

The Kyrgyz Republic: Telecommunications Market

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Market Overview

The telecommunications market in the Kyrgyz Republic has experienced tremendous growth over the past few years. The mobile/cellular phone market is by far the biggest and most rapidly growing sector of the telecommunications industry in the Kyrgyz Republic. In 2006, revenues of telecom companies amounted to over US\$ 135 million, up 23% from 2005. The mobile phone market generates 48% of all telecom revenues. The number of subscribers for mobile services in 2007 has increased by 83% and reached approximately 1.8 million subscribers. In comparison, the number of fixed line subscribers is 460,200.

Market Breakdown

Kyrgyz Republic	2004	2005	2006
Population (millions)	5.12	5.17	5.22
GDP (US\$, billions)	2.21	2.46	2.82
Real GDP growth (% change per year)	7.0%	-0.2%	2.7%
GDP per capita (US\$)	431.86	472.48	540.23
Total Telecom Imports (in US\$ million)	13.45	17.44	67.67
U.S. Imports (in US\$ million)	3.75	3.15	8.90
Telecom Revenues (in US\$ million)	88.05	110.40	135.39

Table 1. Major Macroeconomic and Telecom Indicators for the Kyrgyz Republic 2004-2006

Telecom revenues grew at a rate of over 20% per year for the past three years. The mobile phone market accounts for 48% of total telecom revenues.

Revenues (US\$ Million)	2004	2005	2006
Mobile network	32.16	52.04	64.99
Fixed line network	43.00	42.31	49.15
Other	12.90	16.05	21.26
Total Telecom	88.05	110.40	135.39

Table 2. Telecom Revenues

Telecom Equipment Market

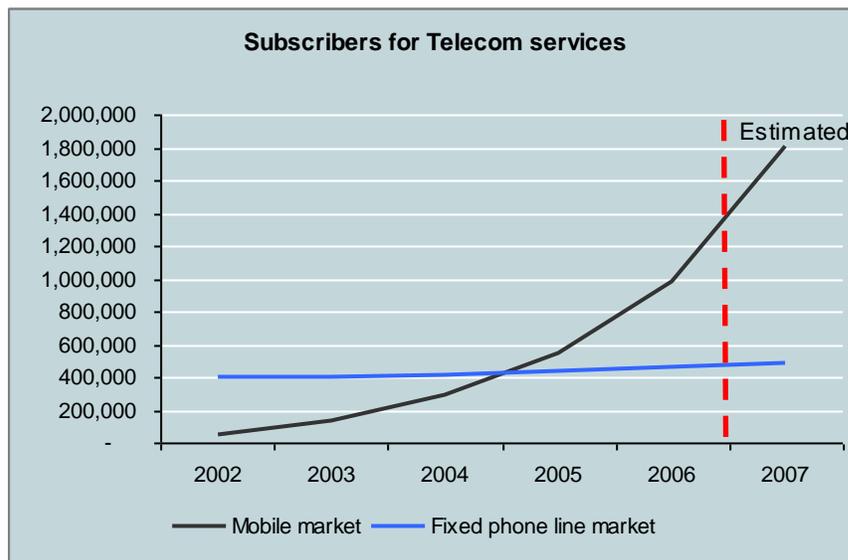
Most telecommunications equipment comes from Chinese producers (Huawei Technologies, ZTE). Although the main factor for most commercial resellers of equipment remains price, the United States retains a solid share in telecom exports to the Kyrgyz Republic, is number three after China and Finland.

Top 5 Exporters	Value (US\$ Million)	Share
China	35.14	52%
Finland	10.37	15%
United States	8.90	13%
Sweden	6.37	9%
Korea	1.96	3%

Source: State Customs Inspectorate (<http://www.customs.gov.kg>)

Table 3. Top 5 Exporters of Telecom Equipment to the Kyrgyz Republic in 2006

Table 1 indicates that there had been a tremendous increase in import of telecommunications equipment in 2006. A main reason for such an increase in telecom imports in 2006 is the entry of new GSM mobile operator BiMoCom (marketed as MegaCom.) MegaCom initiated an aggressive expansion strategy that has permitted it to expand the market, and also secure a significant market share.



Source: National Communications Agency, BISNIS research

Graph 1. Number of Subscribers for Telecom Services 2002-2007.

Graph 1 vividly depicts how rapidly the mobile market development surpassed fixed phone line market.

