

2021



Investor Perceptions and the Broadband Sector

A survey by the European Bank for Reconstruction and Development

Eastern Europe and the Caucasus Region
(Armenia, Georgia, Moldova, Ukraine)

Survey context and disclaimer

The EBRD has conducted this survey to contribute to dialogue aimed at advancing development of the sector, its regulation and governance, in particular to promote investments in broadband infrastructure by improving investment conditions.

The views expressed in this report are from the survey respondents themselves and as such are not necessarily the views of EBRD or its representatives. The summaries and recommendations in the report have also been based on conversations with respondents and analysis of the collected views.

The views of respondents were given in confidence and accordingly, in the report, specific statements are not attributed to individuals or organisations.

The respondents' views were expressed here to stimulate and inform debate with policy makers and other organisations that influence broadband markets for investment in each country.

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O: EXECUTIVE SUMMARY

This report examines conditions for investment in broadband infrastructure in Armenia, Georgia, Moldova and Ukraine – collectively the Eastern European and Caucasus markets EBRD operates in (“EEC”). Previous surveys have been recently published on five countries of the Southern and Eastern Mediterranean (“SEMED”) and seven in South-eastern Europe (“SEE”)¹.

To prepare these reports, a survey team has held a large number of face-to-face meetings with stakeholders having a direct interest in the Information and Communications Technology (ICT) sector, including policy makers from governments, regulators of the sector, the networks and services operators, sector representative bodies and consultants. For the EEC region, meetings were conducted during the first half of 2021.

In addition, and to back-up the face-to-face meetings, an on-line questionnaire was sent to additional stakeholders in the markets surveyed. This report summarises the views expressed in both the face-to-face discussions and from the completed on-line surveys. Throughout the survey, to allow for a frank and forthright discussion, respondents were asked to express their views in strictest confidence. Their comments have been included in this survey report without attributing them to an individual or an organisation, therefore maintaining this confidentiality.

Investments in broadband infrastructure take the form of networks to support fixed and mobile broadband services, together with the necessary civil engineering structures and associated equipment. Around 70% of the survey respondents have investments in fixed or mobile physical network infrastructures and 50% or more have customer service centres and data centres. Of growing importance are investments in new business models linked to connectivity. These investments include smart cities, vertical industry sector partnerships, logistics, content, data analytics and the “Internet of Things”². Only a minority of the respondents surveyed had interests in TV or satellite networks.

In this report, the views of respondents are seen very much in the context of the introduction and potential widespread growth in both fixed and mobile broadband services, including 5th Generation (5G) spectrum-based services plus increased investments in fibre access broadband services. When respondents criticise the current situation from a policy, legal or regulatory standpoint, they most often express the view that the current situation must change in order for them to be more confident in making their next investment decisions in 5G and/or fibre networks.

The regional surveys have attempted to make a comparison between the investment conditions in the individual markets covered. The main components of the respondents’ perceptions are:

- Their views on pure market factors – the market size, growth and investment potential
- Their views of the investment risks – the barriers that limit or delay investments

For the second aspect, investment risk, we have identified 14 factors that contribute most to broadband investment risks, as follows:

- The country's overall legal system, predictability and process
- The legal and regulatory framework specific to electronic communications and broadband investments
- State participation in the sector, for example through ownership of one or more players in the market
- State assistance and funding schemes
- Quality of databases and access to information
- Availability of labour especially with digital skills
- Labour regulations, employment agreements, militancy, disruptions
- Access to state-controlled resources related to investment in networks and services, notably spectrum

1 <https://www.ebrd.com/cs/Satellite?c=Content&pagename=EBRD%2FContent%2FContentLayout&cid=1395292756036>

2 <https://ec.europa.eu/digital-single-market/en/news/b-day-boosting-connectivity-investments>

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- Certainty in obtaining construction permits or wayleaves
- Taxation generally or targeted at the sector
- Overall infrastructure
- Trade barriers
- Political stability, security, criminality, terrorism
- Corruption generally or in any aspect of operations

These factors have been identified from previous surveys conducted by EBRD³. Respondents in the current survey were asked also to add any concerns regarding broadband investments that are not covered by the above list. We have found that these 14 factors listed cover the majority of risks present in broadband investment markets. Where any other concerns were made known, they were relatively minor and have been recorded in the results of this survey given later in this report.

For each of the market and risk factors, respondents were asked to state how the situation in the country affected their investment decision making. Their responses were categorised into one of the following answers for each factor considered:

- Positively encourages investment
- Does not deter investment
- Mildly deters investment
- Strongly deters investment
- No opinion.

Respondents were also asked to indicate, when they are making investment decisions, what was the relative emphasis they place on the *pure market factors* on the one hand and the *investment risk factors* on the other. The results for the Eastern Europe and Caucasus markets were:

**Relative weights in broadband investment
decisions (EEC markets)**

Pure market factors: 63%

Investment risk factors: 37%

Finally, respondents were asked how confident they were about the country adopting best practices across the sector, in policy and law-making, in regulation and in implementation. By combining the results obtained from these opinions on market attractiveness, investment risk and best practice potential, we were able to estimate the overall perception of each market by respondents.

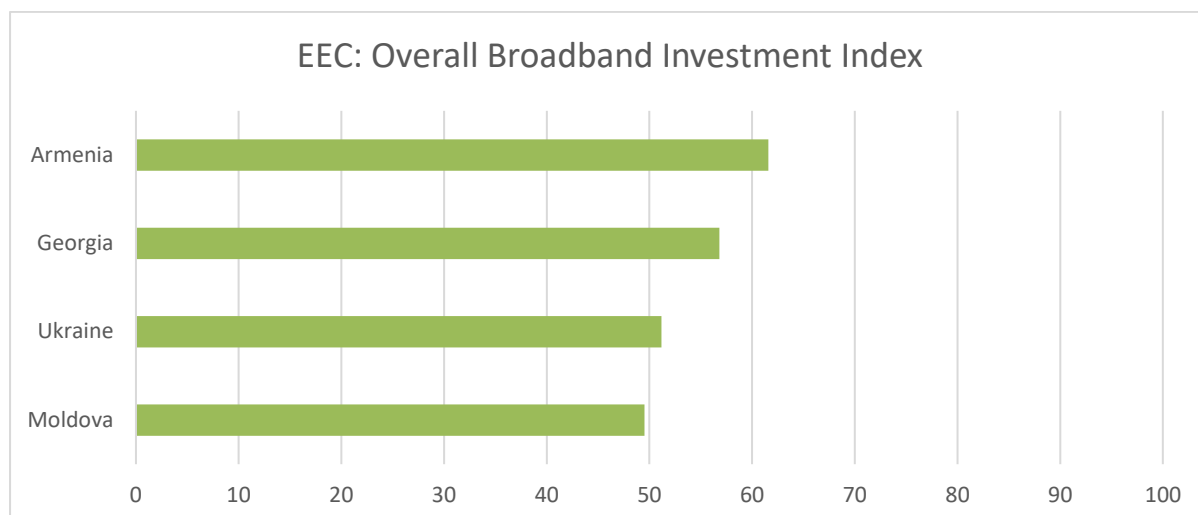
Important note about country-by-country comparisons

It is important to stress that when comparing countries together, that the results for each country reflect largely what respondents in that country say about only their own country. That is to say, for example, we are comparing what Georgian investors say about the Georgian market with what Ukrainian investors say about the Ukrainian market and so on.

In this respect the resulting ranking between countries should not be taken as strict investment benchmarks. Instead, the differences that are most valid are the level of importance attached to specific risks within each country. The same 14 risk factors have been analysed in each market, but the level of importance for some risks is far greater in some countries than in others.

The results therefore show the relative importance of each risk faced in each country when taking investment decisions. The primary purpose of this comparative analysis is to prioritise the issues for action to improve investment conditions in each country.

³ The EBRD carried out surveys of the ICT sector in 2008, 2012 and 2016, results are available on request.



On the comparative scale, zero would indicate a perception that the investment climate is very poor. A score of 100 would indicate a perception that the overall conditions are perfect for investment. The method of calculation of the index is given in section 2 of this report.

Armenia, although a small market in population terms, came out the with the best measure, taking into account its market potential and the investment risks involved. Georgia, although already closest to the EU in its approach to market regulation, still has some risks mainly associated with regulatory intervention and the granting of permissions to install infrastructure. Ukraine is by far the largest market and still has good growth potential but has some significant investment risks associated with political, legal and regulatory uncertainty. Moldova’s market has some growth potential but also has high risks associated with legal and political uncertainties.

The features of each country’s market, as expressed by the respondents to the survey, are explored in more detail in this report. The overall measurement of broadband investment risks and rewards has taken place in the context of growing markets throughout the region. The average growth rate for broadband services, based on forecasts by Fitch Solutions⁴, is 6.7% per annum compound up until 2024.

Overall outlook

Market growth and technology fulfilment

The overall view of respondents is one of good market potential, especially with continuing consumer demand for high-speed broadband services. The market has continuing investments in high quality optical fibre for backbone and fixed access, plus the introduction of 3G and higher quality 4G-based mobile broadband services. Investments in the latest 5G⁵-based mobile broadband technology have not started in the four EEC markets surveyed.

Further investments in broadband technologies, particularly in optical fibre and 5G, are confidently expected to support a significant expansion of the current range of ICT services, continuing the transformational impact on the development of all sectors of economic and social activity. The improved broadband speeds, quality, and reliability promised by fibre and 5G are expected to revolutionise the ICT sector, bringing increased scope for more cross-sector coordination and new business models, all bringing new revenue sources to the sector.

New investments in fixed broadband access are now dominated by fibre optic technology, both for expansion and as a replacement for existing copper-based access networks. 5G technology still faces a more uncertain rate of investment, especially in the markets studied in this survey. The respondents generally view the business cases for investment as yet to be clear, with remaining uncertainties surrounding 5G demand from both the industrial and consumer sectors. In the EEC countries, mobile company infrastructure investments are still predominately in 4G expansion, with investment returns still not certain. The decisions regarding

⁴ <https://store.fitchsolutions.com/telecommunications>

⁵ <https://www.digitaltrends.com/mobile/what-is-5g/>

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additional spectrum purchases for 5G remain over-complex, with decisions by government and regulators on release dates and spectrum pricing still not clear.

National digital transformations

In this survey, respondents expressed the view that the full benefits of the ICT market are currently not being achieved in the EEC markets. In their view, the policies and regulatory frameworks in these markets are lagging behind best practice. The new and extended scope of markets created by 5G and fibre access technologies are likely to impact all sectors of the economy in all markets. The traditional networks and service operators have not yet explored new, more co-operative ventures in partnerships with a larger number of players. The new business models remain unclear, with little coordinated consultation at national level on joint investments.

Future discussions on broadband investments will involve many parties outside the current broadband sector players, including manufacturing, transport, utilities, agriculture, logistics, media, education, healthcare, public administration and many more.

Broadband infrastructure cost efficiencies

Respondents also expressed the opinion that there are too many examples of separately owned infrastructures (for example ducting, transmission masts, backbone and access cable networks) where cost-saving joint investments or infrastructure sharing opportunities have not yet been exploited. The main players in the EEC broadband market do not yet appear to have yet found the correct investment balance between competitive advantage on the one hand and cost efficiency on the other. With the need for greater network reach, more investment and greater affordability, best-practice cost reduction measures, (notably infrastructure and spectrum sharing) should become a more recognised and normal features of future broadband infrastructure investments.

Collaboration is key to adopting best practices

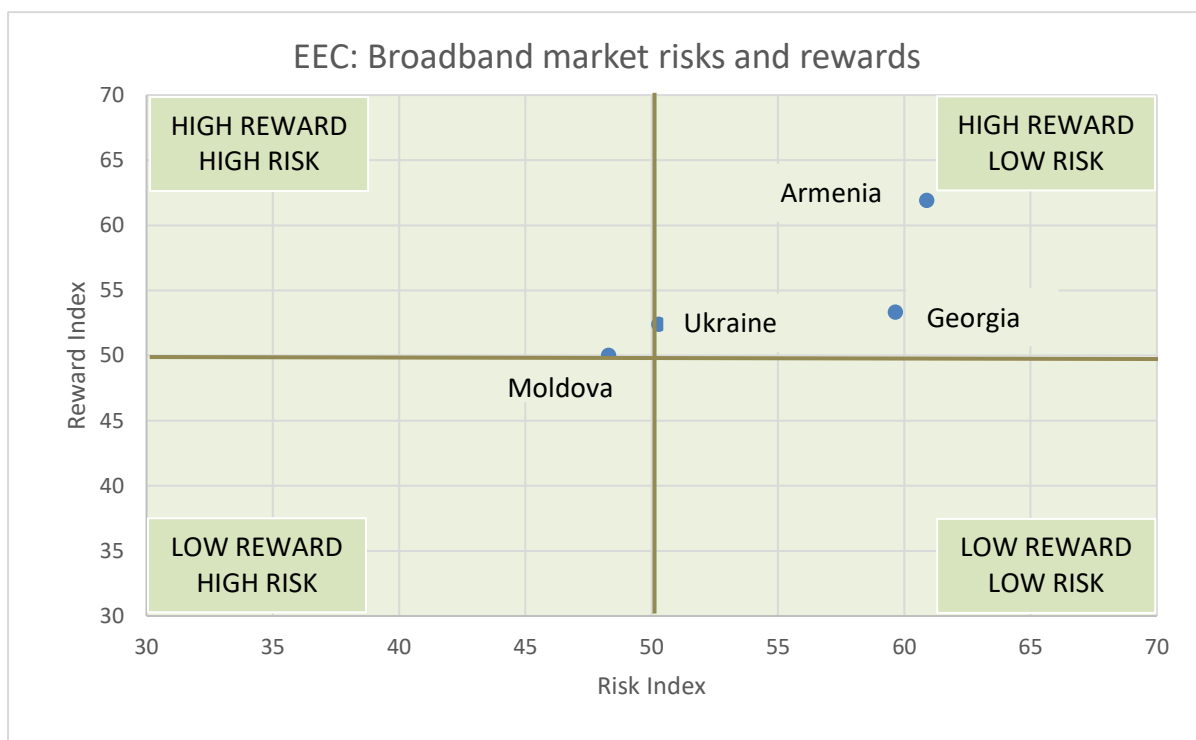
Respondents believe that only with a more collaborative approach within the sector, and between the network operators and other sectors, can the overall transformative economic and social impact of new 5G and fibre-based technologies be achieved. If these more collaborative approaches do not materialise, the risks facing investors will continue to be high and the full benefits to the investors, to wider industry and society, will not be realised.

Drawing on these views, the recommendations in this report are designed to inform priority-setting activities by policy makers and sector regulators as they move to adopt many of the best practices already being used elsewhere.

Risks and rewards

Using the results of the survey, we are able to present a picture of the relative risks and rewards associated with broadband investments in each country. In the graph below, the 'Reward Index' is derived from the ratings by respondents of the pure market potential in terms of market size, growth and possible returns. A value of zero represents zero market attraction and 100 represents perfect attraction. The 'Risk Index' is derived from a separate rating by respondents across a number of potential investment risk factors ranging from policy weaknesses, legal and regulatory bottlenecks, competitive imbalances and availability of resources. In the case of investment risk presentation, a value of zero represents absolute risk and 100 represents zero risk.

The ideal position on the chart is in the upper right-hand corner where rewards (vertical axis) are highest and risks (horizontal axis) are lowest.



On the Reward Index scale (y-axis) a value of zero represents no market attraction and 100 represents perfect attraction, On the Risk Index scale (x-axis) a value of zero represents absolute risk and 100 represents zero risk.

Based on respondent responses, Armenia exhibits the highest relative reward, with growth potential and reasonable investment risk. Georgia has a relatively lower market attraction but a reasonable risk profile. Ukraine and Moldova have similar market attraction to Georgia, but with higher risks.

Priorities for action

To analyse the factors that respondents used to make this overall assessment, the survey has examined the main risk factors, as expressed by respondents. We have used these views to prioritise the main investment risk factors for each country. For these priority issues, this report defines the key action areas to be addressed if the barriers to investment are to be reduced, making the markets more attractive in investment terms. The key action areas for each country are shown in the table below.

The reasons behind the risks, and the specific recommendations for each country to reduce their risk, are contained in the country-by-country sections of this report and further developed in Section 4.

EEC markets: Priorities for action

Investment risk factors	Armenia	Georgia	Moldova	Ukraine
Legal and regulatory framework for broadband				
Political stability, security, criminality, terrorism				
Certainty in construction permits or wayleaves.				
The country's overall legal system, predictability and process				
State participation in the sector				
Access to spectrum resources				
Availability of labour especially with digital skills				
Taxation generally or targeted at the sector.				
Corruption generally or applied to the sector				
State assistance and funding schemes				
Quality of databases and access to information				
Overall infrastructure				

- Low priority/ - Medium priority/ - High priority

The general recommendations resulting from this survey

Taking the respondents' own views, the survey offers a number of general recommendations for increasing the attractiveness and decreasing investment risks in the four markets surveyed. The recommendations are relevant to all the markets, but their relative priority for action is governed by the table above.

More detailed and specific recommendations are given in section 4 of this report. In summary, and taken together, these recommendations seek to create better conditions for broadband infrastructure investments:

- Governments should create an environment that maximises private investment. Experience from other markets clearly shows that private participation in broadband infrastructure programmes makes any public funds used go significantly further.
- Private involvement also helps to create programmes that are commercially sustainable in the long term, as opposed to ones that continually rely on state aid and other subsidy programmes.
- The key role of the state is to establish a clear policy for broadband, within which the investment strategies of market players can have greater confidence. This policy should include the support and stimulation of demand for broadband-based services such as eGovernment and eCommerce.
- A relevant renewed component of state policy is the role that governments can play in intervening in their markets in order to provide additional funding where necessary to achieve universal broadband access. The necessary conditions for additional state funding include where the private sector is not planning to invest in particular geographic areas (within the timescale required by the state policy to achieve universal broadband coverage). It is important to ensure that any such state funding does not have an unwanted distorting effect on the broadband market. State policy in this respect should therefore include relevant “state-aid” rules such as those adopted by the European Union (EU) for broadband markets⁶.
- A key component of any broadband policy should be to ensure that all relevant decisions made by government and regulators are consistent with the need for investment to take place without undue barriers. Key examples of these barriers are high levels of taxation on the sector and high charges for access to government-managed resources, notably spectrum resources.
- Future investment efficiencies could be further promoted by policy and regulatory actions. At present there are significant wasted network expenditures on separate civil structures, most often ducts and transmitter masts. Additional costs are also incurred by investors in the delays and uncertainties they experience in getting construction permits and access to rights of way.
- More cooperative models involving network and infrastructure sharing, joint cost ventures and greater cooperation of civil works could be introduced to ensure that broadband infrastructure investments maximise the effectiveness of the market, bringing greater economic and social benefits.

These general recommendations, taken together, have been derived from the views of respondents during this survey. We believe that, if adopted, these recommendations should have a significant positive impact on the future investment climate in the markets surveyed.

Section 4 of this report gives nine specific recommendations arising from this survey, based on the views of respondents. Included in these recommendations are some examples of best-practice models for reducing investment barriers, risks and delays.

