093	400,685	368,338	6,051	374,389
Weight of fast mails sending	11,867	2,913	14,781	22,100	8,388	30,488

5.3.3. Technical-investment indicators

- The MCIT invested 3.4m manats in Azerpost to develop this sector in 2004. In 2005, 4 mln manats were invested by Azerpost;

- If in 2003, 66 post buildings were built, while 140 post buildings were built in 2004. Sixteen post offices were refurbished and 18 post offices were reconstructed. In 2005, 142 new buildings were built for post offices. The buildings of 18 post offices were refurbished and nine

post offices were reconstructed.

5.3.4. The applied innovations

- In connection with the Universal Postal Union's switch to the international system of electronic remittances (STEFI), purposeful work was carried out and a system was set up. Agreements on exchanging electronic remittances were signed with the postal departments of the United Arab Emirates, Kazakhstan, Ukraine, Russia, Belarus and Moldova and exchange programs were launched.

- In 2005, the World Bank and the Azerbaijani government signed an agreement on a development credit to the tune of 12.25m dollars on the project on the development of financial services. The implementation of this project will make it possible to improve the economic situation of post networks and to ensure competitiveness, reduce expenses on money transfers, develop entrepreneurship in regions and rural areas and create new jobs. The main purpose of the project is to re-establish the infrastructure of the Azerpost state enterprise (apply new technologies) and create conditions for banking-financial services in the post network. (Scheme 1)

This project pursued the following goals:

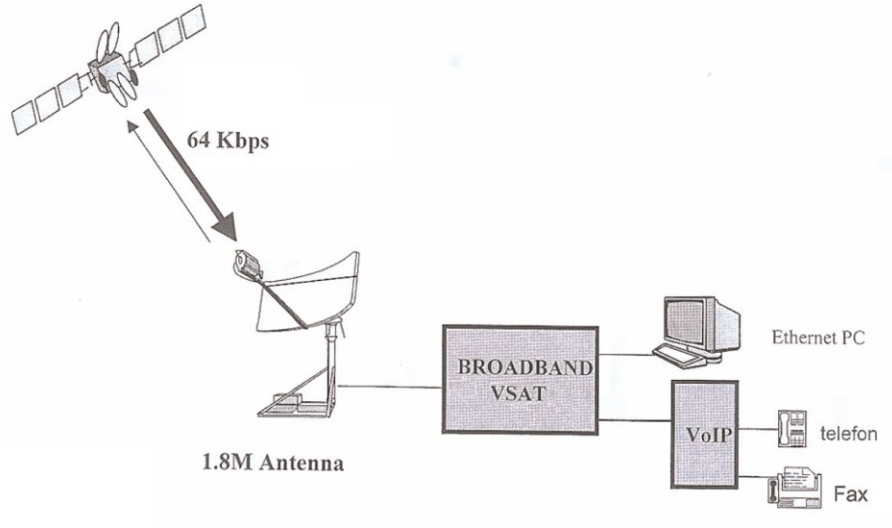
- To improve the business environment;

- To reduce the volume of cash transactions;

- To create a single payment area that covers the entire country;

- To provide legal entities and private individuals with access to banking, financial and business services;

The scheme of connection of the remote Post offices to the central server on the basis of the project offered by the World Bank.



Scheme 1

- To deliver salaries, pensions, allowances and other payments to the population.

The following new financial services will be introduced in connection with projects financed by the World Bank:

- Electronic payments;

- Receipt of limited and permanent deposits;

- Sale of other savings services;

- Sale of deposit certificates issued by banks;

- Sale of deposit certificates;

- Sale of smart cards;

- E-government services

In connection with the implementation of the project on the development of financial services financed by the World Bank, structural reforms were carried out in Azerpost in 2005 and two new departments were set up.

5.3.5. International relations

The Azerpost state enterprise is a member of international organizations. As a full member of the Universal Postal Union, it participates in authoritative meetings and conferences. In 2005, agreements were signed with the post departments of two states (Iran and Vietnam) on exchanging remittances by mail and an agreement with one state (Moldova) on exchanging electronic remittances. In 2004, Azerpost won the international gold award "Century International Quality Era" of the Business Initiative Center based in Geneva. 2005 was also a successful year for the Azerexpresspost communications enterprise that provides fast post services. The company IBM Business Consulting Services that inspected and appraised the quality of services in 2002-2004 awarded Azerexpresspost with a silver certificate according to the results of 2003 and 2004.