Fixed Line Market

The Kyrgyz fixed line market is represented by 3 companies, KyrgyzTelecom, Saima Telecom and WinLine. In 2006, the Kyrgyz Republic had 460,200 subscribers for fixed line services – equal to 8.8% of the population. KyrgyzTelecom’s subscribers comprise 96% of all fixed line subscribers in the Kyrgyz Republic.

Fixed phone line operators	2002	2003	2004	2005	2006
KyrgyzTelecom	388,902	390,732	407,342	427,280	443,125
Other operators	5,868	6,611	9,088	13,103	17,075
<i>Total</i>	<i>394,770</i>	<i>397,343</i>	<i>416,430</i>	<i>440,383</i>	<i>460,200</i>

Source: National Communications Agency (www.nas.kg)

Table 4. Fixed Line Subscribers 2002-2006

KyrgyzTelecom

KyrgyzTelecom is the biggest national fixed telecom operator in the Kyrgyz Republic. It became a Joint Stock Company in 1997. KyrgyzTelecom provides a broad range of telecommunications services, including basic phone services (local, domestic, long distance and international), access to the internet, telegraph, and others. In 2006, total installed capacity was 530,904 phone lines, where 82.6% or 438,315 were used phone numbers. Of this number, 202,212 were digital phone lines. KyrgyzTelecom is the only fixed line operator that covers all regions and towns of Kyrgyzstan. Corporate clients account for 17% of the total client base, the remaining 83% of phone lines are used by individual subscribers. While KyrgyzTelecom provides 96% of fixed line services, it only receives 88% of total fixed line market revenue. The company also has 39% of the total telecommunications sector revenues. KyrgyzTelecom also has a license to provide mobile services.

Kyrgyz Telecom	2004	2005	2006
Number of subscribers	407,342	427,280	443,125
Revenue	\$49,540,124.35	\$47,518,373.02	\$53,159,565.56
Net Profit	\$ 6,760,983.61	\$ 4,084,534.80	\$ 6,572,954.66

Source: KyrgyzTelecom annual reports and National Communications Agency

Table 5. KyrgyzTelecom Financials and Subscribers

Along with its fixed telephone services, KyrgyzTelecom also provides a wide range of internet services. In 2006, KyrgyzTelecom covered 37% of all internet services in Kyrgyzstan, up 2% from 2005. It offers dial-up, DSL and broadband services for internet access.

Ownership structure of KyrgyzTelecom:

National Committee for Management of State Property of the Kyrgyz Republic – 77.84%

Social Fund – 12.51%

KyrgyzTelecom workers – 5%

Management of the company – 1%

Sold at coupon auction – 3.65%

The Kyrgyz Government has been trying to privatize KyrgyzTelecom to facilitate investments into the sector and development of current infrastructure since 2003. There have been several tenders, but none of them actually resulted in privatization. The National Committee for Management of State Property of the Kyrgyz Republic is in the process of finalizing all the documentation for yet another tender, which is planned for 2008. For more information about KyrgyzTelecom, visit <http://www.kt.kg>

Saima Telecom

Saima Telecom is a fixed-line telecommunications company which began operations in 1997. It specializes in corporate clients, but recently started to attract individual subscribers as well. Saima Telecom provides digital fixed telephone services and internet services primarily for Bishkek companies and residents. Saima Telecom offers internet services through dial up, ISDN, DSL and broadband. Saima Telecom has used the equipment of Huawei Technologies, Cisco Systems and Nortel Networks for building its network.

Currently Saima Telecom has over 10,000 subscribers. In August 2007, Eventis Telecom (Russia), the owner of BiMoCom (GSM mobile operator “MegaCom”) bought 50.1% of Saima Telecom. For more information about Saima Telecom, visit <http://www.saimatelecom.kg>

WinLine

WinLine owns a telecommunications company under the “SapatCom” brand. Unique services of this operator include the option for potential subscribers to get a phone, where fixed phone line is not available or impossible to install. Subscribers also have the option of saving their phone number when they move to a different location. WinLine uses three technologies for their services, two of which do not require installation of cables, thus allowing people to have a phone, where other fixed line operators cannot reach. The first one is CDMA-450 technology, the second one is DECT-1900MHz, and the third one is fixed line installation directly to subscriber. WinLine operates in selected regions of Chui oblast, which is the region surrounding the capital, Bishkek.

