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THE PUBLIC AFFAIRS SECTION / EMBASSY OF THE UNITED STATES OF AMERICA

ICT Conference speech

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Distinguished guests, conference attendees and fellow colleagues.
Salamaleykum ve Sabahiniz Xeyir
Zdravstvuyteh e Dobroe Utro
Hello and Good Morning !

My name is Tom Sadowski and I am with the American Embassy here in Baku.
I feel very privileged to have been asked to speak for a few minutes this morning, especially considering the distinguished list of other conference speakers.
I want to thank everyone at the Ministry of Communications and Information Technologies and the World Summit Award for the opportunity.

I especially want to congratulate the entire Organizing Committee for their success in pulling a conference together of this magnitude. It is certainly no small feat and the entire team should be commended for its efforts.

Finally, I want to thank Mr. Dan Stein of the U.S. Trade and Development Agency and Ms. Diane Landau of Global Resources for their guidance, candor and assistance as we all work together to advance ICT and strategic sector reforms here in Azerbaijan and worldwide. It is in that spirit of cooperation and teamwork that I speak to you here today.

The Government of Azerbaijan and through its mandate, the Ministry of Communications and Information Technologies is faced with an unenviable task and dilemma relating to the planned privatization of state-run telecommunications enterprises. What is that dilemma?

Should the Government seek to sell off state-run telecom assets as-is to prospective buyers, or should they seek to increase their potential value by making investments in the operational assets and infrastructure before their sale. In short, modernize then privatize.... Or privatize and then modernize?

Although there are certain benefits and pitfalls to both courses of action, it is our belief that it would be incorrect for the Ministry to try to enhance any asset's value through a modernization

or investment program ahead of privatization.

The increase in an asset's value will almost invariably be less than the money that the State spends through its investment and modernization program, no matter how well-intentioned or well-structured that Program is.

It is far better to let the new owner, or owners, make their own decision on investment priorities and introduce the new capital to the asset, rather than making the decision for them. Therefore, Privatize and then Modernize.

What an investor buys through privatization is not limited to the physical infrastructure and hardware and software itself of a company, but rather the metaphysical asset of the enterprise, its structures, its licenses, its talent pool, and the "goodwill" of that company. Privatizing and then modernizing is the wisest strategy for the ICT sector in Azerbaijan, not the other way around.

If the Government of Azerbaijan wants to focus its time, manpower, and financial resources in a positive direction, then the most constructive and ultimately, lucrative strategy to enhance the value of state-run enterprises such as Aztelecom and Baktelecom would be to greatly improve the regulatory environment these entities currently exist in.

By establishing a reliable, predictable, stable and transparent regulatory regime independent of every and all Administration and Ministerial influence would encourage competition and discourage monopolistic practices and collusion among entities.

In addition, the creation of a healthy regulatory environment would attract new foreign and domestic investment to the ICT sector to the benefit of the consumer population, and by extension, would enhance economic productivity.

President Ilham Aliyev's platform of 600,000 new jobs would also be served, since by increasing productivity, the job market would also be stimulated. A regulated environment would also reduce the risks perceived by a potential investor wanting to do business in Azerbaijan.

Since the value of an asset being sold is inversely proportional to its risk assessment, if you reduce the risk, the value of the company should increase. As a colleague of mine recently stated, whether one agrees or disagrees with the recent Corruption Index ranking Azerbaijan 140th out of 146 least corrupt countries, the reality is that the perception of corruption remains intact.

A stable, transparent and independent regulatory environment would be a positive step in changing business practices and investor's attitudes and perceptions.

Although some emerging markets in other countries have chosen to artificially enhance the value of a state-run asset by prolonging the monopoly right of a targeted company, history has shown that over time this only marginally increases the value of the asset.

The net effect is the exact opposite of privatization in the first place, which is to enhance the quality and variety of services available to the consumer and to improve the performance and

productivity of the entire economy. Overall, the drag on public welfare far outweighs the small fiscal advantage of a higher asset sale price that the State budget may ultimately enjoy.

This process is not always straightforward and certainly not always painless. Policies have to be developed, political wills strengthened, legislation passed, industries restructured, regulatory regimes put in place, and transactions completed. The public must also be kept well-informed so that they understand that short term losses or changes to their way of life will eventually lead to longer term gains. The reform process requires focus, commitment, and skill. But as we have seen already and will likely see throughout the remainder of this conference, there are people and organizations with experience that are willing to assist with that reform.

One such example of an assistance project on the verge of being launched is by the U.S. Trade and Development Agency (TDA), an export program agency of the U.S. Government. This project is called "The Strategic, Legal and Financial Advisor Program for the Ministry of Communications and Information Technologies in Azerbaijan." This project's main objective is to provide hands-on assistance to the MCIT for issues relating to ICT regulatory reform.

During a TDA sponsored ICT Definitional Mission in August 2004, several areas of assistance were identified and discussed at great length. But what was most impressive about the Definitional Mission was not the scope of the intended activities, but the diversity of the organizations already beginning to contribute to ICT reform today and willing to share their thoughts, strategies and experiences.

Apart from the Ministry and my Embassy colleagues, the Mission met with local suppliers and IT businessmen, the American Chamber of Commerce ICT Roundtable, our colleagues at institutions such as the World Bank, EBRD, and UNDP, and last but certainly not least, with development institutions such as the U.S. Agency for International Development and the German Technical Cooperation team at GTZ.

This one-year long Technical Advisor Project is designed to have international subject matter experts work with the MCIT on a wide range of issues associated with regulation, licensing, interconnection, tariff management, and the enforcement of accepted ICT sector rules and regulations.

The Project will focus on handling key tasks related to the establishing and implementing of interconnection and regulatory policies, all while meeting the key principles of Azerbaijan's Decree on its National IT Strategy signed by the President in February 2003. The IT Strategy Decree clearly states that it intends "to ensure the effectiveness of ICT application and development and create favorable and equal conditions for all participants such as state structures, research and education institutions, private companies, NGOs, public organizations and citizens".

Again, I want to thank the Ministry and the World Summit Award for the opportunity to share a few thoughts with you all today on ICT reform and the privatization and modernization dilemma in Azerbaijan. As I stated before, and as the attendance at this conference indicates, there is no shortage of people willing to support and assist in the growth of the ICT sector here. Although I have less than a year left in Azerbaijan, I am confident that the policies, programs and potential

realized today will last for years to come and help make Azerbaijan a hub of ICT in the Caucasus and throughout Central Asia.

Thank you very much for your time and your attention.