5.4. Teleradio Production Union

5.4.1. Directions of activities

The Teleradio Production Union is the only state enterprise that provides radio and television broadcasts, radio and satellite communications, satellite broadcasts of radio and television programs and other services and oversees the transmission and broadcasting of state, private and foreign radio and TV programs, the exploitation of technical means in this sphere (radio relay lines, radio and TV transmitters, aerial feeder installations, ground satellite stations and so on), the establishment of international and intercity communications channels and the exploitation of technical means in this sphere (radio relay lines, ground satellite stations, aerial feeder installations, etc.)

The transmission of radio and television programs in the republic is carried out in line with recommendations and standards of the International Telecommunication Union, television channels are transmitted on PAL and D/K metric (VHF) and decimetric (UHF) frequencies and radio programs on medium waves and UKV-CM (FM) frequencies.

5.4.2. Financial Indicators

The Teleradio Production Union had the following economic indicators in 2004-2005:

- Tariff revenue - 5.3 mln manats (5.9 mln manats in 2005);

- Balance profit - 756,300 manats (519,900 manats);

- Profitability level - 19.3 per cent (11.2 per cent)

- Average monthly salary - 152,2 manats (152.2 manats)

5.4.3. Technical-investment indicators

- In 2004, Teleradio installed and put into operation RDS equipment in order to ensure the transmission of additional information on FM radio transmitters broadcasting Araz and I Respublika radio programs in the country's territory;

- In 2005, Teleradio invested 3.023 mln manats in new technologies and development. If at the end of 2004 there were 274 radio and television stations under the jurisdiction of the Teleradio production association, this figure totaled 289 at the end of 2005. Teleradio continued using the existing technical broadcasting and communications means and put into operation 50 pieces of various equipment in 2004 and 53 pieces of equipment in 2005;

- Relevant work was launched in 2005 to organize the transmission of Public TV programs. By the end of 2005, 32 various powerful TV relays and satellite equipment were installed and put into operation in regions of the country to ensure ITV broadcasts. In 2005, a new modern powerful radio and television station called the Gulustan radio and television broadcasting station was built and put into operation in Agsu District;

As a result of measures carried out in 2005:

- STV broadcasts were launched in three more regions of the country - from the Lerik radio and television broadcasting station, Nugadi radio and television broadcasting station and Sheki radio and television station;

- At present, 80-85 per cent of the republic's population have been provided with ITV broadcasts;

- Anten-101 FM radio broadcasts were organized from the TV tower in Baku and from the Khachmaz radio and television station;

- Relevant measures were taken to ensure AzTV broadcasts from the new TV tower through the AzStarNet wireless Internet network.

5.4.4. Applied innovations

At the initiative of the Teleradio Production Union, ground digital test TV broadcasts (DVB-T) were launched in 2004 for the first time in the South Caucasus and the Middle East. The switch to digital television in TV broadcasting makes it possible to expand a number of many functional possibilities of television systems, to expand the number of TV channels and to improve the quality of sound and picture signals.

In 2005, the Azad Azerbaijan TV company started broadcasting its TV pro-

grams in Ganja, Agsu, Lerik and Quba and FM radio programs in Dashkasan. The company Radio Anten started broadcasting its FM radio programs in Quba and Dashkasan. Samanyolu TV broadcasts were launched in Quba, Sheki and Lankaran.

5.4.5. The international relations

The Teleradio Production Union has been cooperating with a number of international radio and communications organizations (International Telecommunication Union, Regional Communications Union of the CIS, etc.) and influential international satellite organizations (Intelsat, Turksat, Eutelsat, QPKS, etc.) for many years. Moreover, Teleradio is cooperating with well-known companies of the world (Italy's Elettronica, Technosystem, Goel, US company Andrew, Russia's RFS and AOO Mart, Israel's Scopus, Latvia's Vigintos, etc.) in order to purchase equipment and spare parts.