In September 2007, WinLine changed hands for an estimated US\$65 million. The new owner is a private entrepreneur – Tuleev Tashbolot, who also owns the Caravan shopping center. For more information about WinLine (SapatCom), visit <http://www.sapatcom.kg>

Mobile Market

The Kyrgyz mobile phone market is very dynamic, competitive and profitable. There are five mobile operators currently operating in the Kyrgyz Republic. However, there are four additional companies which hold mobile phone operator licenses. Currently, there are two GSM900/1800 operators – Sky Mobile (Bitel and Mobi brands) and BiMoCom (Megacom brand). There is one company that operates in DAMPS standard – Katel. AkTel (Fonex brand) uses CDMA 2000 1X and Sotel (Nexi brand) uses CDMA 3G technology. GSM operators are the most popular among subscribers and comprise 86% of all mobile subscribers in the Kyrgyz Republic. In 2007, the estimated penetration rate has reached 30%. Revenues of mobile operators exceeded US\$70 million.

Mobile operators	Start of operations	2002	2003	2004	2005	2006	2007
Bitel (GSM)	August 1998	38,084	92,186	239,689	473,000	744,780	1,000,000
Megacom (GSM)	April 2006					109,273	555,555
Fonex (CDMA 2000)	March 2003			3,686	13,652	56,047	180,000
Katel (DAMPS)	July 1994	15,000	46,093	46,093	55,000	74,900	74,900*
Nexi (CDMA 3G)	August 2007						n/a
<i>Total</i>		<i>53,084</i>	<i>138,279</i>	<i>289,468</i>	<i>541,652</i>	<i>985,000</i>	<i>1,810,455*</i>

Source: National Communications Agency (www.nas.kg)

* - Estimated

Table 6. Number of Subscribers for Mobile Services

Table 6 shows that the number of subscribers for mobile services has been almost doubling each year since 2002, reaching 1.8 million subscribers at the end of 2007. MegaCom is growing very rapidly and has the potential of surpassing its rivals.

There is a big market for cellular phones. Although official statistics indicate very low per capita incomes in the Kyrgyz Republic, many people are willing to spend \$100-\$400 on one single mobile phone. Major sources for used and new mobile phones are United Arab Emirates, Korea and China.

Sky Mobile (Bitel and Mobi brands)

Sky Mobile is the biggest GSM mobile operator in the Kyrgyz Republic. It started its operations in 1998 as the first GSM operator. Up until 2005 the company was affiliated with former President Akaev. However, after the March 2005 overthrow of the government, Bitel became a target of two Russian top mobile operators – VypelCom - Beeline (through its offshore subsidiaries) and MobileTeleSystems. The Supreme Court of the Kyrgyz Republic ruled in favor of Rezervspetsmet (Beeline). However, MobileTeleSystems continues efforts to appeal the decision via legal proceedings in the Isle of Man.

From the beginning, Bitel primarily had only corporate clients who could afford mobile communication. In 2001, Bitel introduced a new product to the mobile market – non-contract prepaid system under the brand name “MobiCard”. Mobicard system attracted many individual subscribers and in one year the number of subscribers grew by 300%.

Currently Sky Mobile has over one million subscribers. Sky Mobile offers voice services, SMS, MMS, WAP, GPRS. Sky Mobile has the broadest network coverage in the country.

For more information about Sky Mobile, visit <http://www.bitel.kg>

BiMoCom (MegaCom brand)

BiMoCom is a GSM operator marketing under the brand MegaCom. BiMoCom obtained its license back in 1998, but only started its operations in April 2006. Russian Eventis Telecom is the owner of BiMoCom.

In the past year and a half, BiMoCom managed to attract over 500,000 subscribers and now is the second largest mobile operator in the Kyrgyz Republic. BiMoCom offers a wide spectrum of services, including voice services, SMS, MMS, WAP and GPRS. BiMoCom has an extensive network and is present in all regions, major cities and towns of the Kyrgyz Republic. BiMoCom offers roaming capabilities in 193 countries with over 400 operators. It also offers very good deals on roaming in Russia.

For more information about MegaCom, visit <http://www.megacom.kg>

Aktel (Fonex brand)

Aktel is a CDMA 2000 1X operator, marketing under the brand Fonex. This company was the first to introduce CDMA standard in Kyrgyzstan. Aktel had about 13,500 subscribers until it introduced its new tariffs and market strategy in 2006. By the end of 2006, Aktel had 81,000 subscribers with over 90% of active subscribers. By the end of 2007, Aktel had expanded to around 180,000 subscribers due to a massive marketing campaign.