The impact of the COVID-19 pandemic

This analysis for this report took place in the first half of 2021 with a full recognition that the broadband market sector is experiencing the impact of the COVID-19 pandemic. The forecasts used in this analysis of fixed and mobile broadband growth up to 2024, are based on 2020 data and do not fully reflect the possible medium-term impact on broadband growth. If anything, business and consumer demand for faster and more reliable broadband services is likely to be permanently increased by rising on-line commercial activity, plus

⁶ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:025:0001:0026:EN:PDF>

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the changes in working and domestic life arising from the pandemic. Another likely impact is one of increased demand outside the main cities (and less growth within city centres) as more people work a greater part of their time from home and also seek to spend more leisure time away from the main population centres.

Although the impact is likely to vary from market to market, the overall relative broadband growth rates should remain consistent. For example, the relatively high growth rate for broadband services in Ukraine (at +9.0% p.a.) is likely to be maintained because mobile broadband services started late and fixed broadband also began from a lower base. In contrast, Moldova will maintain a relatively low projected growth rate (at 4.4%p.a.) unless the relatively poor fundamentals of their market remain unchanged.

Broadband speeds appear to be affected differently in each country⁷; for example in the first four months of the pandemic, in Armenia and Ukraine broadband download speeds increased by between 12% and 19% whereas in Georgia, overall broadband speeds remained broadly constant. In Moldova, mobile broadband speeds declined by 14%. It is difficult therefore to draw firm conclusions regarding the more longer-term impacts of changing broadband usage on broadband investments.

One aspect of national policy that has come into particular focus during the survey as a result of the COVID-19 pandemic, is that of network security and resilience. Respondents raised this issue as one that requires greater national policy discussion, in order to:

- Define clearly the country's critical network infrastructures.
- Coordinate the actions required for responses to network failures or security breaches.
- Put in place measures to protect critical network functions and services from future adverse incidents.

From the views of the survey participants and from the experiences of the wider international stakeholders in the broadband market sector, there are some lessons now emerging from the pandemic experience. A collection of views, illustrated by case studies is given in the Annex to this report.

Policy and investment-related recommendations have been reinforced by the pandemic experience

Conducting the survey during the course of the pandemic has served to underline the importance of taking account of investors' views so that the remaining barriers to broadband investment, which vary to some extent from country-to-country, can be addressed by policy makers and sector regulatory bodies in close cooperation.

This report makes both general and detailed recommendations based on the analysis of respondent views given before and during the coronavirus outbreak. These recommendations will still apply in the post-COVID situation and in many instances with their relevance brought more into more focus by the COVID experience. The case for further investment in broadband infrastructure has increased, now with even more focus on more reliable and universal broadband services.

At a policy and regulatory level there will also be greater focus on the collaboration between government investments and private sector investments. This is particularly relevant in areas such as policy consultation, the use of public funds, achieving universal broadband coverage and the need for greater investment efficiencies to achieve cost reductions and greater network resilience.

In section 4 of this report "Detailed Recommendations" we make the case, based on the views expressed by respondents during the survey, for greater investment efficiencies, notably in the following areas which are also relevant to short-term COVID-19 mitigation:

- A clear national policy for broadband, based on public and private sector investor consultations, supported by a best-practice legal and regulatory framework (Recommendations 1, and 2).

⁷ <https://www.speedtest.net/insights/blog/tracking-covid-19-impact-global-internet-performance/#/>

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- Greater broadband investment efficiency and co-operation, including making use of wholesale markets, infrastructure and network sharing plus a range of cost-reduction measures specific to broadband investments, backed up by best-practice regulations (Recommendation 3).
- Faster permission granting procedures for network construction (Recommendation 4).
- The role of the state (Recommendation 5)
- Efficient exploitation of spectrum resources, particularly in the planning and management of spectrum releases for 5G (Recommendation 6).
- The availability of digital skills (Recommendation 7)
- Taxation of the telecommunication sector with regard to a wider strategic view of the required investments in the sector (Recommendation 8).
- The use of state funding to work alongside private investment, accelerating broadband access and affordability (Recommendation 9).

The country-by-country sections of this report make reference to the specific factors that are influencing investor decisions on broadband infrastructure investments in each country. Within the context of the above general recommendations, these country-by-country analyses provide policy makers and regulatory agencies with a set of recommended priorities for action in each country that are now raised in importance by the COVID-19 experience.

1: SURVEY BACKGROUND AND OBJECTIVES

Background

Under the Legal Transition Programme of the European Bank for Reconstruction and Development (the “EBRD” or the “Bank”), the Bank’s Legal Transition Team has focused part of its work on the development of detailed analytical assessments of the state of legal, policy and regulatory transition in a number of commercial and financial sectors of its countries of operation. These assessments benchmark the developments in these sectors in each country against recognised international best practices, providing analysis of the existing legislative framework, comparison of that framework with best practice and the identification of gaps and legal and regulatory reform needs.

The Bank has carried out regular (in 2008, 2012 and 2016) assessments of the telecommunications/ICT sector in its countries of operation⁸. These assessments have focused on the overall potential of the sector for reforms that could improve the broader investment climate in the sector, in particular, to improve the infrastructure for delivering modern broadband services. The previous assessment approach used by EBRD has been to study key characteristics of the market, in terms of output metrics (for example broadband penetration, eGovernment and eCommerce world rankings) alongside a comparison between the legal and regulatory framework and best practice in the sector. The methodology relied on building an accurate picture from the outputs of the sector itself alongside on the policy, legal and regulatory environment for investors, service providers and consumers.

The current 2020/21 survey report takes a different approach, one in which the informed views of investors have the most impact. The approach is based on investors’ immediate concerns in terms of which factors in each country contribute most to decisions on whether to invest or not. The results have therefore identified the countries that have the most attractive markets and policies for encouraging investment, particularly for broadband infrastructure and connectivity. The survey outputs, in the form of a ranking of investment attractiveness and a listing of the key investment risk factors, are intended not only to inform investors, but also to prompt policy makers to consider reforms that would improve investment conditions in their countries.

To help with the development and conduct of the survey, EBRD retained an external consulting advisor⁹. The requirements for the survey and analysis methodology are defined in section 2 of this report, which also contains a description of the survey methodology plus the definitions of the required calculations, indexes and rankings.

Markets included in the survey

The markets intended to be included in the 2020/21 survey are:

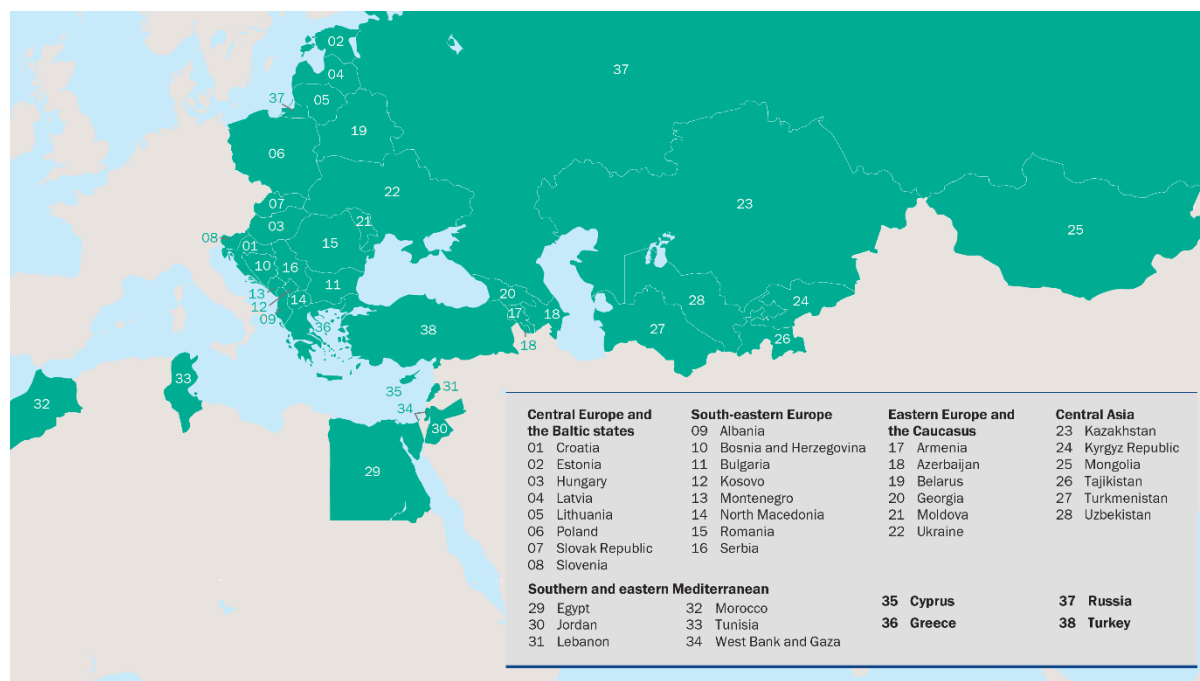
- From the Southern and eastern Mediterranean (SEMED) region: Egypt, Jordan, Lebanon, Morocco and Tunisia
- From the South-eastern European (SEE) region: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia
- From the Eastern Europe and the Caucasus (EEC) region: Armenia, Georgia, Moldova and Ukraine
- From the Central Asia region: Kazakhstan, Kyrgyz Republic, Mongolia, Uzbekistan

This report covers: Armenia, Georgia, Moldova and Ukraine.

⁸ See <http://www.ebrd.com/where-we-are.html>

⁹ Cullen International, an international and independent research organisation specialising in the ICT sector <https://www.cullen-international.com/>

EBRD countries of operation



Objectives of the survey

The overall objective of this survey is to inform investors, policy makers, regulatory and other influencers of investment so that they can make decisions that will increase effectiveness in sector investments and thereby improving broadband infrastructure coverage and capacity.

The survey has involved a wide range of existing and potential stakeholders in investment in broadband infrastructure and service, including finance providers, telecommunications network operators, broadband and internet service providers, analysts and other market stakeholders.

The specific objectives of this survey, analysis and assessment are:

- To produce a comparative “Broadband Investment Index” for each country plus relevant sub-indexes, that will inform policy makers and market participants, based on the perceptions of investors.
- To provide a focus on identifying the key enablers to investment in each country as a means of informing policymakers of specific impediments to sector growth. Such identification should also help EBRD focus its resources in engagement with policy makers and market participants as a means of reducing barriers and increase investment in the sector.

The main output of the survey, analysis and assessment is a ranking of markets, based on their investment attractiveness, with further explanations for each country giving the main reasons expressed by investors that have led to the index and ranking calculated.

The telecommunications/ICT sector and broadband infrastructure investment

The focus of this survey is the broadband infrastructure that enables access to fixed and mobile broadband services. This infrastructure includes electronic communications networks providing access through higher speed broadband services, plus the enabled digital services market, most notably delivered through digital media services and the internet. ICT sector investments will increasingly target new markets and business models linked to greater connectivity. This includes smart cities, vertical industry sector partnerships, logistics, content, data analytics and the “Internet of Things”.

Background and objectives

The policy, legal and regulatory frameworks for the infrastructure market providing access to broadband services have undergone significant changes since the latter part of the 20th century. These changes have been driven by the rapid development of digital technologies and the internet. The traditional telecommunications, internet and broadcast media services markets have been transformed by the influences of these technological developments.

In particular, the model of state-owned monopoly telecommunications and broadcasting infrastructure has been largely replaced by the more liberalised competitive supply of fixed and mobile services. This has responded to more sophisticated consumer demands for better quality services, mobility and the expected higher speeds of access required for a larger range of internet and media services.

The pace at which ICT-based markets have been transformed has varied from country to country. One of the significant determinants of the speed of transition from monopolistic to competitive markets has been the progress made by each country's policy and law makers in adopting the enabling legal and regulatory frameworks. To put in place modern digital network infrastructures with competitive service delivery, the legal and regulatory frameworks have to be seen as enablers, not barriers, to investment.

In addition to the attractiveness of the broadband market, investors (whether existing operators or new market entrants) require an effective legal and regulatory framework to help reduce risks and increase their confidence to invest.

The goal of universal broadband connectivity

Since the wave of privatisations across the sector from the 1980s onwards, the majority of investments in ICT sector infrastructure are now private sector investments. In recent years, a parallel role for public investment has been proposed. This additional state investment seeks to fill the gap caused by the lower private commercial investment returns resulting from a state policy to achieve universal broadband access to all citizens, including the more remote regions.

Policy makers have adopted different types of market interventions, including:

- Market demand stimulation (for example through the implementation of eGovernment services).
- Direct public subsidies that accelerate private investment into the more remote regions, including via public-private partnerships.
- Direct public investments in broadband infrastructure for delivering government services and to provide wholesale capacity for the commercial operators to exploit.

Private investors see these types of public investments as complementary to and supporting of private investments, not as competing networks. Governments should continue to create an environment that maximises private investment at the outset. Private involvement also helps to create programmes that are commercially sustainable in the long term, as opposed to ones that continually rely on state aid and other subsidy programmes.

The global Covid-19 pandemic has raised awareness of the current lack of universal broadband connectivity. This report has a separate section which records the key messages that have been expressed on planning for a post-Covid world. These messages reinforce the need for further broadband investment initiatives, using private investments alongside public intervention where necessary to achieve more connected broadband-enabled societies.

Growth drivers

Broadband market investors have faced new challenges. In the markets surveyed, competitive markets have been introduced, allowing new entrants to provide services, both by direct infrastructure investment and by exploiting the existing broadband connectivity provided by incumbent operators. The new entrants include providers of “over the top” services, starting with voice services over the internet (“VoIP services”). Users can now also benefit from a wide range of “streaming” services using the internet, giving multi-media content including high-definition video.

Background and objectives

These new services have significantly threatened the traditional revenues of the existing network operators, forcing them to find new market offerings, including “bundled” fixed and mobile broadband-enabled packages of voice, internet and video content.

Additional technology developments, particularly in mobile communications, have allowed faster and more reliable broadband connectivity. 3G and 4G mobile services are now reaching almost full population coverage. The growth in the number of users and the higher data download speeds demanded by those users have already attracted significant new investments to keep up with this new demand.

As well as the existing competition between the larger network operators, new forms of competition have developed, attracted by the growth in demand for broadband-enabled services. The continued growth in broadband services has attracted investments across a wide range of infrastructures, including:

- Fixed and mobile networks.
- Cable, terrestrial and satellite TV networks.
- Buildings, towers, physical structures, power plant and other supporting services for ICT infrastructures.
- Data centres and internet exchange points.
- Customer service centres and retail shops.
- Investments and business models linked to connectivity – for example smart cities, vertical industry sector partnerships, logistics, content, data analytics, internet of things (in the light of 5G and its potential).

The survey found respondent interest in all these types of infrastructure, from existing players and new entrants. The larger network operators continue to provide a full range of broadband services, while others emerge as specialist investors, for example tower companies, data centres and internet exchange points, focussing on one investment type.

Smarter investment strategies

Greater competition is resulting in both existing companies and new entrants seeking new ways to make investments more efficient. The lowering of unit costs in the supply in broadband services markets is needed to maintain profit margins. In the EU, policy makers and regulators have promoted specific cost reduction measures for broadband investments^{10,11,12,13}, including:

- The efficient use of wholesale markets in the telecommunications sector.
- The liberalisation and fairer pricing of spectrum.
- Removing sector-specific taxation.
- Greater coordination of civil works and access to multi-occupancy buildings.
- Cost and infrastructure sharing models including joint investments and public-private partnerships.

These newer policy and regulatory measures, although also being adopted by non-EU countries, have not yet had significant impact on investment efficiency outside the EU. All countries are facing the same investment needs, driven mainly by the significant growth in broadband services demand and often alongside national policy directives towards achieving universal high-speed broadband connectivity.

Policy, legal and regulatory frameworks are gradually being adapted to these new demands, in some countries faster than in others. This survey has sought to identify the main remaining obstacles to efficient investments in broadband infrastructure in each country.

¹⁰ https://ec.europa.eu/competition/sectors/telecommunications/overview_en.html

¹¹ <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

¹² <https://ec.europa.eu/digital-single-market/en/content/eus-spectrum-policy-framework>

¹³ https://ec.europa.eu/taxation_customs/business/vat/telecommunications-broadcasting-electronic-services-archived_en

Background and objectives

The important next wave of ICT infrastructure investments has already been foreseen in all the markets surveyed. Mobile services will be enhanced by 5G technologies which will include many more applications around the “Internet of Things” and other, not yet fully defined, digitally enabled business and service models. In the fixed broadband market, fibre access investments will grow to meet the faster (and more reliability dependent) data services requirements of businesses and households. Fixed access services will be enhanced by fibre-based local networks which are better suited to the higher capacity and reliability needs of broadband users.

The range of business models required for these new investments are likely to involve more collaborative approaches. Greater cooperation will not just be between the operators and service providers in the ICT sector. New ventures span different market sectors, including telecommunications with healthcare, education, agriculture, logistics, public sector management, transport, entertainment, manufacturing, supply chain and many other industrial sectors.

Smarter investment models designed for this greater collaborative investment world are continuing to emerge. In the view of the respondents, the makers of policy, laws and regulations will need to engage fully with the sector and be seen as better facilitators for these new types of smarter investments.

The way forward

The respondents to this survey appear to have reached a turning point in their approach to future infrastructure investments. Over the past twenty years investors have tended to choose strategies that build separately owned and operated infrastructures for each network operator. There is a general realisation that new investments in ICT infrastructure in the future will require new and more collaborative models to be considered in order reduce costs and maintain investment returns.

According to survey participants, the sector’s collaboration experience has so far not been good, evidenced by the many examples where each operator invests in separate civil works, separate parallel network capacity and separate transmission masts. Greater cooperation would have saved investment funds that could have been used to expand and improve connectivity. Fierce competitive pressures appear to have prevailed over the economic good sense of cost reduction. Collaboration between operators has not yet become normalised.

The collaboration experience between policy makers and the sector players has also not been good. Governments still expect to receive high fees for spectrum resources, diverting investment funds away from achieving the policy aims of better infrastructure and a more universal access. In some markets, taxation schemes targeting the sector still seek to extract maximum payments from telecommunications and internet providers, further limiting their capacity to make investments in ICT infrastructure. In addition, there are still inconsistent and time-consuming administrative procedures for obtaining network construction permits and access to rights of way.

Structural influences from the next wave of investments

“Digitisation is also fostering cross-industry interaction; telecommunication operators should be the landmarks in enabling other industries along their digitisation journeys.

“New high-speed networks and next-generation quality of services features are increasingly becoming the main drivers for digital growth, but still the business equation is not yet solved to unlock wide roll-out of fibre-to-the-premise and upcoming 5G development.”

“Beyond the evolving roles for established players, a multitude of start-ups are leveraging the Internet of Things (IoT) to create a new business model and domain for business.

“Most successful IoT use cases would not be implemented by single players alone, but with agreed roles together in partner ecosystems. Right ecosystems are a major driver of IoT success”.

[Source: AD Little 2019 Report “(IoT) breakthrough – Is the industry ready for commercial success?”¹⁴]

Recommendations are made in this report, based on our survey of investor perceptions. These recommendations aim to reduce the most important barriers facing investors in broadband infrastructure. Most of the recommendations are based on best practices already in place in other markets, notably in the EU. In some of the markets surveyed, these best practices are already being implemented but implementation has so far been relatively slow. The survey respondents have expressed the view strongly that best practice adoption for the governance of the sector need to be accelerated before their investment decisions on 5G and fibre access can be made more confidently.