5.4.6. Works ahead

According to the state program on the development of communications and information technology in the Republic of Azerbaijan in 2005-2008 (Electronic Azerbaijan), Teleradio has identified the following main directions of radio and television broadcasting and satellite communications:

- To ensure the high quality transmission of the AzTV national television channel by modernizing TV relays of the ground analogue transmission and aerial feeder systems in Azerbaijan to allow 99.9 per cent of the population to receive it (to create conditions for receiving AzTV in all population centers with a population of more than 30 people);

- To ensure that the ground analogue transmission of Public Television to 98 per cent of the population in Azerbaijan;

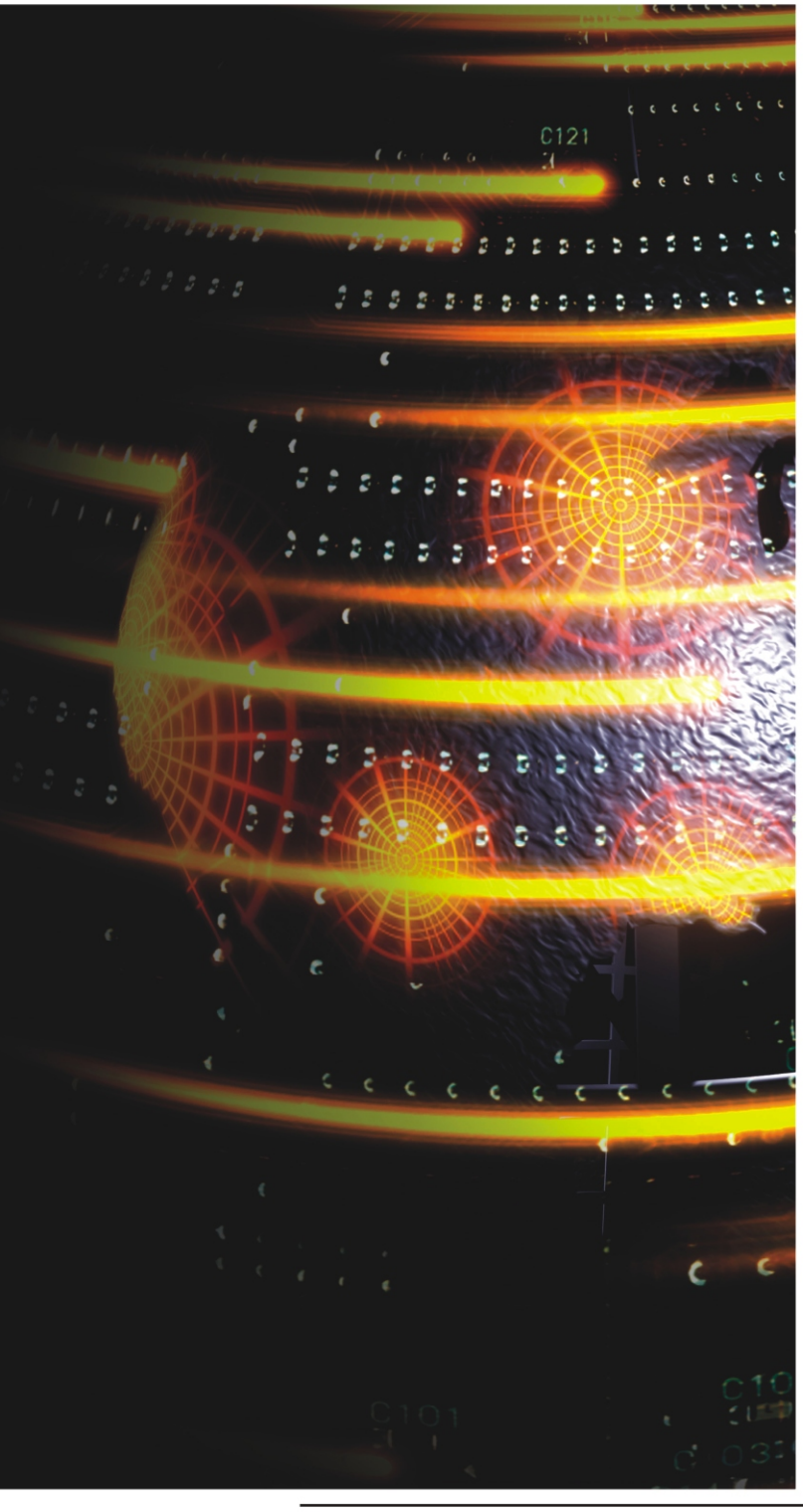
- To ensure the transmission of the I Respublika and Public radio channels on the FM frequency on 98 per cent of the republic's territory;

- To ensure the ground analogue transmission of three or more private TV and radio channels to cover 95 per cent of the country's population and 75 per cent of its territory;

- To provide 90 per cent of the country's population with one package (4-5 TV channels) and 70 per cent with two package ground television broadcasts (DVB-T) and digital ground broadcasts (DAB);

- To establish the infrastructure of radio and television broadcasts and satellite communications in territories that will be liberated from occupation in line with modern requirements and to achieve development goals set to other parts of the country.