Aktel offers voice services, SMS and mobile internet. Other service like WAP and MMS are not operational, but the company plans to implement them soon. Aktel is also working on offering roaming to its subscribers.

For more information about Fonex, visit <http://www.fonex.kg>

Katel (Katel brand)

Katel is the oldest of the mobile phone operators. It started its operations in 1994 under DAMPS standard. It is a Kyrgyz-American company. It operates in all regions, except the southwestern Batken oblast. Katel offers voice services and SMS. It doesn't have MMS or WAP. The company has not disclosed its number of subscribers, but according to the National Communications Agency, Katel had 74,900 subscribers in 2006.

For more information about Katel, visit <http://www.katel.kg>

Sotel (Nexi brand)

Sotel is a new company which started operations in August 2007. It uses CDMA standard with 3G services. Sotel operates under the brand name Nexi. It has more capacity in terms of video conferencing and higher internet speeds than any other mobile operator in the country. Sotel is affiliated with Katel.

For more information about Nexi, visit <http://www.nexi.kg>

Internet and IP Telephony

The Kyrgyz internet market has been developing quite rapidly, but it is far from being well-developed. In 2006, there were 350,000 internet users according to National Communications Agency, 75% more than in 2005. Nevertheless, this constitutes a very low penetration rate of 6.7%. Primary users are organizations and internet cafes. Home internet is available, but not all people can afford to buy a computer and pay for internet services, which are significantly higher than in Western countries. Currently there are no affordable unlimited plans available for residential users. Large downloads generally incur additional charges. All tariffs for fast internet are traffic-based, increasing in cost in direct proportion to usage.

There are several internet services providers in addition to those described above. EICat and Asiainfo are two of the additional providers. Both internet providers offer dial-up, DSL and other services. For more information, please visit <http://www.elcat.kg>, and <http://www.asiainfo.kg>,

IP Telephony has been developing very rapidly, with lots of kiosks being opened close to residential districts as well as in business districts. Such kiosks offer affordable tariffs for calling abroad. IP telephony is usually present in internet cafes too.

Standardization, Certification, Licensing

In the Kyrgyz Republic there is one agency, the National Communications Agency (www.nas.kg), which regulates certification and licensing. The NCA certifies telecom equipment for conformity with local standards, issues licenses for telecom operators to conduct business in telecom sector and distributes radio frequencies. The National Communications Agency operates under the following laws and decrees:

- Law on basics of technical regulations of KR
- Decree of the Government of KR # 639, dated December 30, 2005
- List of products required for mandatory certification, approved by the Decree of the Government of KR # 639, dated December 30, 2005
- Regulation on procedure for mandatory certification of products, approved by the Decree of the Government of KR # 639, dated December 30, 2005
- Law on Licensing
- Law on Electric and Postal Communication

List of other associated laws is available on NCA website.

The NCA's "Svyaz" department is responsible for certifying telecommunications equipment. The list of telecom products that require mandatory certification is listed in the "List of products required for mandatory certification, approved by the Decree of the Government of KR # 639, dated December 30, 2005." This list of goods is available in Russian on NCA's website: www.nas.kg. Costs for certifying equipment varies, but is supposedly based on the nature of the equipment and the complexity of the certification process. In general, certification of one group of products should cost maximum up to 5,000 soms (approx. US\$143).

Issuance of licenses is conducted in conformance with the Law on Licensing by the NCA's Licensing Department. If the opening of a new business is connected with: 1) data transmission, 2) electric and postal communication, 3) use of radio frequency spectrum, including designing and construction of corresponding telecom networks, or 4) TV and radio broadcasting, then the company or private entrepreneur would require a license for conducting such business on the territory of the Kyrgyz Republic.

While the actual full list of necessary documents to apply for a license may vary from case to case, a general requirement for all companies wishing to obtain a license for their business in telecom sector is to submit the following documents:

1. Application for issuing a license on a provided form
2. Receipt for payment for application reviewing and license issuance
3. A copy of State registration document
4. A copy of a document showing ID number of a tax payer and social fund payer.

Documents are submitted either in Russian or Kyrgyz.

Opportunities for US companies

- Procurement of telecommunications equipment both for fixed-line and mobile operators
- Mobile phones of GSM and CDMA standards
- Privatization of KyrgyzTelecom national fixed line operator

Key Contacts

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