The recommendations in this report are therefore designed to inform priority-setting activities by policy makers and ICT sector regulators in readiness for the next wave of ICT infrastructure investments driven by rapidly growing and extending markets for broadband services.

¹⁴ <https://www.adlittle.com/en/who-dares-wins>

2: SURVEY METHODOLOGY

Taking an investor's view

The previous (2008, 2012 and 2016) EBRD assessments studied the legal and regulatory conditions applying to the electronic communications sector in a wide variety of national markets. Investors take into account many factors before they decide whether to invest or not.

For the 2020/21 survey, we have directly recorded the views of a wide range of existing and potential stakeholders in investment in broadband infrastructure and service, including, telecommunications network and service operators, broadband and internet service providers, analysts and other market stakeholders. "Broadband investment" embraces telecommunications infrastructure and connectivity (fixed and mobile networks) and the services (both retail and wholesale) that are delivered over these networks (voice, internet, data, media and broadband services). This definition is used within the context of the key purpose of this survey – to promote broadband infrastructure investments.

In addition, the survey team has researched and held wider discussions regarding the overall policy, legal and regulatory conditions used by the relevant authorities in each country. In this way, we have attempted to match the effectiveness of the relevant conditions in each country to investor needs.

Stakeholders generally use benchmarks to compare the conditions in their country alongside the conditions achieved in neighbouring markets and regions, notably the EU. The EU is generally perceived to be an open and effective marketplace for ICT investments. The EU's current legal and regulatory framework ("The European Electronic Communications Code"¹⁵) is viewed by investors as an enabler to overcome the most commonly faced problems in the competitive ICT markets.

Other factors are used in our surveys that could be useful to investors in deciding on which countries to focus on now and in the future. The most important of these other factors are the relative broadband market sizes and growth potential. Where we have included this information in the report, the source of the data has been given.

Respondents' views of the policy, legal and regulatory enablers for broadband infrastructure investment have led us to identify the gaps in policy implementation. The action areas required for each country are shown in the results Section 3 of this report.

What are the components of the survey?

The main purpose of the survey is to use the results to inform investors, policy makers, regulatory and other influencers of sector investment to increase effectiveness in telecommunications sector investments and in particular to improve broadband infrastructure coverage, capacity and connectivity.

Confidentiality

To allow for candid and forthright responses, the answers provided and views expressed by the respondents to this survey are treated in strictest confidence by the Bank. The overall results, or any part of the results are not attributed to any organisation, group of organisations or individuals. The Bank will publish the main results to benefit investors, policy makers, regulators and other sector players, making it clear where actions need to be taken to improve the climate for sector investments.

This will be done without breaching the confidentiality of the persons and organisations that expressed their opinions during the survey.

¹⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L1972&from=EN>

Survey methodology

Respondents were asked to make a separate response for each country where they are familiar. Their knowledge of the country could be either by their existing presence, or by their having studied the market for possible investment in the sector in that country. The markets being analysed include the following: Albania, Armenia, Bosnia and Herzegovina, Croatia, Egypt, North Macedonia, Georgia, Jordan, Kazakhstan, Kosovo, Kyrgyz Republic, Lebanon, Moldova, Mongolia, Montenegro, Morocco, Serbia, Tunisia, Ukraine and Uzbekistan. This report covers four markets of the EEC region: Armenia, Georgia, Moldova and Ukraine.

The survey sought opinions on the market for broadband investment from several overall viewpoints:

- Market attractiveness - what is perceived about the market size, potential and attractiveness for investments?
- Investment risk factors - including sector policies, the general and specific legal and regulatory frameworks, public and private sector cooperation, availability and quality of input resources including spectrum, labour and rights of way, taxation, trade policies and political stability.
- Best practice potential – what level of confidence do investors have in the country moving towards best practices for the sector?
- The following sections define these various factors and how they are used and reported in the survey.

Market attractiveness and investment risk factors

Respondents were asked to indicate, when they are making investment decisions, what was the relative emphasis they place on the pure market factors on the one hand and the investment risk factors on the other. The results for the SEE markets were; pure market factors; 57% and investment risk factors; 43%.

Additionally, a number of factors relevant to investments in the ICT sector are included in the survey. Each factor and its components and weightings are described in the table below.

Survey factor	Components	Weightings
Perception of market attractiveness	Respondents are asked, for the types of investment that they are involved in, -what is their view, for each country, of the overall market potential, regardless of the investment conditions and risks there? Respondents are asked to add comments to support their views.	63%
Investment conditions, risks and related factors	In this part, 14 potential risk factors are listed. Each could influence investment decisions in each country. Respondents were asked to give their view separately for each listed factor and for each country. Respondents are asked to add comments to support their views. These comments could be on any of the listed topics or other areas of the situation, ranging from “examples of best practice” right through to “examples of any key inhibitors and barriers to investments”.	37%
The list of 14 potential risk factors identified for the broadband market		
<ol style="list-style-type: none"> 1. The country's overall legal system, predictability and process This factor covers the overall national legal system and its enforcement, the effectiveness of public authorities, the risk of overlaps, duplications and inconsistencies. 2. Legal and regulatory framework specific to electronic communications and broadband investments This includes the existing overall legal and regulatory framework (primary and secondary legislation/ by-laws) relating specifically to the electronic communications networks and services sector, your confidence in the effective application of those laws and the transparency of the procedures used by-law makers and regulatory bodies in supervising those laws. The types of laws and regulations for the sector are typically related to the rights and obligations of market participants, interconnection and access, sector competition, conditions for the provision of services, technical standards and any specific rules for promoting investments. 3. State participation in the sector This includes the level of state ownership of networks and service operators and the possible implications for competition, for example the possible bias that could result in applying policies, laws and regulations. 4. State assistance and funding schemes 		

Survey methodology

<p>This includes any funds that are available to investors for assisting electronic communications networks and services expansion or for ensuring universal service (for example rural development funds, digital society/ information society development funds, broadband infrastructure funding) and the related rules and procedures applying to such funding with relation to the related conditions for state participation, open access, distortion of competition etc.</p> <p>5. Quality of databases and access to information This includes the existence and reliability of relevant information sources for population distribution and other relevant national statistics as well as specific databases for licence-holders in the sector, interconnection offers, network infrastructure atlas, index of relevant laws and regulations.</p> <p>6. Availability of labour especially with digital skills This includes the labour and skills required for network construction and operations, customer service and business management.</p> <p>7. Labour regulations, employment agreements, militancy, disruptions This relates to the national or sector specific conditions for employing labour in support of investment and operations, including the risk of strikes or other disruptions outside the control of the investor, for example through organised labour campaigns generally or directed at the sector specifically.</p> <p>8. Access to state-controlled resources related to investment in networks and services This includes the access to, and the procedures used in frequency spectrum, numbering ranges or any other types of networks or services licences or authorisations required before launching new services or growing existing services.</p> <p>9. Certainty in construction permits or wayleaves This includes any required approvals for physical construction or civil engineering works and the placing of plant on public or private land (including masts, towers, poles, overhead wires, ducts, manholes, operational or other buildings, street furniture etc.).</p> <p>10. Taxation generally or targeted at the sector This includes the general taxation applied to businesses and individuals plus any specific taxes or additional financial burdens placed on trading in the electronic communications sector, the collection of services revenues or on the outlay of investment or operating costs.</p> <p>11. Overall infrastructure This relates to the national and local infrastructures for road transport, electric power distribution, and other utilities essential to the normal operation of electronic communications networks and services.</p> <p>12. Trade barriers This includes any trade barriers or specific trade tariffs (generally or related to the sector), ownership restrictions, profit repatriation, currency risks.</p> <p>13. Political stability, security, criminality, terrorism This relates to any aspect that threatens your overall presence in the country from danger to life and personal safety or the overall climate of adherence to rule-of-law and the general level of criminal threats against businesses, residents and visitors.</p> <p>14. Corruption generally or in any aspect of operations This relates to the likelihood of corruption affecting investments or operations, either through the taking of bribes in return for specific assistance or through systemic corruption applied generally in contravention of relevant laws and regulations.</p> <p>Any other aspects that are not mentioned above A section where the respondent can add any other investment related risk factor not covered above, including a view that one of the above factors is overriding in their decision whether or not to invest.</p>	
<p>For each factor (market attractiveness plus the 14 potential risk factors), a rating is given by choosing one of the following categories:</p> <ul style="list-style-type: none"> • Positively encourages investment • Does not deter investment • Mildly deters investment • Strongly deters investment • No opinion. 	<p>100% Total weighting</p>

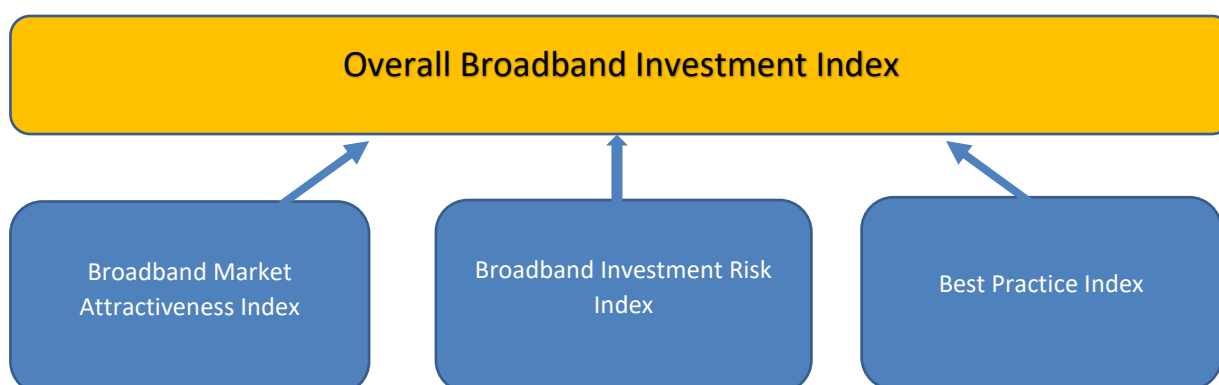
Progress towards the adoption of best practice

An additional part of the survey concerns the levels of confidence that respondents have regarding the country’s movement towards the adoption of best practices for the sector.

Survey factor	Components
Confidence in moving towards best practice	Respondents are asked to rate the confidence that they place on the country's policy makers/regulators etc. being motivated and able to improve towards implementing best practice conditions for investors.
<p>The level of confidence is measured by choosing one of the following categories:</p> <ul style="list-style-type: none"> • Very confident • It could happen within reasonable time • Some doubts that it will happen at all • Strong doubts / Unlikely ever to happen • No opinion 	

The methodology for calculating the overall Broadband Investment Risk index

The main index proposed for the overall comparison of markets is the Overall Broadband Investment Index. Its calculation combines the results of three sub-indexes, the Broadband Market Attractiveness Index, the Broadband Investment Risk Index and the Best Practice Index.



The Overall Broadband Investment Index therefore seeks to measure factors associated with the attractiveness of the market, the perceived barriers to investing in that market and the potential for the country to improve the investment climate by removing the barriers.

The resulting Index is normalised so that the maximum possible value is 100 and the minimum value is zero. The ranking of markets according to their Overall Broadband Investment Index will therefore show which markets are perceived more positively or less positively by respondents.

Component Index 1: Calculating the Broadband Market Attractiveness Index for each country

The Broadband Market Attractiveness Index for each country is calculated from the average of responses to a specific question: “For the types of investment that you are involved in - what is your view, for each country, of the overall market potential, regardless of the investment conditions there?”

The responses are placed into one of five possible categories:

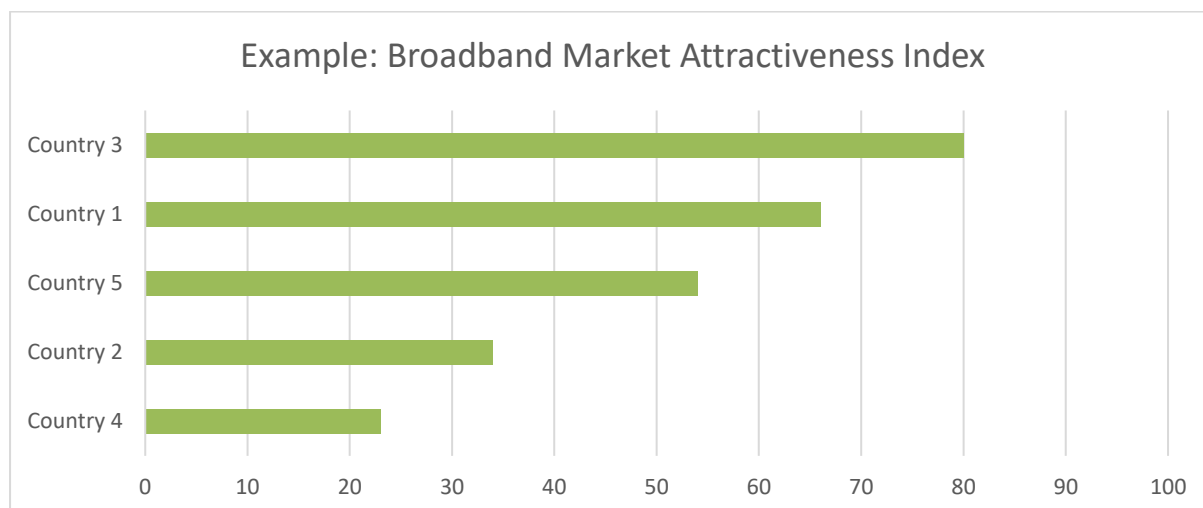
- Positively encourages investment
- Does not deter investment
- Mildly deters investment

Survey methodology

- Strongly deters investment
- No opinion.

The average result for each country is calculated by adding the total scores from all responses for that country and dividing by the number of responses.

The resulting Index is normalised so that the maximum possible value is 100 and the minimum value is zero. The ranking of markets according to their Broadband Market Attractiveness Index will therefore show which markets are perceived by respondents to have the most intrinsically attractive markets and which are less attractive.



On the comparative scale, zero would indicate a perception that the broadband market has no attraction. A score of 100 would indicate a perception that the market potential is perfect.

Component Index 2: Calculating the Broadband Investment Risk Index for each country

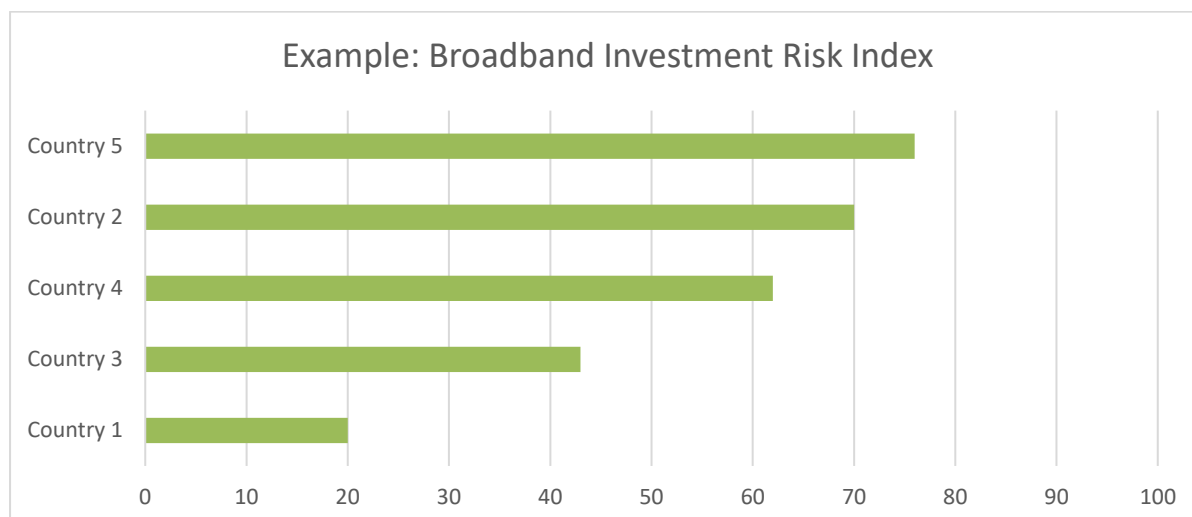
The Broadband Investment Risk Index for each country is calculated from the average of responses to a section of the questionnaire which lists 14 relevant investment risk factors. For each factor in turn, the respondent is asked *“In this part, we go through a list of 14 factors, which could influence investment decisions in each country. Please give your view separately for each listed factor and for each country.”*

The responses are placed, for each of the 14 factors in turn, into one of five possible categories:

- Positively encourages investment
- Does not deter investment
- Mildly deters investment
- Strongly deters investment
- No opinion.

The average result for each country is calculated by adding the total scores from all responses from all 14 questions for that country and dividing by the number of responses to all questions.

The resulting Index is normalised so that the maximum possible value is 100 and the minimum value is zero. The ranking of markets according to their Broadband Investment Risk Index will therefore show which markets are perceived by respondents to be the least intrinsically risky and which markets have most risk.



On the comparative scale, zero would indicate a perception that the broadband market has no enabling policy or has other absolute barriers and risks to investment. A score of 100 would indicate a perception that the full implementation of policies, legal and regulatory frameworks and other enabling conditions are already in place leaving no barriers or risks to investment.

Component Index 3: Calculation of the Best Practice Index for each country

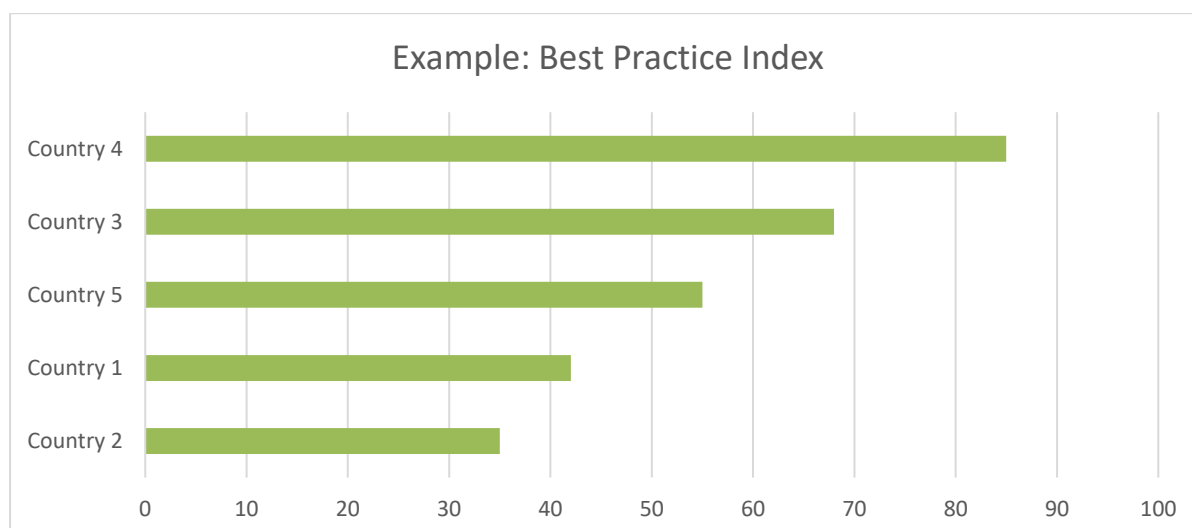
The Best Practice Index is calculated by using the responses to the specific question: *“Please rate the confidence that you place on the country’s policy makers/regulators etc. being motivated and able to improve towards implementing best practice conditions for investors.”*

The responses are placed into one of five possible categories:

- Strong doubts / unlikely ever to happen
- Some doubts that it will happen at all
- It could happen within reasonable time
- Very confident
- No opinion

The average result for each country is calculated by adding the total scores from all responses and dividing by the number of responses to all questions.