5.5. The Department of Radio Frequencies



5.5.1. Directions of activities

The Department of Radio Frequencies is a self-sufficient and self-financing state enterprise under the jurisdiction of the Ministry of Communications and Information Technology. It ensures records of the spectrum of radio frequencies for civilian purpose in the Azerbaijan Republic and registers radio electronic means working on those frequencies.

5.5.2. Financial indicators

In 2004, the Department of Radio Frequencies was planning to make a revenue of 1.1 mln manats, but made 1.5 mln manats or fulfilled its plan by 140 per cent. In 2005, revenue reached 1.7 mln manats against the planned 1.4 mln manats, which is an increased of 20.6 per cent. In 2004, tariffs for a number of basic services were reduced by 40 per cent.

5.5.3. Technical-investment indicators

- In connection with the implementation of relevant points of the MCIT's plan of measures "On work that will be carried out in the second half of 2004 and on communications facilities that will be put into operation", the Department of Radio Frequencies set up radio control

points in three regions of the country in 2004 - Qabala, Ganja and Masalli districts - and provided them with necessary equipment. Moreover, an automatic system was drawn up to control the quality of AzTV-1 broadcasts. After the system is put into operation, it will be possible to carry out automatic control over the main parameters of the TV channel from the broadcasting control point of the Department of Radio Frequencies.

- Two more broadcasting control points were set up and provided with technical equipment in regions of the country in 2005. According to the decision of the State Commission on Radio Frequencies 2,270 means of communications that were put into operation at enterprises and organizations were registered in 2005. In order to improve the quality of AzTV-1 broadcasts in the country, the Department of Radio Frequencies identified the coverage area of four TV relays and drew their map. Work was carried out to ensure the satellite transmission of TV and radio channels through VSAT ground satellite terminals.

5.5.4. Applied innovations:

- In order to improve the monitoring of radio frequencies in the republic, in 2005 the Department of Radio Frequencies prepared a computer version of the three-dimensional digital schedule of frequencies on the basis of the most up-to-date software with the help of funding from the IREX organization of the US Agency for International Development and is now using this schedule in practice;

- Along with VSAT ground satellite terminals, satellite telephones such as Inmarsa, Emsat, Thuraya and Iridium were registered in the republic and are now being used. In general, the Department of Radio Frequencies has registered 128 VSAT, 214 Inmarsat, 33 Thuraya and three Iridium satellite stations and telephones.

5.6. The Center of the International Relations and Calculations (CIRC)

5.6.1. Directions of activities

The Center for International Relations and Calculations is engaged in signing bilateral or trilateral agreements on international telephone, telex, telegraph and postal communications services exchanged between the Azerbaijan Republic and other countries and in carrying out mutual settlements between states and in calculating and determining the prices of international telecommunications and postal services between the MCIT and communications operators of other countries on the basis of the recommendations and rules of the International Telecommunication Union and the Universal Postal Union.

The work of the Center for International Relations and Calculations made it possible to provide high quality international telecommunications services between Azerbaijan and countries of the world in 2004-2005 and to transmit the republic's access traffic with effective termination prices by ensuring quality and alternatives. Compared with 2003, the annual volume of the overall traffic of incoming international phone calls coming into Azerbaijan from countries of the world increased by 40 per cent while the annual volume of overall access traffic

increased by 26 per cent. Accordingly, compared with 2004, this increase accounted for 15 and 27 per cent in 2005.

5.6.2. Financial indicators

- As a result of purposeful measures to organize international communications more effectively and to increase the volume of traffic exchange, the Center for International Relations and Calculations made revenue of 20.96 mln manats in 2004 and increased by 12.2 per cent, reaching 23.52 mln dollars in 2005;

5.6.3. Technical-investment indicators

- In 2004, the Center for International Relations and Calculations of the Ministry of Communications and Information Technology organized new direct channels with Russia, the USA, Georgia and other states and started exchanging traffic on the basis of agreements on IP protocol. In 2004, the number of international telephone channels using IP protocols accounted for 35 per cent of all channels and totaled 1,200.