The resulting Index is normalised so that the maximum possible value is 100 and the minimum value is zero. The ranking of markets according to their Best Practice Risk Index will therefore show which markets are perceived by respondents to be more likely to move towards better conditions and which are less likely.



A value of zero would indicate that the country has no best practices relating to broadband investment conditions. A score of 100 would indicate that the country has already adopted all relevant best practices.

Calculation of the Overall Broadband Investment Index for each country

The Overall Broadband Investment Index (BII)_c for a country is a composite index that combines the Broadband Market Attractiveness Index (MAI)_c, the Broadband Investment Risk Index (IRI)_c and the Best Practice Index (BPI)_c for the country, according to the formula:

$$(BII)_c = 0.67 \times [W_m \times (MAI)_c + W_r \times (IRI)_c] + 0.33 \times BPI_c$$

Where,

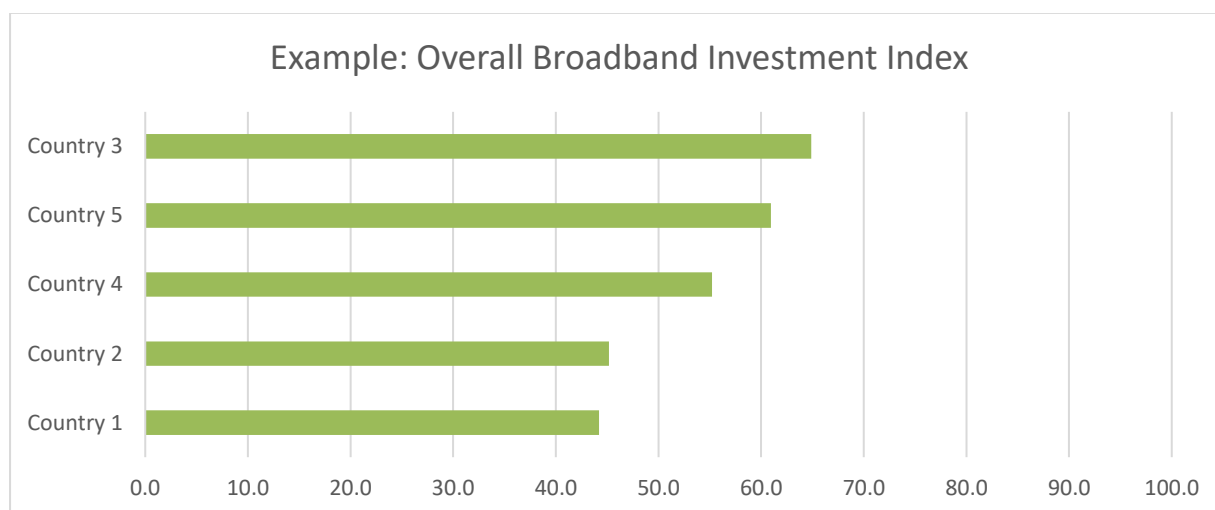
W_m = weighting applied to the Broadband Market Attractiveness Index (MAI)_c for the country

W_r = weighting applied to the Broadband Investment Risk Index (IRI)_c for the country

BPI_c = Best Practice Index for the country

And $W_m + W_r = 1$

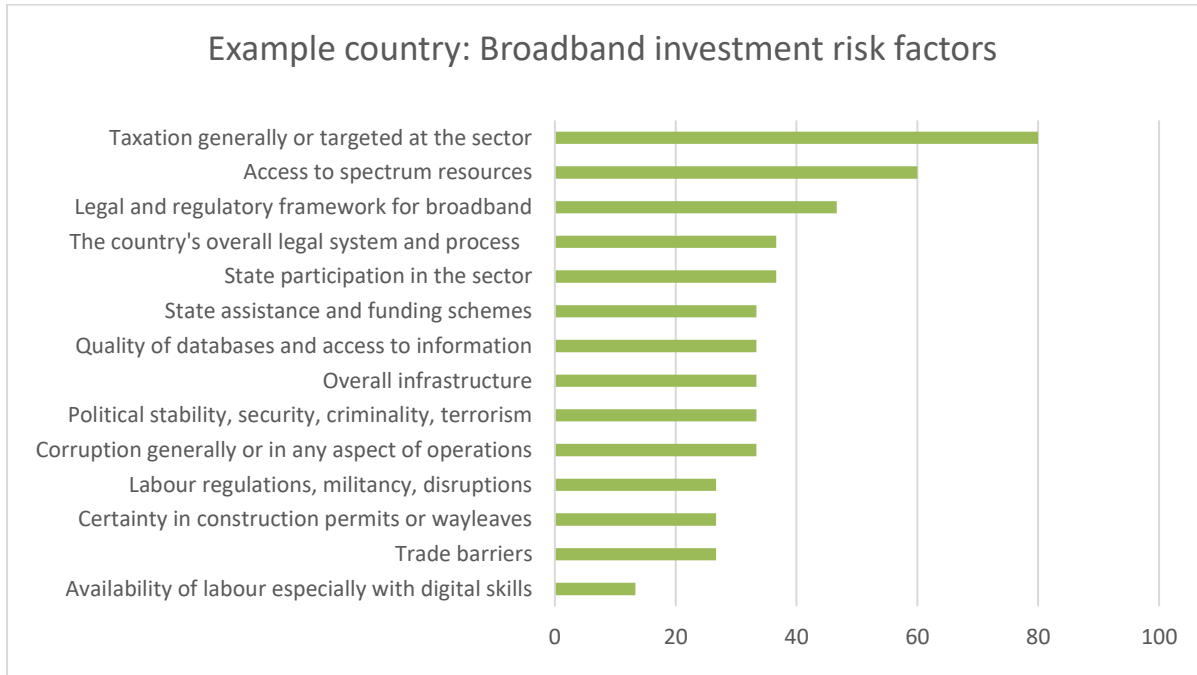
The values of W_m and W_r are derived directly from the aggregated results (average of all respondents for all markets) to a specific question in the survey. Respondents are asked to judge how much relative weight that they place on pure market attractiveness factors on the one hand and investment risk factors on the other hand. For the EEC markets, W_m has a calculated value of 63% and W_r is 37%.



On the comparative scale, zero would indicate a perception that the investment climate is very poor. A score of 100 would indicate a perception that the overall conditions are perfect for investment.

The above example results show that Country 3 has the best conditions for broadband infrastructure investment, despite there being relatively worse perception of the risks involved for Country 3. Country 5, despite being perceived as less attractive in pure market terms, has the best risk profile and reasonable potential to adopt best practices. Country 4 has the lowest market attractiveness but there is good confidence that it will soon adopt best practices. Countries 1 and 2 are relatively unattractive.

The next step is to reveal the factors that most significantly influence the investment risk in each country and therefore to indicate the key areas of policy that need to be tackled in order to improve investment conditions. This important result is obtained by ranking the responses to the 14 factors that make up the Broadband Investment Risk Index.



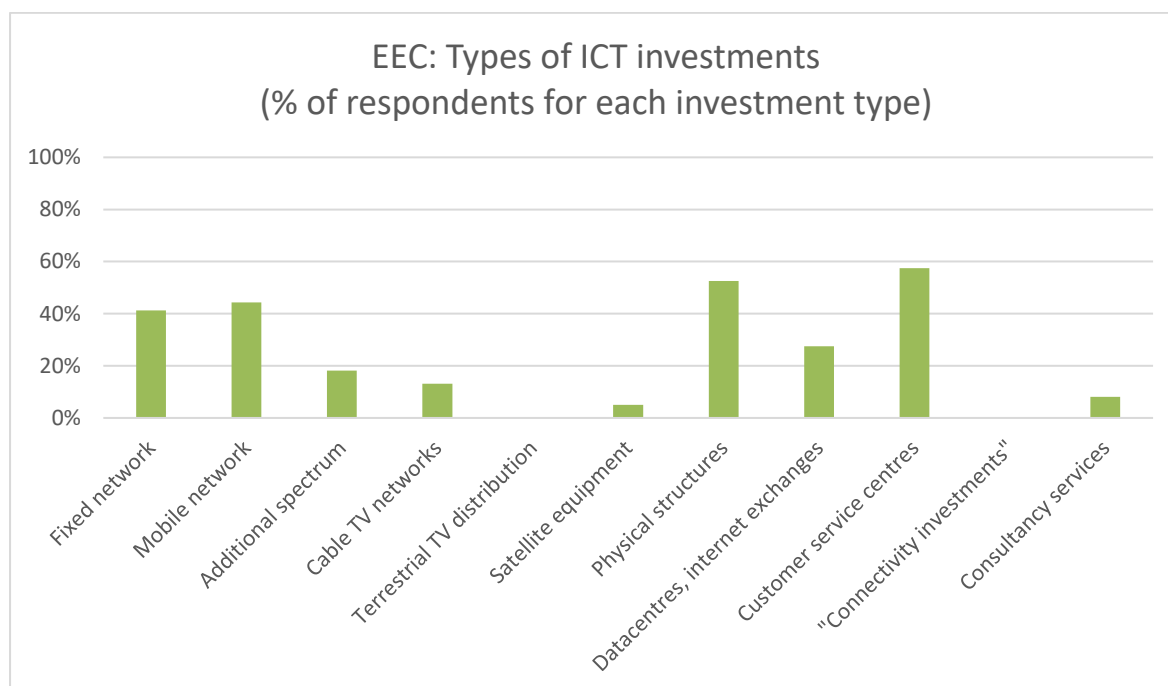
A score of zero for any factor would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

In this example, the three priority factors that most hinder investments are high taxation on the sector, poor spectrum access and limitations in the legal and regulatory framework. The remaining factors, although contributing to the overall investment conditions, are less important in the eyes of the respondents.

3: SURVEY RESULTS

Types of investments

The respondents to the survey covered a range of investment types in the ICT market, from fixed and mobile networks through to customer services centres and consultancy services.



Most respondents are involved in operating either fixed or mobile networks including basic voice, internet, and broadband services. An increasing number of operators are now offering both fixed and mobile broadband services.

The main broadband market demand over the last ten years has been skewed toward mobile rather than fixed network services. On average, the take-up of mobile broadband in the four EEC markets outnumber fixed broadband by over three to one. In the EEC region, fixed broadband market is forecast to grow in the medium term at less than half the rate of mobile broadband growth.

Infrastructure assets include the sector specific cabling and switching equipment, almost all of which is imported to the markets surveyed, plus the physical infrastructures - mainly buildings, ducts and towers plus customer service centres (including retail shops). The specific investments in TV networks, including cable and terrestrial distribution plus satellite communications equipment, have become limited to specialist players.

Most major network players still prefer owning their own fixed and mobile infrastructures, rather than renting capacity from other infrastructure owners, or sharing infrastructures with their competitors. The extent of infrastructure sharing, or joint investments, is still very limited even though these forms of collaboration would lead to significant cost reductions. Investors in the region have in the past followed the prevailing opinion in many telecommunications markets that the pursuit of market share (favouring own-network investments) outweighs cost reduction (favouring joint investments and infrastructure sharing). However, some collaborative cost sharing initiatives have appeared, mostly amongst the more established operators. There appears to be a more positive attitude towards infrastructure and network sharing in the lead up to future investment decisions regarding 5G.

Of growing importance in a market now dominated by broadband services are investments in data centres, which include storage capacity for the fast-growing use of "cloud" services. Data services growth has risen very sharply in all markets, as the number of internet users (ranging from 59% of the population in Ukraine

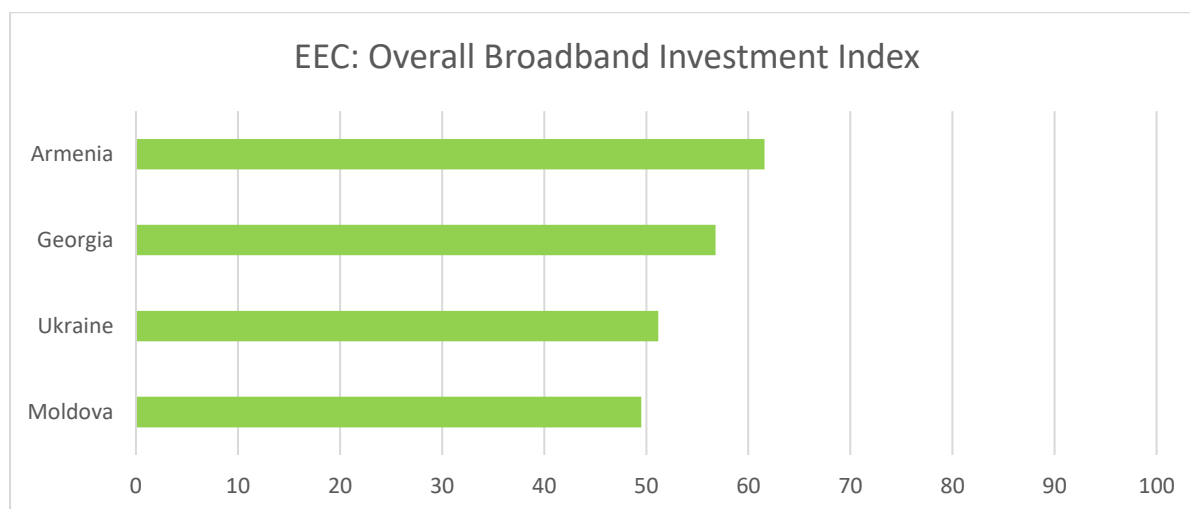
Survey results – Eastern Europe and the Caucasus

to 76% in Moldova) increases. Consumer appetite for higher broadband speeds continues to develop as 4G mobile services are being deployed and fixed broadband infrastructures grow.

There is interest in additional spectrum investments, although still mostly limited to 4G growth. The investment appetite remains low for the expected future demand for a range of new business models linked to 5G connectivity – for example smart cities, vertical industry sector partnerships, logistics, content, data analytics and the “Internet of Things”. Mobile service providers in the EEC markets are currently mainly concerned with achieving returns from their existing investments in 3G and 4G infrastructures. Commercial 5G-based services are expected to be launched only in 2022 or 2023.

Overall respondent perception

The overall Broadband Investment Index result for the EEC markets is shown below.



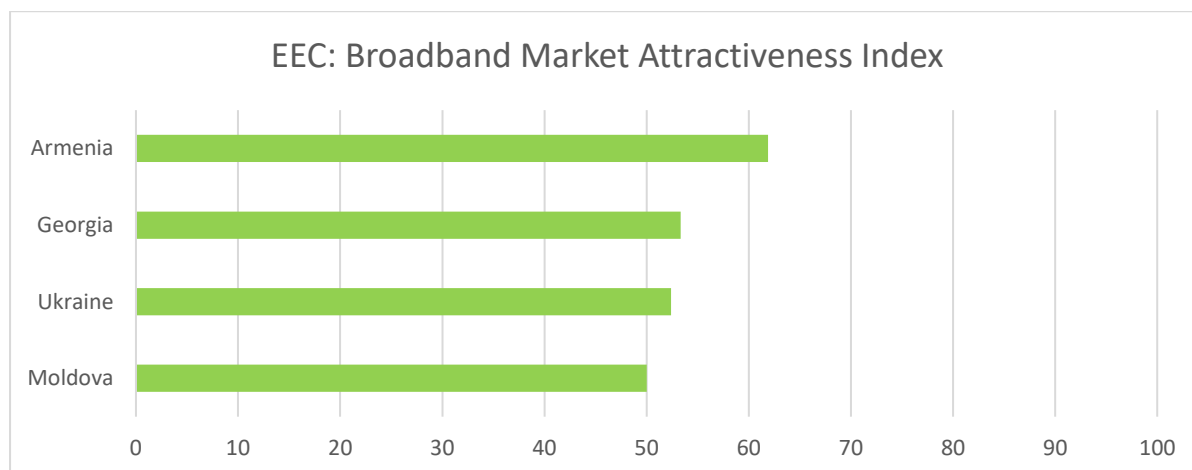
On the comparative scale, zero would indicate a perception that the investment climate is very poor. A score of 100 would indicate a perception that the overall conditions are perfect for investment.

The chart shows that in the EEC markets, the investment conditions are less than what respondents would ideally wish for. To examine the reasons, the following paragraphs highlight the factors that contribute most to the overall results.

The Overall Broadband Investment Index has been calculated from several components; market attractiveness, investment risk and confidence towards adopting best practices. The full list of component factors and the calculation methodology for each index are detailed in section 2 of this report.

Market attractiveness

The Market Attractiveness Index result for the SEE markets surveyed is shown below.



On the comparative scale, zero would indicate a perception that the broadband market has no attraction. A score of 100 would indicate a perception that the market potential is perfect.

Based on the respondents’ views, Armenia is the most attractive of the EEC broadband markets and Moldova is the least attractive. For this component of the survey, participants were asked to rate only the pure market potential, disregarding initially any investment risk factors, which are subsequently taken into account in a separate analysis that is also based on the views expressed. Both the market attractiveness and the risk factors are combined to calculate the overall Broadband Investment Index.

The main benchmark indicators of the ICT markets in the four EEC countries are shown below.

EEC market headlines

	Armenia	Georgia	Moldova	Ukraine
Population	3.0m	4.0m	4.0m	42m
Penetration of fixed broadband/100 population	13	24	17	16
Penetration of mobile broadband/100 population	83	80	59	47
% of population using the internet	68%	69%	76%	63%
Average download speed per fixed broadband user (Mbps): The global average is 105.2Mbps	34.6	26.8	123	70.1
Average download speed per mobile broadband user (Mbps): The global average is 54.5Mbps	30.5	38.3	40.4	30.3
Forecast overall broadband market growth up to 2024 (% compound growth p.a.)	6.5%	5.3%	3.9%	7.3%

[Sources: UN, ITU, Speedtest Global Index, Fitch Solutions]

Ukraine is the largest market in population terms and is also forecast to be the fastest growing market mainly from mobile broadband services, having made a late start in launching 3G and 4G services. Armenia and Georgia also have reasonable fixed and mobile broadband market growth rates. The lowest forecast growth rate is in Moldova, where the mobile broadband market is saturating, and fixed broadband growth remains sluggish.

The main features of each market are:

Survey results – Eastern Europe and the Caucasus

- **Armenia** is the smallest market in population terms and has the highest mobile broadband penetration alongside the lowest fixed broadband penetration. Forecast growth is 6.7% per annum up to 2024 for mobile broadband and 4.3% for fixed broadband. Average download speeds are still relatively low.
- **Georgia** is a relatively small market in population terms but already has a relatively high penetration of fixed and mobile broadband. Mobile broadband is expected to grow at 5.6% per annum and fixed broadband at 4.2% per annum. Average broadband download speeds are still relatively low.
- **Moldova** is a relatively small market with relatively low fixed and mobile broadband penetration. Mobile broadband is forecast to grow at 4.1% per annum up to 2024 and fixed broadband at only 3.2%. Internet usage is well established and download speeds are the highest in the region, particularly for fixed broadband.
- **Ukraine** is the largest market but the lowest broadband penetration. It has the highest forecast for overall broadband growth estimated at 7.3% per annum up to 2024. Mobile broadband is expected to grow strongly at 8.7% per annum, but fixed broadband growth will remain low (estimated at 3.2% per annum) until the legal and regulatory framework is improved. The relatively high fixed broadband download speeds reflect the high percentage of fibre now being deployed to replace copper cabling of poor quality.