- In order to make effective use of the TAE fiber-optic line, 5x2 Mbit/s transit volumes between Russia and Georgia through Azerbaijani territory and 2x2 Mbit/s volumes for oil companies inside Azerbaijan were organized put into operation and extra income was made from rented channels.

5.6.4. Applied innovations

- In order to improve the quality of communications between Azerbaijan and the USA and to ensure an alternative to the fiber-optic cable, the Center for International Relations and Calculations joined the ITUR system in Turkey and organized a 2Mbit/s channel between Baku and ATT on the route between the USA (White Plains), Italy (Palermo) and Istanbul (Turkey) and Baku.

- In order to ensure an infrastructure of new technologies and information activities, other methods and means were prepared. Methodological and legal materials were prepared in order to exploit and use information systems and new equipment.

5.7. The Information-Calculating Center (ICC)

5.7.1. Directions of activities

The Information-Calculating Center ensures single information support for the main technological processes and work of the structural organizations of the MCIT, the maximum effectiveness of work in market economy conditions and the preparation and maintenance of single programs and information technologies in the corporate network.

The Information-Calculating Center has the following basic systems designed for automating technological processes and operations at telecommunications and postal enterprises:

- A computerized calculating center for intercity and international phone calls;

- Information about certified calls of district centers is directly registered by the central server of the Information-Calculating Center;

- Compilation of reports and bills for enterprises and private customers (every 15 days);

- Use of online programs in networks in order to computerize payments at all the telecommunications and postal enterprises of the republic.

5.7.2. Financial - economic indicators

Services provided by the Information-Calculating Center to the aforesaid types of activities yielded 877,200 manats in 2004 and 1,1 mln manats in 2005. A total of 211,330 manats were transferred into the state budget in 2004 and 219,000 manats in 2005. The average monthly salary at the Information-Calculation Center was 202.4 manats in 2004 and 217.8 manats in 2005.

5.7.3. Technical indicators

The Information-Calculating Center carried out the following technical-systemic work in 2005:

Billing system for intercity and international phone calls; a billing system of payments by customers; a system of paying and registering pensions though post offices; Information about unpaid pensions from every post office every month and a system of fast money dispatches in the republic were prepared and implemented in practice.

Moreover, the Information-Calculating Center provided technical support to connect our country's postal system to the STEFI system; prepared software to bring domestic money transfers in line with international ones; compares the STEFI system with other international systems and provides technical services while the system is in operation.

5.7.4. Applied innovations

- In order to install a calculating-clearing system for small payments at the National Bank of Azerbaijan, the Information-Calculating Center started operating as an operator of calculating-clearing systems for small payments in 2004;

- At the initiative of the Information-Calculating Center, the centralized bureau of repairs was moved to a new platform in 2004. In order to eliminate damage to telephones as soon as possible and create centralized oversight over this process, the Information-Calculating Center set up a centralized bureau of repairs for the Baku Telephone Communications production association on the basis of a relevant technical instruction;

- The process of disconnecting and connecting telephones for debts at electronic automatic telephone stations in Baku and regions of the country has been managed by the Information-Calculating Center in an automatic and centralized manner;

- In 2005, the Information-Calculating Center was selected as a provider to create and maintain a telecommunications network for the National Card Processing Center, which was set up by the National Bank of Azerbaijan, for banks, cashpoints and POS terminals that will join the center.

5.8. Azermarka Company

5.8.1. Financial - economic indicators

The activities of the Azermarka company yielded a profit of 221800 manats in 2004 against the predicted 220000 manats. Stamps worth 175600 manats, envelopes worth 29000 manats and post cards worth 21200 manats were sold in 2004. Accordingly, the Azermarka Company continued its work in 2005 and made a profit of 418100 manats against the predicted 416000 manats. Stamps worth 240500 manats, envelopes worth 44500 manats and post cards worth 33600 manats were sold in 2005.

5.8.2. Technical indicators

In 2004, Azermarka printed postage stamps on 11 subjects dedicated to politicians, public figures, national costume, history and sports, post cards on six subjects dedicated to Azerbaijan's national holidays and six types of stamped envelopes dedicated to monuments to famous persons and the city of Baku.

2005 was a productive year for Azermarka. 37 postage stamps on 13 subjects were put into circulation during the year. According to a thematic plan approved by the MCIT, it is planned to release 24 postage stamps on 10 subjects in 2006.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RESPUBLİKASININ
RABİTƏ VƏ İNFORMASİYA
TEXNOLOGİYALARI
NAZİRLİYİ


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