EEC markets: Market attractiveness factors

Market attractiveness factors	Armenia	Georgia	Moldova	Ukraine
Overall size of the market, in population terms and relative spending power				
Growth potential of the market, in terms of demand for broadband-services				
Efficiency of the markets in terms of fair competitive conditions				
A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up				

- Good / - Medium / - Poor

Investment risk factors

The survey sought views on a number of factors relating to sector investment risks. These factors ranged from the general and specific policy, legal and regulatory frameworks that apply to sector investments, public sector participation, the availability of digital labour skills, the procedures for granting construction and rights of way permits, overall supporting infrastructures, overall political stability and levels of corruption. A more detailed description of these risk factors is given in section 2 of this report.

Respondents were asked how important these risk factors were in their investment decision making, alongside the pull of market attractiveness. The results across a wide range of respondents gave an average relative weighting:

Balance of factors in deciding investment in a country

Respondents were asked to assess the relative weighting that market and risk factors hold when deciding to invest in a country. The results were:

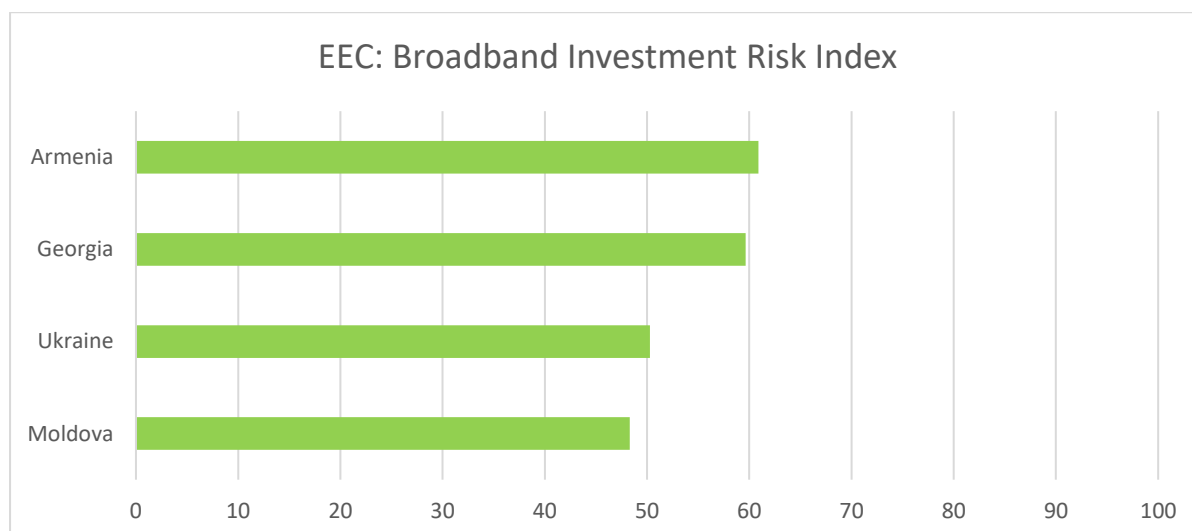
Pure market potential: Average response 63%

Investment-related risk factors: Average response 37%

Taken together, the various investment-related risk factors are therefore a key element (37%) in the decision making of respondents in broadband markets. The country-by-country results are given later in this section, leading to the identification of the most important risks facing respondents in each country.

Actions to reduce these investment-related risks are largely in the hands of policy and lawmakers in each market, alongside the regulatory and other agencies charged with implementation of the policy and legal frameworks. The findings of the survey have enabled the measurement of the perceived risk faced by respondents, leading to an identification of the key policy and improvement challenges that need to be worked on to remove the obstacles that create the investment risks.

The measurement of these perceived risks has led to the calculation of a Broadband Investment Risk Index for each market.



On the comparative scale, zero would indicate a perception that the broadband market has no enabling policy or has other absolute barriers or risks to investment. A score of 100 would indicate a perception that the full implementation of policies, legal and regulatory frameworks and other enabling conditions are already in place leaving no barriers or risks to investment.

All the four EEC markets surveyed fall short of implementing policies, legal and regulatory frameworks that would facilitate investments without barriers. The main obstacles are explored country-by-country later in this section. Armenia was perceived by respondents as having the fewest barriers overall, followed closely by Georgia. Ukraine and Moldova and have sought to adopt best practices in their policy, legal and regulatory frameworks, but implementation has been slower and significant investment uncertainties remain.

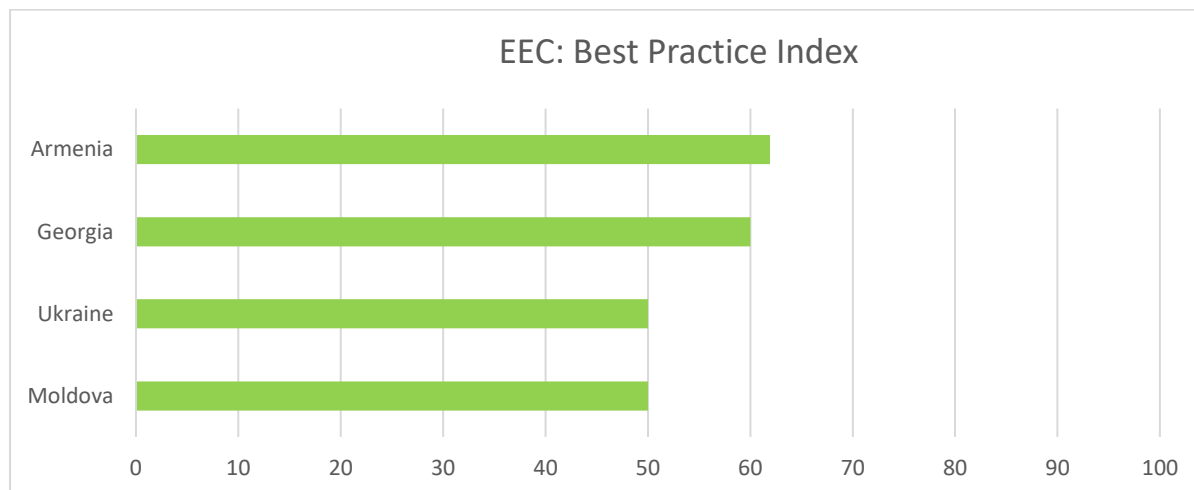
The investment risks present in each market, as perceived by the survey respondents, are analysed in more detail in the country-by-country results later in this section.

Confidence in adopting best practices

The survey has measured the perceived risks associated with broadband investments, in the view of the respondents. These risks exist today but could be reduced significantly given action by policy and law makers together with the sector regulatory agencies.

Survey results – Eastern Europe and the Caucasus

The survey asked respondents how confident they were about whether best practices will be adopted to reduce investment barriers within a reasonable timescale. The range of concerns regarding best practices for the sector is wide, from perceptions of slow progress on market liberalisation and privatisation, through to comments regarding specific procedures that can delay individual investment decisions. For example, the survey participants were generally aware that there are a set of best practices regarding broadband cost reduction that are now legally defined and apply across EU member states. These measures include a range of procedures for joint construction, infrastructure sharing, access to multi-occupancy buildings and rights of way over public and private property. These best practices are especially important to broadband infrastructure investors because they can reduce costs and remove significant procedural barriers.



A value of zero would indicate that the country has no best practices relating to broadband investment conditions. A score of 100 would indicate that the country has already adopted all relevant best practices.

All the EEC markets surveyed have problems in the adoption of best practices, creating significant barriers to investments including time delays and inconsistently applied procedures. The most common concerns expressed in the survey involve the updating of the legal and regulatory frameworks to take account of new technologies, new competitive market conditions and applying the rule of law. Specific cases include the need to move quickly towards a more liberalised and transparent approach for releasing new spectrum capacity, greater opportunities for infrastructure access and network sharing, protection against unfair competition and the creation of more effective and less time-consuming procedures.

A specific set of procedural issues are frequently mentioned by the survey participants, particularly in Georgia, Moldova and Ukraine. These concern the problems experienced by investors in obtaining permissions for constructing civil infrastructures. Generally, permission is required before building mobile transmission towers, laying cables and ducts, getting access to public and private properties and for installing specialist equipment. In many cases there are bureaucratic delays, multiple levels of decision making and inconsistently applied rules.

Best practice would be in place if the necessary applications could be made on-line via a one-stop-shop procedure, with all the layers of permission granting following the same effective procedures and timescales.

Another factor that impinges on investor perception of best practice is the emergence in all four countries of small local internet service providers. Many of these are less likely to adhere to the rules set out in the legal and regulatory framework, for example in relation to quality standards and in relation to general cooperation on infrastructure access. Many respondents consider these small local entities as unfair competition, especially when the overall legal and regulatory processes are themselves not sufficiently backed up by effective legal enforcement and dispute resolution procedures.

The findings of the survey reflect a common experience over the passage towards a more liberalised and competitive era for telecommunications and internet services. Both incumbents and new network providers have invested heavily in response to significant increases in demand, especially for broadband services. Investment strategies have generally resulted in the construction and expansion of separate infrastructures,

Survey results – Eastern Europe and the Caucasus

with each fixed and mobile operator seeking to roll-out networks under their own control to gain competitive advantage.

Where options for infrastructure sharing, wholesale access and joint construction may have been considered in the past, they are normally not followed, either because the regulatory conditions are insufficiently clear or enforced, or because the investors wish to retain full control of their planning and asset management. In addition to the extra costs involved, these separate infrastructures appear as duplicated structures, for example separate masts in the same locations, multiple duct laying disruptions, and unsightly aerial cabling.

From the latest survey responses, it appears that there is now a general realisation amongst investors that new models of investment requiring more collaboration should now be considered, in order to reduce unit costs and protect investment returns. There is a parallel view that the sector's legal and regulatory frameworks will need to adapt in the expectation of this trend, especially in the lead up to investment decisions based on 5G technology and the increasing roll-out of optical fibre connectivity.

Overall, Armenia and Georgia are the markets where there is most confidence that best practice policies, legislation and regulatory practices will be applied to the sector. In Moldova and Ukraine, although the general direction of policy, legislation and regulation remains towards better practice, the relatively slow progress with implementation has led to a lower level of investor confidence.

The following country-by-country sections examine the main investment barriers across the EEC region, leading to the recommendations provided in section 4 of this report.

ARMENIA

At a glance

Headline market statistics - Armenia	2016 survey	current
Population (millions)	3.0	3.0
Fixed broadband penetration per 100 population	10	13
Mobile broadband penetration per 100 population	41	83
Internet usage (% of population)	50%	68%
Forecast overall broadband market growth up to 2024 (% compound growth per annum)	6.5%	

[Sources: UN, ITU, Fitch Solutions]

Armenia has a relatively small and stable population with around average internet usage (measured by percentage of population). Broadband market growth is also around average for the EEC region, with a forecast of 6.5% per annum up to 2024. Armenia has the highest mobile broadband penetration for the EEC region, but fixed broadband infrastructure investments into geographical areas outside the main population centres remain relatively low.

Survey results

Armenia	Rating	EEC average	EEC Ranking
Broadband Market Attractiveness Index/100	62	54	1 st
Broadband Investment Risk Index/100	61	55	1 st
Best Practice Index/100	62	55	1 st
Overall Broadband Investment Index/100	62	55	1 st

In general, an index above 50/100 indicates a relatively good market for broadband investments.

The survey results show that Armenia is perceived overall to be the most attractive broadband investment market of the four countries surveyed. This is despite average market growth expectations coupled with uncertainties in mobile broadband plans and limited current investments in fixed broadband. Overall, Armenia is perceived to have liberal investment conditions. The recent political and national upheavals resulting from the conflict with Azerbaijan over the Nagorno-Karabakh region have significantly contributed to investment uncertainties.

What respondents are saying about the market

Market size and potential

“Recently there have been more investments in rural areas where the smaller operators are most active, mostly FTTH.”

“The penetration of broadband by households is already close to 70%.”

“There is good potential to grow. The mobile broadband market has been slowing and the fixed market increasing.”

“On average, the overall market spending power has decreased by around 2.5% per year.”

“The total telecommunications market size is more or less stable.”

“There are many customers who want more value and quality, rather than just a basic mobile or fixed broadband service.”

“Fixed broadband is being driven by content development including TV and more on-demand services.”

“TV is really changing fast.”

“The high level of concentration and the small size of the market create investment barriers to entry for new investors.”

“We continue to expand our own network-based investments; also in certain areas we use competitors’ networks when our own investment return is not sufficient.”

“There are a few ‘white areas’ that are not covered by fixed broadband yet, around 5% of the population.”

“3G and 4G cover most of the population, but fixed broadband is still only available in around 50% of rural settlements.”

“In the rural areas, the regional providers do the investments, with the larger operators providing the backhaul.”

“There are no government incentives, the regional providers can invest because they do not have to meet international standards, so they tend to provide a cheaper and less reliable service.”

“Some of these regional providers are around ten years old and have expanded typically into three or four of the eleven Armenian regions.”

“The current logic is to change the market away from selling broadband speed, towards selling connectivity.”

“The corporate market is still growing while traditional markets decline.”

“The trend in the next few years will be towards more state-of-the-art datacentre-based solutions in the corporate sector.”

“There is not a business case for 5G in the short term. Mobile investment remains rooted in 4G.”

“The market is restricted and mobile business is not very profitable. There are three mobile operators and a policy of not to expand mobile.”

“5G Internet of Things will be directly competing with fibre but we don’t have 5G roll out plans because at the moment we can satisfy demand.”

Current market conditions

“The broadband market is in very good shape compared with some more developed markets and prices are competitive.”

“The average Armenian citizen can have broadband at the standard prices in both rural and urban areas.”

“We do have to invest heavily in upgrading systems to comply with content providers. Our clients are demanding high speed and high quality.”

“There have been significant investments in the last 15 years from all investors. Some have left the market, some remain.”

“Investments are mostly mobile and FTTH.”

“There are four large players plus four or five smaller operators mainly in the regions.”

“The larger players compete and cooperate with the smaller ones.”

“In the retail market the big players all built their own backbones and access networks.”

“Most operators are interconnected - we can access the network capacity of other operators by agreement, there are no issues with this.”

“The market is quite restricted, with a small population and territory.”

“Virtual mobile operators are not within the current legislation and there is no spare spectrum.”

“Broadband prices are very competitive for end users and operators.”

“The telecommunications sector is operating and developing based on the market.”

“The market is highly concentrated, with four big operators on a national scale and a dozen regional/ local ones.”

“The existing players have to invest in further expansion of their networks and to differentiate themselves from competitors.”

“Mobile number portability exists but it is underused. There are plans to implement fixed number portability at some time in the future.”

“There are some small companies - grey companies that hide from regulations, putting the larger ones at a disadvantage.”

“There is fragmentation in the regional market with the smaller players chasing the low revenue customers.”

“Armenia is one of the easiest places to get a licence.”

“There are said to be a couple of hundred licence holders. The regulator has been trying to ensure that the smaller companies obey the rules.”

“Capital investments are highly affected by exchange-rate risk, since the majority of our investments are paid for in foreign currency.”

“Operating expenses are less affected, although there are some segments that are fully dependent on currency rates, such as international interconnection, roaming, technical and maintenance.”

“Overall, in the long run, even our local operation will be influenced by currency movements.”

“The overall civil infrastructure is considered good for the normal operation of electronic communications networks and services.”

“From a road transport point of view, there are a few sites with difficult access during the winter period.”

The overall strategy for the sector

“The IT sector has been declared as one of the priority areas of the national economy, and so the existing educational programs/methodologies are continuously upgraded to meet the evolving demand for labour in the telecommunications sector.”

“There is now a ‘Digitalisation Agenda’ approved for a five-year implementation period, focussing on government and management, economy and society.”

“We have good mobile and international connectivity but COVID-19 showed us that we have mobile coverage but not fixed connectivity.”

Survey results – Armenia

“During the COVID pandemic we saw that eLearning for schoolchildren faced issues with coverage at only a few Mbps. With this in mind we are trying to figure out places on the map where we need more stability.”

“Our postal structure provides a good basis for eCommerce – we have a payment system, but we need more infrastructure for postal deliveries.”

“For cyber security we need compliance and certification systems and a National Cyber Security Centre.”

“For data policy we need harmonisation with the EU, USA and Russian standards.”

“We also need a targeted digital skills programme.”

“We still do not have a broadband strategy document and the government is not willing to subsidise. There are no real discussions about this.”

“There are some last-mile fibre plans being developed by the bigger players together with smaller players, especially for rural areas.”

“The private sector made a case for fibre to replace copper in the city.”

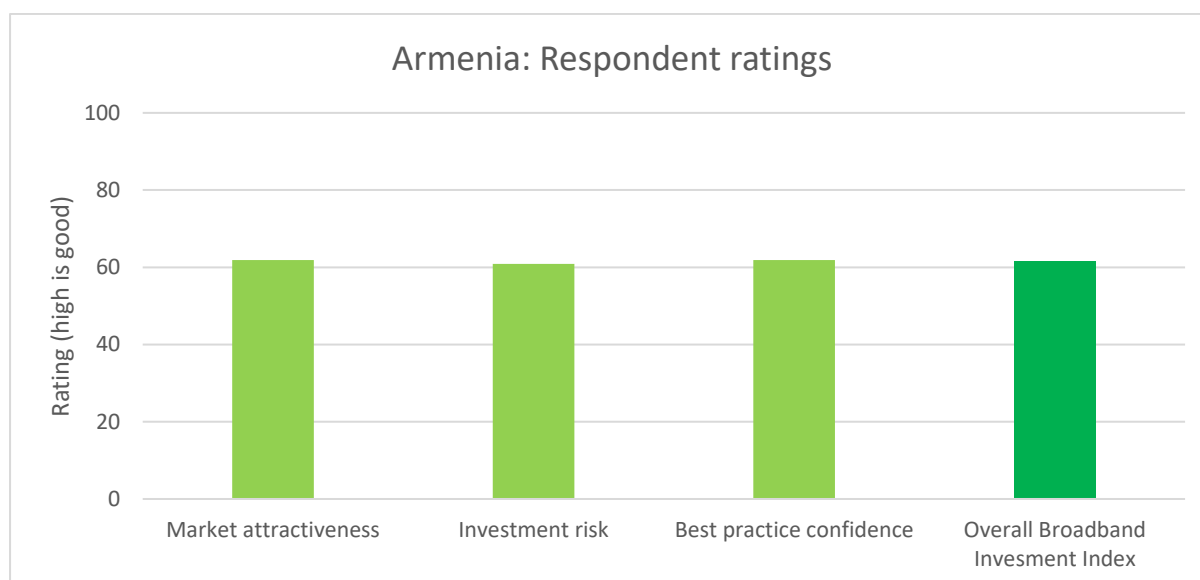
“There is very little investment in wholesale capacity.”

“The involvement of government is low compared to other sectors, telecommunications is relatively free of regulations.”

“There has been some discussion of investments in rural areas where there is no business case or a very long pay-back.”

“The rural situation has not been analysed, the government is not yet active and there is no spare money for rural investments.”

“The relevant state policies either do not exist (for example there is no national broadband strategy) or do not contain provisions on state assistance/ funding.”



The overall Broadband Investment Index (right hand pillar) is calculated from the three indexes represented by the first three pillars. The full calculation methodology is given in section 2 of this report. For each pillar, the higher the score, the better the conditions are.

Armenia has relatively high scores for market attractiveness, investment risk and best practice confidence. The top concern is political stability, with other lesser concerns regarding the relative absence of state support in terms of broadband policy, spectrum liberalisation and measures to accelerate investments. Other investment risks are relatively low in Armenia, including private sector freedoms, trade barriers and labour

Survey results – Armenia

regulations. Armenia's overall Broadband Investment Risk Index is the highest of the four EEC countries surveyed.

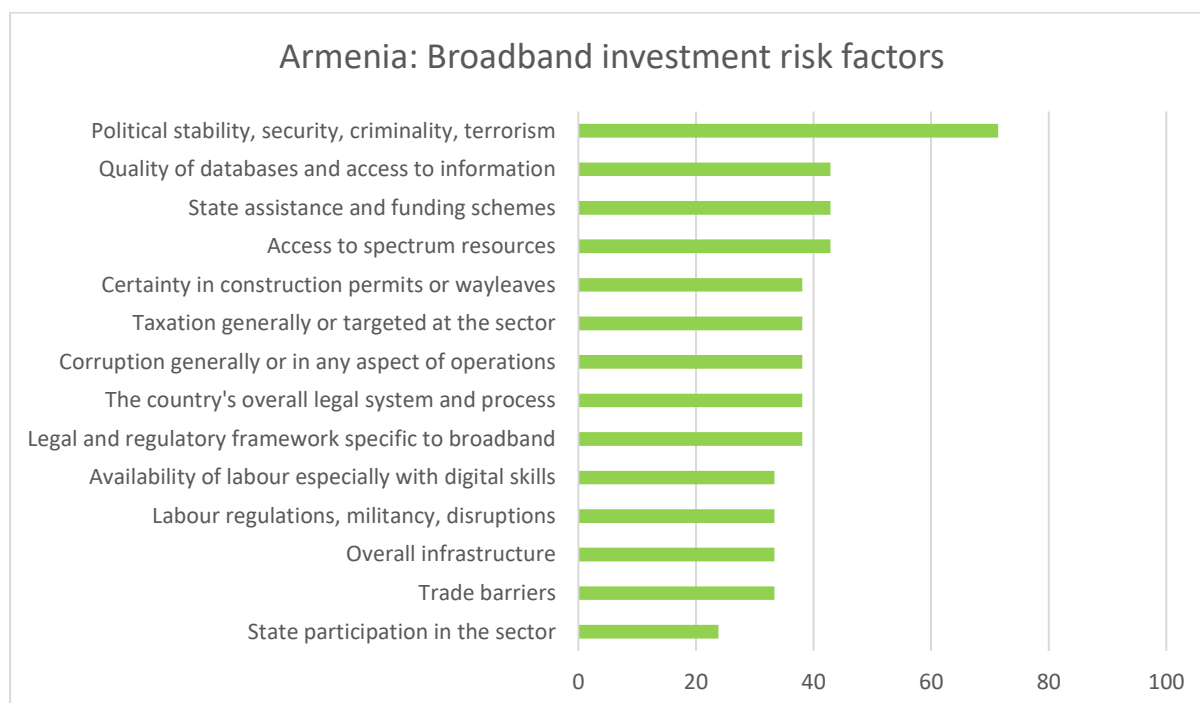
More detail regarding the main investor concerns is given in their comments below.

Respondent views

The survey considered 14 factors related to investment in ICT infrastructure. A description of these factors is given in section 2 of this report. Respondents were asked to express their view on whether the conditions for investment are affected by each factor in any of the following ways:

- Positively encourages investment
- Does not deter investment
- Mildly deters investment
- Strongly deters investment
- No opinion.

By assigning relative scores normalised to a scale of zero to 100, each factor has been ranked in terms of how much it contributes to investment risk.



A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

Respondents perceive that issues related to political stability contribute the most risk to broadband investments. The relative lack of infrastructure data, absence of state support for broadband expansion and uncertainty about spectrum releases also contribute to investors' risk assessment.

Other factors, including the legal and regulatory framework, taxation and wayleaves contribute less to investment risks.

The following comments give more details of the specific concerns of investors.

Political instability

How respondents expressed views about political stability in Armenia

“The current politically unstable situation in the country makes things very uncertain.”

“The overall political predictability is low. This relates also to the possible creation/ amendment of unfavourable legislation.”

“The political situation affects all sectors; in telecommunications we have a high risk and until recently a high return. We don’t see that attractiveness now.”

“The effectiveness of public authorities and their processes still leaves much to be desired. Therefore, political, operational and other risks are in place to hinder investment.”

“National security has been seriously threatened after the conflict with neighbouring Azerbaijan in late 2020. Although the war is now over, the security risks remain in place.”

“The situation is further exacerbated by the in-country political tensions between the ruling party and the opposition.”

“The level of criminality is low to moderate, terrorism is non-existent.”

Political instability was expressed as the top inhibitor to investments in the sector. The views on political stability in Armenia have significantly worsened since September 2020, when new hostilities between Armenia and Azerbaijan erupted in Nagorno-Karabakh. Although the war ended in November 2020, the political consequences in Armenia, which could lead to government instabilities, have resulted in greater uncertainties for investors.

Respondent views also reflect the general uncertainties in the telecommunications sector that arise in Armenia because there is no clear overall national strategy for ICT with no specific targets for broadband coverage and connectivity. There also appears to be a lack of clarity about network and cyber security issues and the need for more harmonisation with international best practices.

The private sector’s clear investment focus in recent years has been towards achieving full 3G and 4G mobile coverage, plus fixed broadband connectivity in the more profitable areas. This has left an estimated 50% of rural settlements unserved by fixed broadband services. Customer expectations are rising, particularly with increased awareness of the current broadband performance limitations during the COVID-19 crisis. The relative lack of investments in fixed broadband will become a more serious issue as the range of high-speed digital services increases. Armenia is currently underinvested in fixed broadband connectivity with the lowest ratio of fixed broadband to total broadband services in the region.

Recommendations for improvement of policy support and investment promotion to improve broadband connectivity are given in Recommendations 1 and 2 in section 4 of this report.

Access to databases

How respondents expressed views about obtaining information in Armenia

“There are dedicated online sources for laws/regulations in force (www.irtek.am, www.arlis.am) and draft legal acts (www.e-draft.am).”

“As to telecommunications-specific databases, they are either not available or not easily accessible.”

“A list of licence holders can possibly be found on the regulator’s website.”

“Interconnection offers should normally be posted on their websites but not all operators do this.”

“A national network infrastructure atlas is not available. The government plans to compile a comprehensive inventory of telecommunications infrastructure, but the progress achieved so far is not known.”

Survey results – Armenia

The regulator has plans for the creation of an infrastructure database which will allow investors to identify wholesale access and infrastructure sharing opportunities, plus geographical shortfalls and possibilities to coordinate investment and construction activities. Further considerations of best-practices in these areas is given in Recommendation 4 in section 4 of this report.

State participation and funding in the sector**How respondents expressed views about state participation and funding in the broadband sector of Armenia**

“The government has said that the market is purely for the operators.”

“The state does not hold any stake or interest in the telecommunications sector, which has been fully privatised.”

“There are no state assistance and funding schemes available to investors in broadband.”

“There is no state interference in this sector through funding or subsidies.”

“The government plays an active role to support the development of the ICT industry, but its activities are mainly focused on mobile applications development, data science, chip design, etc.”

“The law provides for ensuring universal service through a universal services fund, but it has never been implemented in practice.”

“There is an “Open Sky” programme to remove cables from poles and put them underground in the cities, in cooperation with the local government. The only advantage to us is less cable damage and lower operating costs.”

“There is a law that gives free access for infrastructure on government buildings, but the building occupiers still ask for money.”

The fully privatised telecommunications sector in Armenia is considered by respondents as having a *laissez-faire* legal and regulatory framework, giving the private sector players a high level of freedom to invest. The competitive market has developed well, led by four major companies and a number of active regional players. Full coverage of mobile broadband services (using 3G and 4G technologies) has been largely achieved, backed by defined obligations in the mobile licences issued by the regulator.

Investments in fixed broadband have been made in cities and to a lesser extent in rural areas, including investments by regional players. Respondents register the lack of state involvement in the sector as the lowest risk of all the risk factors assessed.

However, the respondents did express some concern that the government has provided no specific support to encourage more investments in high-speed broadband connectivity in the more remote rural areas where the high costs and low demands provide little attraction for private investment. Unlike in many other countries, the Armenian government has not developed an overall sector strategy or national broadband plan. The likelihood of the more remote unserved areas benefiting from high-speed fixed broadband services is therefore low for the short and medium term.

Mobile broadband services are more universally available but their limitations, in terms of unreliable speeds and quality, will become increasingly evident as digital services become more sophisticated and customer expectations rise. To achieve full coverage of high-speed reliable broadband, additional investments will have to be made using 5G and fibre connections. The respondents did not see any clear government initiatives that will accelerate these investments. The investment case for 5G services remains unclear and the government does not yet have a timescale for new spectrum releases to support further mobile broadband services. Fixed broadband investments continue, but there are no clear national targets for all population settlements to be connected.

Survey results – Armenia

For a fully efficient investment market which can achieve high-performance broadband coverage, a clear sector policy is required, including a national broadband plan. Implementation of this plan should be backed up by targeted state support and regulatory measures including broadband cost-reduction and state-aid subsidies if necessary to accelerate rural broadband investments. The necessary components of the required policy, legal and regulatory frameworks are further explored in Recommendations 1,2 and 9 in section 4 of this report.

Access to spectrum resources**How respondents expressed views about access to spectrum in Armenia**

“There are many areas with only 2G and 3G.”

“There has not been any dedicated strategy for 5G.”

“The availability of spectrum resources is fairly limited, especially for new entrants.”

“The government should review spectrum assignments under state use with a view of re-allocating certain spectrum for further commercial use and 5G.”

“The 700MHz band has been allocated for 5G but not released yet, maybe in 2022.”

“There is no policy on how any new spectrum will be used.”

“There is no free spectrum or shared use, so until 700MHz comes available, there is no spectrum available.”

“New operators are not within the current legislation and there is no spare spectrum.”

“The only monitoring of spectrum use is the checking of operators to see if they have fulfilled their licence obligations.”

“Secondary trading is not yet allowed and there is no provision for spectrum sharing.”

Respondents expressed the view that although spectrum resources are sufficient for their current investment plans for mobile broadband, there is uncertainty about the timing and allocation of further spectrum releases to meet further growth and mobile broadband services development. Although the investment case for 5G investments remains generally unclear, most countries now have plans to exploit the technology and roll-out plans are relatively advanced. In Armenia there has been no clarity regarding the proposed role of 5G or on the timing of new spectrum releases to support growth and expansion of services.

The underlying view of respondents reflects that spectrum management in Armenia has not yet been sufficiently liberalised to reflect the changing market for mobile broadband growth and services development.

Specifically, modern spectrum management strategies should not only promote investments in broadband infrastructure for geographical universality and to meet the growth of existing services, but also should support the expected 5G market transformation. In planning the release of new spectrum, governments and regulators should recognise that investors need more certainty, for example by ensuring technological neutrality, providing opportunities for spectrum sharing within 5G investments, extending licence periods and by aligning new spectrum release dates. Further consideration of the strategies for market-driven spectrum management are given in Recommendation 6 in section 4 of this report.

The legal and regulatory framework for broadband**How respondents expressed their views on the legal and regulatory framework in Armenia**

“The overall legal system for telecommunication is quite business-oriented.”

“Companies can benefit from reasonable freedom and flexibility in their decision-making processes.”

“The regulatory framework does not give impediments; we have no issues and we openly discuss things with the regulators.”

“Compared to many other countries, Armenian legislation provides a facilitated licensing process for telecommunications operators.”

“Relations with the direct regulatory bodies is usually based on constructive dialogue rather than forced decisions.”

“There are some minor issues - mostly procedural.”

“Regulation is generally consensual; most decisions are not taken by enforcement but by relevant discussion.”

“There should be some differential pricing to reflect different broadband quality and speed, otherwise we cannot just keep investing for higher speeds and quality with the same pricing. This issue has to be faced eventually by regulators.”

“Netflix is launching more and more HD content. In Armenia customers do not want to pay for higher speeds and if the providers increase prices it might be seen by the regulator as anti-competitive.”

“Regulators still have a traditional approach, but now we need more content-driven regulation, where we either have to raise prices or restrict access.”

“This market has changed, on-line services present different challenges, so we need fresh minds, but the regulator still has a focus on more traditional markets like energy.”

“One of the main issues in relation to other public authorities is the bureaucracy - cooperation with them can be time consuming and sometimes not very effective.”

“The legal and regulatory framework for electronic communications is far from being perfect. The primary legislation needs to be updated to cover newly emerging technologies and related issues.”

“The relevant secondary legislation/ regulations need to be updated to adopt the broadband investment measures currently in place in EU countries.”

“The quality of available public infrastructure remains an issue, as it is outdated and requires significant renovation/ upgrade. This may create an opportunity for regulators to facilitate joint coordination of civil engineering works for the deployment of electronic communications networks, with a particular focus on rural and remote areas.”

“The incumbent operator has historically been the only one with duct and poles in the regions, but despite regulation, no one wanted this infrastructure, so the other operators developed their own.”

“There is limited success in regulating access to competitors’ networks, as most of the players have built their own infrastructures.”

“To promote more broadband infrastructure investments, the necessary prerequisites are systemic changes in policy-making and regulation to comply with the best international practice, and the involvement of fresh-minded and highly competent people in the policy-making and regulatory structures.”

“Infrastructure sharing regulations are planned in order to prepare for 5G.”

“The EU’s Eastern Partnership initiative includes Armenia and its regulatory working group is developing infrastructure mapping, the creating single information point, infrastructure sharing and fixed number portability.”

Survey results – Armenia

“Last year interconnection rates were revised by the regulator based on EU benchmarks.”

“The regulator has received no complaints on resilience of networks during the COVID-19 pandemic. Some decisions by operators have been taken on locations and offices, but not on cyber security.”

Although respondents strongly feel that the legal and regulatory framework in Armenia has not prohibited investments in broadband infrastructures, there is an emerging view that more could be done to promote further investments, especially to support the market growth in higher speed services and also to achieve better connectivity in rural areas.

In the view of respondents, Armenia does not yet contain certain key legal and regulatory measures and safeguards to promote more investments in broadband infrastructure, particularly to provide fixed broadband connectivity in rural areas. Currently, only around one in seven broadband subscriptions in Armenia are fixed broadband, around half the average for the region.

Several key legal and regulatory measures to promote broadband investments have already been adopted or are being introduced in many other countries. The following measures are not yet present in Armenia:

- Actions to promote an efficient wholesale market for broadband infrastructure.
- Broadband cost-reduction measures including infrastructure sharing and coordination of civil construction works.
- Network sharing, particularly in preparing for 5G services development.

Although the Armenian regulator has introduced some measures to initiate wholesale markets (for example local loop unbundling), these have not been successfully adopted by the market players. This has resulted in all the larger players building their own extensive infrastructures in the places where they can see a profitable retail market, regardless of the opportunities to exploit wholesale markets. The successful exploitation of wholesale markets is a key enabling step to promote more rapid service expansion and greater competition, especially for fixed broadband services.

For broadband cost-reduction, the Armenian regulator is now starting to develop new approaches, benefiting from the coordinated work under the EU’s Eastern Partnership initiative¹⁶. Specifically, there are plans to introduce an infrastructure atlas, a one-stop-shop for permission granting and infrastructure sharing. Further information on best-practices for these investment promoting measures is given in Recommendations 3 and 4 in section 4 of this report.

In the general absence of plans for the introduction of 5G services in Armenia, there appear to be no moves to consider legal and regulatory measures promoting network sharing. Such a measure is considered by respondents to be important in assessing the business cases for 5G infrastructure investments in the future. Further consideration of network sharing in the context of 5G investments is given in Recommendation 6 in section 4 of this report.

The Armenian regulator is also considering the introduction of fixed number portability, but no dates have yet been proposed.

Another aspect of regulation – network resilience and security – has been raised by respondents following the heightened expectations and greater dependence of consumers on reliable broadband services during the COVID pandemic. Armenia’s critical infrastructures are not yet subject to the types of formalised regulation now adopted in many other countries, notably network incident reporting and co-ordinated responses to network failures. Network and cyber security aspects are further considered in the Annex to this report.

¹⁶ <http://eapereg.org/>

Other issues

How respondents express their views on other issues in Armenia

Obtaining permissions and wayleaves

“This was an issue several years ago, especially when it came to determining and agreeing a reasonably fair price for access, but it is no longer a serious constraint.”

“The state and municipal authorities have realised they can make significant money from access to public infrastructure and property.”

“Corruption has largely been eliminated from the process of obtaining or speeding up rights of way permits.”

“During civil construction, our work is supervised by a licensed technical audit company and by the Civil Construction Committee of Armenia.”

“We don’t face any issues - we usually get permissions from local authorities and the regulator does not get involved.”

Digital skills

“Highly qualified specialists can be hired but we are competing with other providers, so we co-ordinate training programmes with universities.”

“There is still a gap between the academic (theoretical) knowledge and the industry’s practical requirements, resulting in a lack of highly competent specialists with digital skills.”

“We can currently satisfy our labour needs - but in future we will face problems because more people are leaving the country.”

“The labour market is generally liberalised, but it is a small market and we do face some restrictions.”

Taxation and trade issues

“There are no special taxes/ levies imposed on the telecommunications sector. The general taxation regime is reasonable and non- restrictive.”

“The government may grant some tax incentives/ breaks to start-ups, but these are intended predominantly for the IT industry and do not cover the telecommunications sector.”

“The telecommunications sector does not have any tax privileges, nor does it have any specific financial burdens.”

“It would be great to have deferred taxation for advanced technology investments, which would encourage investment in fibre and 5G for example.”

“Interconnection tariffs are regulated, other tariffs are set internally taking into account the market conditions.”

“Armenia’s membership of the Eurasian Economic Union makes trade options with other member states more straightforward and streamlined.”

“We have purchased Russian and Belarusian cables, using the single Eurasian market.”

Survey results – Armenia

“Relations between Armenia and the EU are based on the Comprehensive and Enhanced Partnership Agreement (CEPA), which should enable stronger cooperation in a number of sectors, including energy, transport and trade.”

“Armenia is also a member of the World Trade Organization (WTO) since 2003.”

Corruption

“Although the current state authorities continuously report to have combatted corruption, some problems may still be observed at low to middle levels of the state governance system.”

“It takes time and effort to completely eliminate corruption from the people’s minds but, it no longer takes the same form, scale and depth as it did before.”





The difficulties in obtaining permissions for placing infrastructure on public or private property do not appear to be an issue for operators generally in Armenia. Best practices in this area are further considered under Recommendation 4 in section 4 of this report).

Tax issues are examined in Recommendation 8 in section 4 of this report.

Recommendations

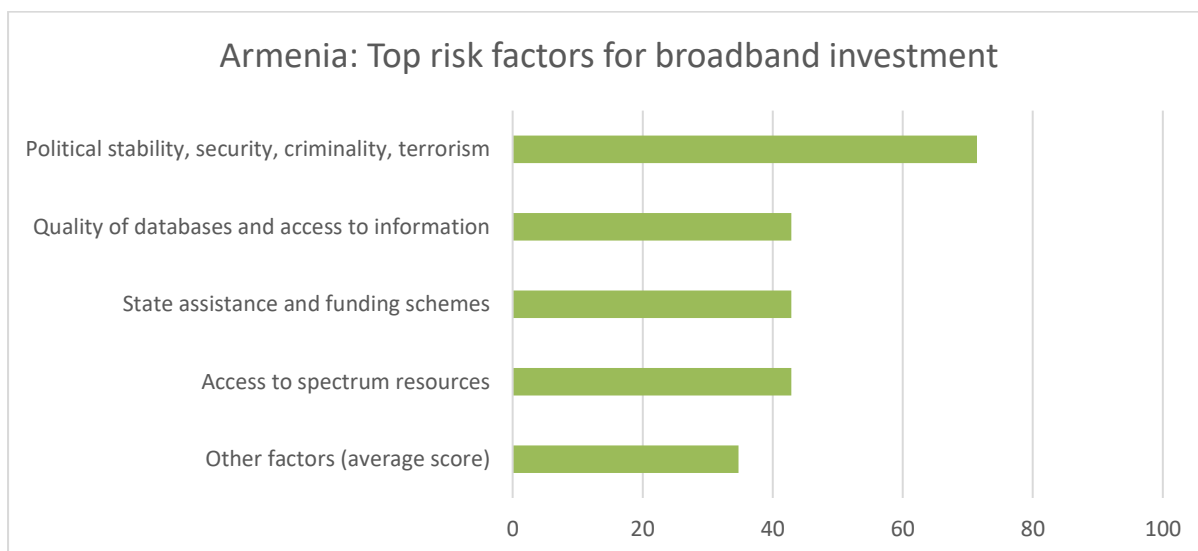
The detailed recommendations in this report are given in section 4. There are two types of recommendations, the first type to improve the overall attractiveness of markets and the second type to reduce investment risks.

For Armenia, the respondent views regarding market attractiveness are summarised below, together with the relevant recommendations for improving the overall attractiveness of the market.

Market attractiveness factors	Armenia	Recommendations for improving the overall attractiveness of the market (See section 4)
Overall size of the market, in population terms and relative spending power		Recommendation 1
Growth potential of the market, in terms of demand for broadband-services		
Efficiency of the markets in terms of fair competitive conditions		Recommendations 1 and 3
A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up		Recommendation 2

 - Good /  - Medium /  - Poor

The issues raised by respondents that most contribute to broadband investment risk in Armenia are shown below.



A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

The priorities for investors are summarised below, together with references to the relevant recommendations for reducing broadband investment risks given in section 4 of this report.

Investment risk factors	Armenia	Recommendations for reducing broadband investment risks (See section 4)
Political stability.		Recommendations 1 and 2
Quality of databases and access to information		
State assistance and funding schemes		Recommendation 9
Access to spectrum resources		Recommendation 6

- Medium priority/ - High priority

GEORGIA

At a glance

Headline market statistics - Georgia	2016 survey	current
Population (millions)	4.0	4.0
Fixed broadband penetration per 100 population	16	24
Mobile broadband penetration per 100 population	52	80
Internet usage (% of population)	50%	69%
Forecast overall broadband market growth up to 2023 (% compound growth per annum)	5.3%	

[Sources: UN, ITU, Fitch Solutions]

Georgia has a relatively small population with around average penetration of fixed and mobile broadband penetration. The broadband market is forecast to grow at 5.6% per annum up until 2024, which is slightly below the average for the EEC region. Rural areas have significantly less fixed broadband penetration than urban areas.

Survey results

Georgia	Rating	EEC average	EEC Ranking
Broadband Market Attractiveness Index/100	53	54	2 nd
Broadband Investment Risk Index/100	60	55	2 nd
Best Practice Index/100	60	55	2 nd
Overall Broadband Investment Index/100	57	55	2 nd

In general, an index above 50/100 indicates a relatively a good market for broadband investments.

The survey results show that Georgia is perceived overall to be the second market for overall broadband risk behind Armenia, but ahead of Moldova and Ukraine. The overall market is relatively small, but with reasonable mobile and mobile broadband growth, estimated at 5.6% and 4.2% per annum up to 2024 respectively. The legal and regulatory frameworks have adopted the main best practices for competitive market safeguards and there is a generally supportive policy framework.

What respondents are saying about the market

Market size and potential

“Fixed broadband is developing faster than mobile broadband; fibre is being deployed and rural broadband is getting better.”

“Fixed broadband now covers 80% of households.”

“The current penetration rate for all mobile subscriptions is 144%, with no barriers to customers switching between suppliers.”

“Demand during the pandemic has shown a shift in on-line behaviour, resulting in more demand for education, healthcare, eGovernment and financial services.”

“The pandemic will be over during 2021 but the traces will remain with fewer face-to-face meetings meaning more demand for broadband.”

“As a result of better connectivity, some villages will become tourist places and demand will increase.”

“The market is already competitive.”

“The fixed and mobile broadband services markets are converging; mobile companies want to enter the fixed market, but their investment potential is currently limited.”

“Smaller operators could emerge if MVNOs are allowed, and the fixed operators could also support convergence by adding mobile services.”

“There is a debate about the entry of MVNOs, with the regulator arguing that these will promote competition, innovation and new services including 5G.”

“There will be huge potential in mobile finance, but at the moment mobile companies are legally blocked from this market; this is a major barrier to our revenue growth and investments.”

“As mobile operators are limited only to basic services, then we cannot grow our investment capacity.”

“If we had the chance to add more sophisticated services like mobile money, then we could increase our revenue stream.”

“The 5G auction terms and obligations have now been published, aimed at serving three municipalities plus major air and sea-ports by 2025 plus 75% coverage of settlements of over 10,000 population within 7 years.”

“For 5G investments, the entry level spectrum price has to be as low as possible, otherwise we do not see the demand to justify our investments.”

“There is a lack of an overall business case for 5G - who would want to invest in 5G when the average customer revenues are already so low?”

“It will be at least three years until 5G is launched in Georgia.”

“5G will not be a retail market service, it will be aimed at the be corporate sector.”

“Capital investments in 5G will have to be greater than 4G because the base stations are more densely located.”

Current market conditions

“The new challenge is the COVID-19 pandemic, but unlike many countries, we did not see huge network problems and the peak has already passed.”

“With no tourists this year every sector has suffered.”

“Recent moves by the regulator have helped to create an uncertain investment climate in the sector, alongside other factors like low revenues per customer.”

“We now think twice before making future investments, following an unprecedented decision of the regulator to start regulating retail markets.”

“Currently we only provide voice plus internet services and we want to add TV in the package, but we have the problem of competing with providers using illegal programme content.”

“If we look at 4G then only around 40% of the revenue potential has been realised - the rest is restricted.”

“The wholesale market is OK.”

“80% of the sector’s equipment is purchased in foreign currency and we have experienced a 40% reduction in the value of our local currency against the US dollar.”

“Mobile companies are already making losses and by making the market more competitive the regulator will do further harm.”

The overall strategy for the sector

“Georgia’s strategic priorities now are broadband development nationally and cyber security for eGovernance, eHealth and eCommerce.”

“The broadband development strategy is to be accelerated using joint services and infrastructure.”

“The market has its own entry barriers which will be reduced by releasing more spectrum for 5G and by promoting MVNOs”

“The regulator has stated that they want to increase competition, but the mobile market already has very low prices compared with other countries.”

“The regulator is trying to promote new smaller entrants into the market.”

“The regulator is trying to enable MVNOs to enter the market, but their market share will typically be only 7-10% and they cannot survive.”

“In addition, there has to be security protection and a better definition of networks that are a critical infrastructure for Georgia.”

“There are remaining gaps to be addressed in Georgia’s information and cyber security frameworks.”

“The leading agency on security and cyber issues has not yet been decided on. The purpose of the new agency will be to base the network and information security code on the EU’s Network and Information Services Directive.”

“We fear that the regulator will decide to allow 5G access to everyone with no consultation.”

“In general, we want to have more transparency in the regulator’s plans for the sector.”

“It appears that there is a government-led decision to prevent us from increasing retail prices, whereas in other sectors (gas and electricity), prices are rising.”

“The cycle of development is still at an early stage in Georgia. We are developing the roads and basic facilitators first. Next we need to invest in more sophisticated markets, to be more like Estonia in the future.”

“Georgia should be attracting high-spending tourists from EU and North America.”

In early 2020, the Ministry of Economy and Sustainable development published its “Strategy for the development of its broadband networks 2020-2025”¹⁷. This aims to create infrastructure and establish Georgia as a digital and information hub in the region. Target indicators include providing most of the population with high-speed, high-quality internet access by 2025. The strategy also aims at upgrading knowledge and skills, leading to employment growth.

Part of the infrastructure will be constructed by a new-government owned entity Open Net¹⁸, which commenced investments in 2020. The government-backed financing of around €20m will install a wholesale backbone network which aims to become self-financing within five years, based on rentals charged to broadband operators. Following the current pilot roll-out, the main network deployment will provide a point

¹⁷ <https://eufordigital.eu/georgia-approves-broadband-development-strategy-2020-2025/>

¹⁸ See <http://opennet.ge/eng>

Survey results – Georgia

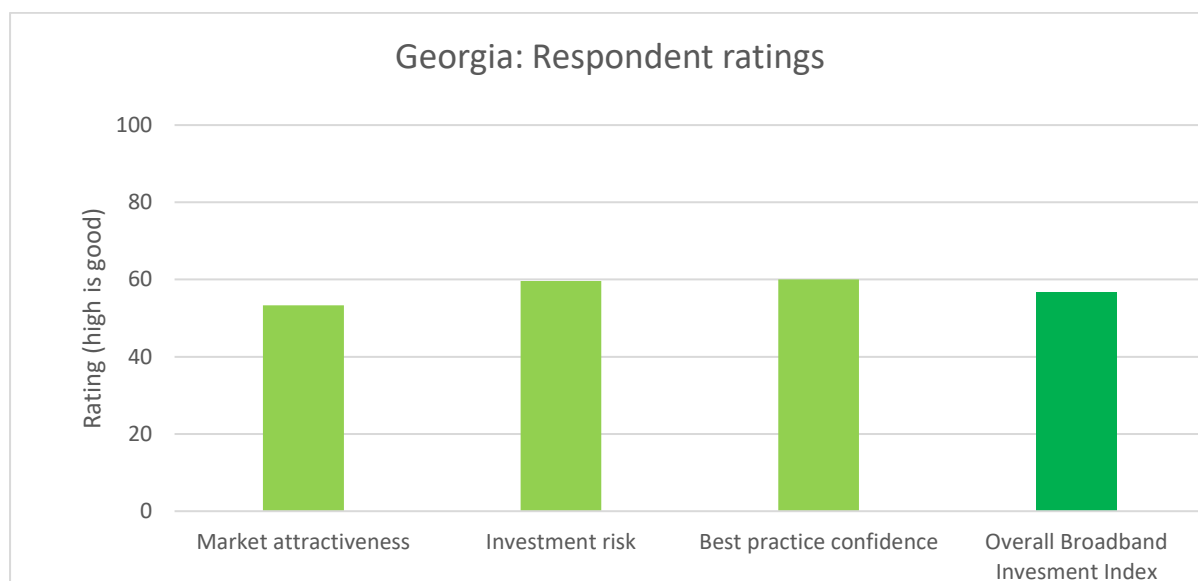
of fibre presence in all Georgian settlements of over 200 people. The fibre backbone network will be available at regulated wholesale rates to retail broadband services providers in the market, who will install their own customer access (“last mile”) networks. Open Net is legally the responsibility of the state for at least the next ten years.

In late 2020, the sector regulator published the “5G Terms and Conditions (Consultation Paper)”¹⁹ giving the reserve prices for a spectrum auction proposed in 2021 and the coverage obligations for operators. These obligations are detailed and time critical including, for each operator taking up 5G spectrum:

- Three municipalities to have a 5G pilot by 2025
- With a minimum mean speed of 100Mbps, at least 50% of settlements of 15,000 population or over within three years, at least 90% within seven years
- With a minimum mean speed of 100Mbps, at least 50% of settlements of 10,000 population or over within five years, at least 75% within seven years
- Specified seaports, railways, airports and cities with a minimum mean speed of 50Mbps by specified progressive dates over the next 5 years
- At least 90% coverage of specified Georgian main road distances, with an average speed of at least 50 Mbps and a latency of not more than 10ms

Against these detailed coverage obligations, existing operators and potential new entrants will now examine the reserve spectrum prices quoted in the consultation document. Respondents expressed the view that it is unclear at this stage whether there will yet be a clear business investment case for 5G in Georgia. The consensus among operators appears to be towards delaying the auction for at least a year in the expectation that the demand and the investment case for 5G based services might be better understood.

There is a general concern amongst the respondents that Georgia’s critical infrastructure networks and cyber security are not yet fully protected to the levels envisaged in the EU’s Network and Information Security Directive²⁰. Network and cyber security aspects are further considered in the Annex to this report.



The overall Broadband Investment Index (right hand pillar) is calculated from the three indexes represented by the first three pillars. The full calculation methodology is given in section 2 of this report. For each pillar, the higher the score, the better the conditions are.

Georgia has only a medium score for market attractiveness. Investment risk is judged to be better compared to the other countries in the region. There is a reasonable confidence in adopting best practice. The overall risk is considered reasonable, as measured by the broadband investment risk index.

More detail regarding the main investor concerns is given in their comments below.

19 See: <https://5g.gov.ge/5g-terms-and-conditions-consultation-paper/>

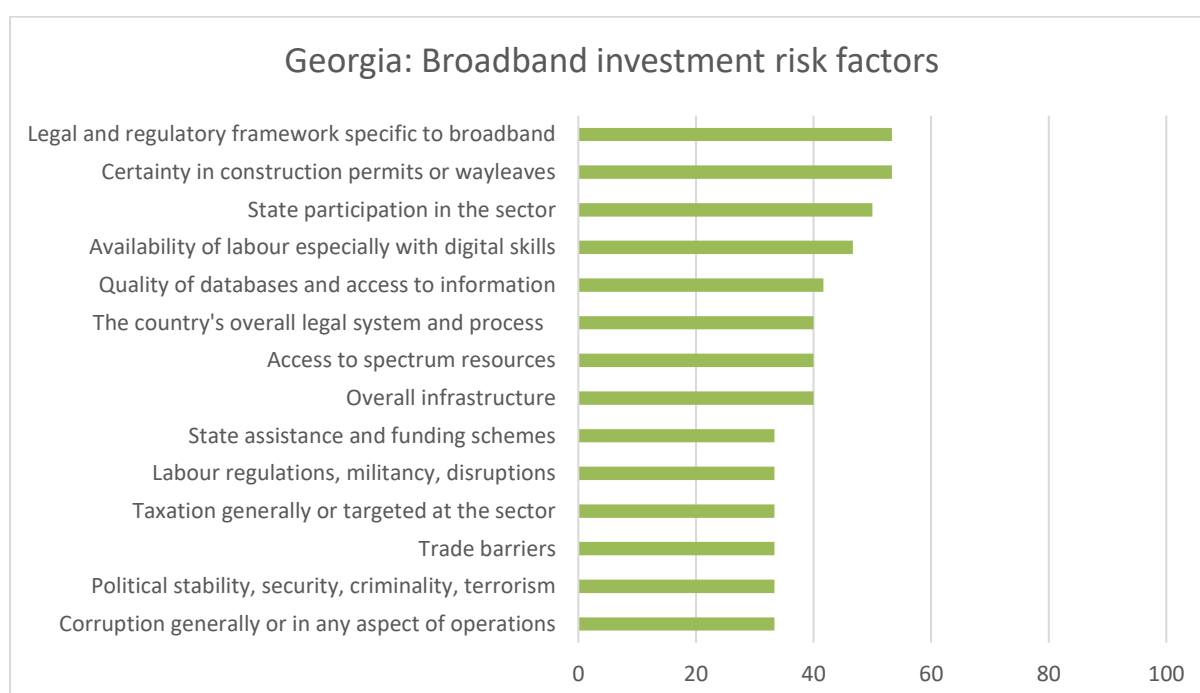
20 See <https://ec.europa.eu/digital-single-market/en/directive-security-network-and-information-systems-nis-directive>

Respondent views

The survey considered 14 factors related to investment in ICT infrastructure. A description of these factors is given in section 2 of this report. Respondents were asked to express their view on whether the conditions for investment are affected by each factor in any of the following ways:

- Positively encourages investment
- Does not deter investment
- Mildly deters investment
- Strongly deters investment
- No opinion.

By assigning relative scores normalised to a scale of zero to 100, each factor has been ranked in terms of how much it contributes to investment risk.



A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

Respondents perceive that recent and specific regulatory interventions in Georgia are the top risks to investments in broadband infrastructure and services. Of particular concern are moves to regulate retail tariffs and the new ability of the regulator to appoint ‘special managers’ to run telecommunications companies under certain circumstances.

Uncertainties in obtaining construction permits are also expressed as relatively high risk. Parallel concerns arise from the state’s recent re-entry into the broadband infrastructure market and the availability of sufficient digital skills. Other risks are medium to low in Georgia, including access to spectrum, tax and trade barriers, labour regulations and political stability.

The following comments give more details of the specific concerns of investors.

The legal and regulatory framework for broadband

How respondents expressed their views on the legal and regulatory framework for broadband in Georgia

“The recent granting of powers to the regulator for placing ‘special managers’ in telecommunications companies has created a climate of increased business risk.”

“It is unclear if the ‘special managers’ move by the regulator was to protect critical infrastructure or for other reasons. There is no specific law defining critical infrastructures in Georgia.”

“Smaller and medium operators were always looking for MVNO possibilities, but there was no legal framework.”

“There is now a new regulation on MVNOs setting an obligation on the existing mobile companies to offer MVNO access.”

“There is a ‘retail-minus’ approach to MVNO pricing.”

“If the parties in an MVNO cannot agree terms then the regulator can intervene.”

“The regulator has controversially forced mobile companies to accept MVNOs, this is a bad move for the market in Georgia.”

“The regulator has not acted in line with best practice, it has issued mandatory instructions without sufficient chance to comment.”

“New obligations were issued requiring operators to publish MVNO offers within an unreasonably short timescale.”

“There have been recent changes to the Law on Competition to prevent predatory pricing.”

“The role of the telecommunications/ ICT regulator has been strengthened such that all cases in the sector under Competition Law are examined by the regulator. This includes predatory pricing and mergers.”

“The regulator is intervening at an unprecedented level by trying to regulate our retail prices.”

“If the regulator starts to apply regulations in the corporate sector of the market, we are facing very risky investment conditions.”

“We would not like regulation of the retail market.”

Infrastructure access and sharing

“The specific issues are rooted in the decisions of big players to cover the whole country to get market shares. Then, they reject infrastructure sharing offers, even when the rates quoted are 25% below their own rates.”

“It is critical for smaller operators to get access to existing and new infrastructures.”

“The established operators seem incapable of working together on infrastructure sharing; they are focussed only on achieving their 4G coverage obligations.”

“The problem is more in the regions, for example the electricity company has problems with data records.”

“It is a facilitation role of regulator, to support infrastructure sharing initiatives.”

“After two years of study, there is now a draft law addressing many aspects of infrastructure sharing.”

“There is now a drafted legal framework, stating how the operators should be obliged to share infrastructure.”

“Operators should now put the value to society through sharing costs above their own competitive instincts; this is a small country.”

“The new state-owned network Open Net will provide wholesale infrastructure access.”

“We are not against the sharing of infrastructure, but we want to do it using best practice.”

Survey results – Georgia

“We can endlessly compete, or we could agree geographical areas where it makes no sense to compete.”

“There is a good case to introduce Bitstream access, plus peering and content-related incentives that can lead to the creation of more digital services.”

“The new Infrastructure law will only partially solve the problem because it covers only passive sharing. Active sharing such as Bitstream and VULA needs to be implemented.”

“The new infrastructure law will improve things. It will enable us to use electricity and other infrastructures.”

“There is much road construction with no coordination, when the new bill is passed, they will be required to put in a new trench and everyone can use it.”

“Electricity poles used to be exclusive to single operators; with the new law this will be resolved.”

The sector regulator has prepared new infrastructure sharing legislation²¹ to facilitate access to land and buildings, access to relevant information and existing non-telecommunications infrastructures and the coordination of civil works. This legislation is currently being considered in Parliament and expected to be passed in 2021. The improved Georgian legal framework is based on the EU’s Broadband Cost-Reduction Directive²², implemented across EU member states in 2016.

A digital map is being created by the sector regulator providing the locations of available broadband infrastructures, but details of the infrastructure of other utilities will only be added later.

Respondents expressed the view that other best-practice regulatory measures to promote infrastructure access such as Bitstream access and VULA are not yet fully effective in Georgia.

Among the main concerns shared by the respondents were the controversial amendments²³ to the Law on Electronic Communications adopted in July 2020, that allow the sector regulator to appoint a “special manager” into a telecommunication company to enforce the regulator’s decisions. According to the new amendments, a ‘special manager’ will be authorised to:

- Appoint and/or dismiss company directors and members of its supervisory board
- File a lawsuit in court against the contracts or deals made up to a year before appointment and demand their annulment
- Suspend or restrict the company’s right to distribute profits, dividends, and bonuses, or to increase salaries
- Perform other functions of the company’s governing body except for selling its assets or shares.

The sector regulator has exercised this right to appoint a ‘special manager’ in the case of Caucasus Online, a leading internet and international transit services provider in Georgia. The reason given by the regulator for the appointment in 2020 was the failure of Caucasus Online to advise the regulator prior to a change of ownership of the company in 2019 and its subsequent failure to pay penalty fines. Under a separate law on critical infrastructure (including telecommunications) changes of company ownership have to be approved by the sector regulator. A further change in Caucasus Online’s share ownership has taken place in 2021 and again the sector regulator has insisted that the changes are fully reversed.

The company has disputed the actions taken by the regulator and following a court order to suspend the authority of the regulator’s appointed ‘special manager’ the dispute has still not yet been resolved. Caucasus Online has referred the matter to the International Court of Arbitration.

21 See <https://comcom.ge/uploads/other/2/2163.pdf>

22 See <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

23 <https://info.parliament.ge/file/1/BillReviewContent/258999?>

Survey results – Georgia

The views expressed by the survey participants following this case are mainly that the changes to the telecommunications law (giving the new powers to the sector regulator) were passed without prior notice to the companies that could be affected and with no consultation. The general view expressed by investors is that way the ‘special manager’ powers were introduced could be unconstitutional and this uncertainty is damaging to the investment environment.

Another issue raised by respondents was the recent measures introduced by the sector regulator to address competition issues in the mobile market. In 2019, following an analysis of the wholesale market for mobile access and call origination, the regulator then imposed wholesale access obligations, including a requirement to offer access to MVNOs and to publish a reference offer²⁴.

In 2020, the regulator carried out an analysis of the retail market for mobile voice and data services and imposed further regulatory obligations on the three mobile operators that were found as having significant market power.²⁵ These obligations introduce ex-ante price control of retail mobile tariffs and require mobile operators to notify any proposed tariff changes for an explicit approval by the regulator. Investors believe that the new retail regulation will not only present an increased regulatory burden for the established mobile operators but will also undermine the effectiveness of the previously imposed wholesale access regulation.

Respondents expressed the view that these additional regulatory burdens make investments and new market entry even more challenging in an already competitive mobile market.

Further details of best practices in ensuring that the legal and regulatory framework fully supports broadband infrastructure investments including infrastructure access and sharing are included in Recommendation 3 in section 4 of this report.

Granting of permissions**How respondents expressed views about permissions and wayleaves in Georgia**

“There are still some challenges, with some municipalities understanding the need for broadband infrastructures. However, some do not realise the importance and don’t make it easy for operators.”

“Open Net has special advantages in getting permissions, their construction company get the required cooperation because they are part of a government project.”

“There are legal issues in state-protected forest areas – the charges for access are very high.”

“Prices for installing in nature areas are many times higher than their charges for other activities, we feel that they discriminate against us.”

“Fibre duct installation procedures take three to six months to get a permit.”

“When we have determined the optimal place to put a base station, we don’t then know if we can get the permit.”

“It is still the case that when a new building is constructed, one of our competitors might have exclusive rights to get into the building.”

“We are expecting improvements from new regulations, but they are still not in force.”

“There is room for improvement, for example in gaining access to rooftops, especially on state buildings where there are procedural issues, it takes far too long.”

24 <https://comcom.ge/ge/legal-acts/solutions/2019--20-9-156.page>

25 <https://comcom.ge/ge/legal-acts/solutions/2020--20-9-559.page>

“Private companies have problems with the municipalities, different timescales different prices, different procedures.”

The sector regulator has introduced some easing of permission granting for new broadband infrastructures, including access to land and buildings, access to relevant information and the coordination of civil works. The required change to legislation is expected to be passed during 2021. This will mean that permission to install broadband infrastructure will be assumed to be given unless there are objections within a set time. Objections are only allowed under certain conditions and disputes can be settled by the sector regulator. There is also an awareness campaign aimed at newly elected regional governors to promote the procedures for broadband permissions.

This strengthening of the legal basis and the streamlining of procedures for obtaining permits aims to bring Georgia into line with best practices (see also Recommendation 3 in section 4 of this report).

State participation in the sector

How respondents expressed views about state participation in the ICT sector of Georgia

“Who will invest in Georgia when the government has enabled the regulator to appoint a ‘special manager to run the company?’”

“Telecommunications companies were instructed by the government to ensure 24-hour coverage during the COVID-19 lockdown.”

“The Government owns Open Net; it was billed as most important project.”

“The government strategy now has a legal framework using Open Net to connect ‘white areas’ where the population exceeds 200 people.”

“Within three years operators should not have barriers to broadband investments.”

“So far, Open Net is only in its pilot stage.”

“Smaller companies will be interested in using Open Net capacity.”

“One of the existing companies responded once Open Net had started, by increasing their own infrastructure investments to a further 1,000 villages in what were previously ‘white zones’”.

“There is no case for investment by the state when the private sector can do it.”

“It’s difficult to estimate the demand for Open Net services; mountainous areas are very costly to connect, so the private operators will use Open Net there.”

“It is hard to understand the logic of Open Net. Quite probably this initiative is rooted in the attitude of the biggest operators that they won’t cooperate with infrastructure sharing and cost reductions.”

“The preferred option rather than Open Net would be to incentivise the private companies in some way; but the fact that this cannot work in Georgia, then we are left with Open Net by default.”

“Open Net comes from the state wanting a greater good. It could have been done by better regulatory and other broadband incentives.”

“As long as the best-practice regulatory enablers are not in place, then the state has to do it with Open Net.”

Survey results – Georgia

The views expressed relate to the state's move into the new national backbone infrastructure project Open Net²⁶, starting in 2020 with a pilot project and expanding during 2021 to put fibre optic backbone connections into all villages of over 200 inhabitants. Ultimately, all population centres will be covered. As the above comments suggest, there has been some scepticism from the private operators regarding the case for Open Net alongside private backbone networks. This type of view is generally expressed in countries that still have a state-owned incumbent operator serving the market alongside newer private operators.

The situation is unusual in Georgia because, having already privatised its state assets (in 2006) and liberalised the market to private investors, the government has now re-entered the market as the owner of a new national infrastructure. The Open Net project has the specific objective to reduce the cost of bringing broadband services to the more remote areas of Georgia where there is currently thought to be insufficient investment returns to induce private investors.

There are further concerns that changes to legislation have given powers to the sector regulator to appoint a “special manager” in the case where the regulator's normal enforcement powers have failed (see the above analysis following the investor comments on the legal and regulatory framework for broadband).

Examples of best practices regarding the state involvement in the sector are given in Recommendations 5 and 9 in section 4 of this report.

Skill shortages**How respondents expressed views about obtaining skilled staff in Georgia**

“This is a big issue, there is a massive shortage of talent, this is common to all former Soviet countries.”

“In Georgia, people have to motivate themselves, so our company goes for an approach of taking on people who are already interested and then we train them.”

“There are big digital players, for example digital banks. These should encourage ICT skills for the greater good of Georgia.”

“Our initial supply of talent was restricted so we imported talent. Next we invested in training, sending people abroad to get technical skills, for example in digital financial services.”

“For construction work, there are few specialised companies.”

“We have managed to employ some very skilled ICT specialist and engineers.”

“The private sector tends to train and invest in the development of their own teams.”

“The regulator is promoting digital skills in the regions using a media literacy/ media Lab company.”

As part of the “Strategy for the development of its broadband networks 2020-2025”²⁷, the sector ministry and regulator have launched a digital skills enhancement project “Log-in Georgia”²⁸. This aims to increase access to high-speed broadband connectivity for populations in rural areas, promote the use of digitally enabled services (including digital public services) and improve the affordability of broadband services across the country.

26 <http://opennet.ge/eng>

27 <https://eufordigital.eu/georgia-approves-broadband-development-strategy-2020-2025/>

28 See: <https://www.worldbank.org/en/news/loans-credits/2020/08/28/log-in-georgia-project>

Survey results – Georgia

For further examples of best practices in tackling skills shortages in the ICT sector, see Recommendation 7 in section 4 of this report.

Other issues**How respondents express their views on other issues in Georgia****Access to information**

“The regulator is building a database of broadband infrastructure but it will not yet contain information on the infrastructure of other utilities.”

“The information held by other utilities is unreliable, but it is being updated when new infrastructure is added.”

“The electricity company do not know exactly where some of their infrastructure is.”

“Information is based on the 2014 census and is out of date.”

Access to spectrum and other government-controlled resources

“None of our questions on 5G have been answered by the regulator, but they have issued an indication that spectrum will be released at a very much lower cost than 4G.”

“We have sincere respect towards local regulator, there has been discussion and consensus.”

“The message is to postpone the 5G auction until 2022, demand will be better then.”

“5G spectrum releases have to be a balance between fees and investment, it is a strategic step for Georgia.”

“In Georgia we already have 4G solutions, now the aim is to promote 5G from the government.”

“Another 5G challenge is cyber security including the sourcing of equipment, which is a problem facing all countries as a strategic issue.”

Overall infrastructure

“Georgia is in much better shape by comparison to some other countries. Corruption does not exist in Georgia to the same extent.”

“You can see the investments in tunnels, highways, but we have a big gap to fill but we are catching up.”





There are currently some doubts expressed by existing mobile market players about their business cases for 5G investments. The wider view has been expressed that if Georgia is to take full advantage of the expected transformational benefits of 5G and its related applications, then 5G spectrum investments need to encourage greater market participation, innovation and cooperation, taking account of the needs of a wider market (see also Recommendation 6 in section 4 of this report).

Recommendations

The detailed recommendations in this report are given in section 4. There are two types of recommendations, the first type to improve the overall attractiveness of markets and the second type to reduce investment risks.

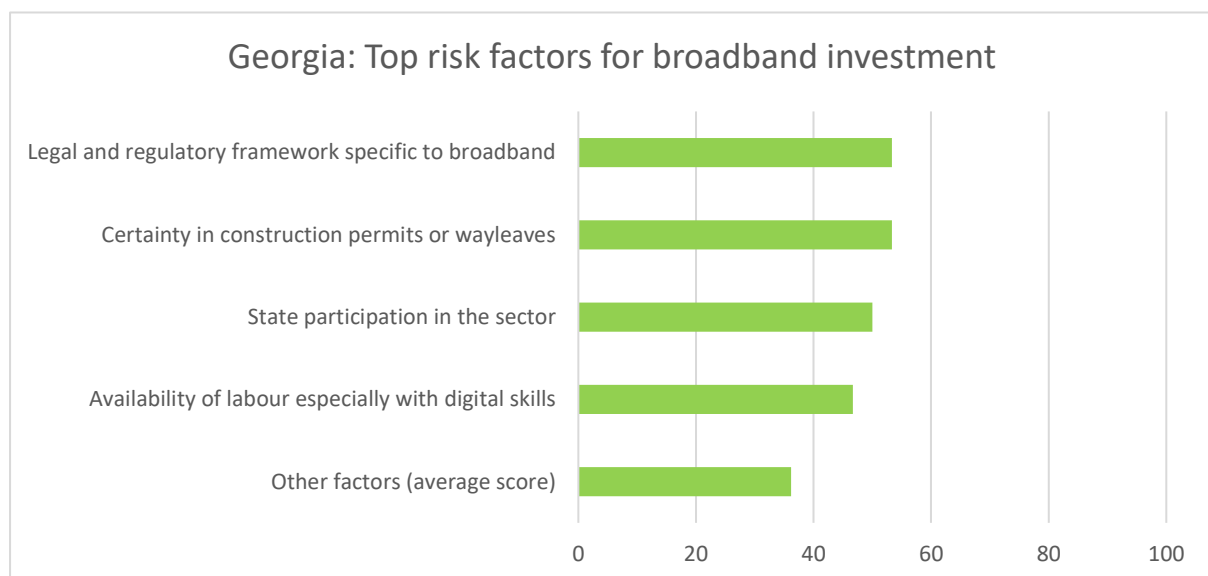
For Georgia, the respondent views regarding market attractiveness are summarised below, together with the relevant recommendations for improving the overall attractiveness of the market.

Survey results – Georgia

Market attractiveness factors	Georgia	Recommendations for improving the overall attractiveness of the market (See section 4)
Overall size of the market, in population terms and relative spending power		Recommendation 1
Growth potential of the market, in terms of demand for broadband-services		
Efficiency of the markets in terms of fair competitive conditions		Recommendations 1 and 3
A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up		Recommendation 2

 - Good /  - Medium /  - Poor

The issues raised by respondents that most contribute to broadband investment risk in Georgia are shown below.








A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

The priorities for investors are summarised below, together with references to the relevant recommendations for reducing broadband investment risks given in section 4 of this report.

Investment risk factors	Georgia	Recommendations for reducing broadband investment risks (See section 4)
Legal and regulatory framework specific to electronic communications and broadband		See below*. Also Recommendation 3

Survey results – Georgia

Certainty in construction permits and wayleaves.		Recommendation 4
State participation in the sector.		Recommendation 5
Availability of labour especially with digital skills		Recommendation 7
Quality of databases and access to information		

 - Medium priority/  - High priority

**In the survey, the legal and regulatory framework in Georgia has come under criticism from sector stakeholders following the recent case of the appointment by the sector regulator of a ‘special manager’ into the Georgian internet and international transit services provider Caucasus Online (see the above section on “The legal and regulatory framework for broadband”). The views expressed by survey participants regarding this case included a strong criticism that the required changes to legislation were not announced in advance and not subject to consultation with sector stakeholders. There is also a widespread concern among the operators regarding the regulator’s recent moves to control retail tariffs.*

It is recommended that for any changes to the legal and regulatory framework that could impact the decision-making of sector participants should be fully consulted with stakeholders before being passed. This is especially relevant when operators are unclear what constitutes ‘critical infrastructure’. It appears that the new powers to appoint ‘special managers’ were justified by concerns regarding the control (mostly by private companies) of telecommunications networks and the rising need to ensure continuity of critical networks and services in Georgia when so much of the economy now relies on broadband infrastructure and connectivity. Further consideration is given to aspects of critical infrastructure in the Annex to this report.

Regulatory intervention in retail tariffs is rare in modern telecommunications markets, In Georgia, the regulator requires prior notification and approval of retail tariff changes by operators. In the EU and most other advanced competitive markets, the regulatory focus is now on wholesale tariffs where operators possess significant market power. The Georgian regulator currently intervenes in both wholesale and retail markets for operators found (by market analysis) to have significant market power. General recommendations regarding legal and regulatory best practice for broadband markets are given in Recommendations 1 and 3 in section 4 of this report.

MOLDOVA

At a glance

Headline market statistics - Moldova	2016 survey	current
Population (millions)	4.1	4.0
Fixed broadband penetration per 100 population	16	17
Mobile broadband penetration per 100 population	52	59
Internet usage (% of population)	50%	76%
Forecast overall broadband market growth up to 2024 (% compound growth per annum)	3.9%	

[Sources: UN, ITU, Fitch Solutions]

Moldova has a relatively small and declining population. Growth in the market is forecast at 4.1% per annum up until 2024 for mobile broadband and only 3.2% for fixed broadband, both are below the average for the EEC region. Geographical areas outside the three main population centres remain relatively underserved, particularly with fixed broadband connectivity.

Survey results

Moldova	Rating	EEC average	EEC Ranking
Broadband Market Attractiveness Index/100	50	54	4 th
Broadband Investment Risk Index/100	48	55	4 th
Best Practice Index/100	50	55	4 th
Overall Broadband Investment Index/100	50	55	4 th

In general, an index above 50/100 indicates a relatively a good market for broadband investments.

The survey results show that Moldova is perceived overall to be the least attractive broadband investment market of the four EEC countries surveyed. The three component indexes for market attractiveness, investment risk and best practice all show below average conditions.

What respondents are saying about the market

Market size and potential

“The market in Moldova is already saturated with operators and with a declining population.”

“Demographic changes mean that it’s difficult to make investment decisions.”

“There is little untapped potential in the rural areas to justify investments there.”

“There is little private sector justification to push the infrastructure into rural areas.”

“Operators are not too interested to invest in rural areas.”

“Investment in ICT Business parks with some public money is a better model.”

“Moldova has a reduced salary tax structure in place for employees of ICT companies. This has been a major incentive for the development of the sector.”

“The state has indirectly supported development of ICT parks and similar initiatives for a digital society.”

“There is little prospect of a viable 5G business model yet. The operators still have to make money on 4G.”

“Optical fibre backbones are present all round, with little scope for further investments.”

“The investment opportunities in Moldova are in value-added services as opposed to infrastructure.”

“Moldova’s growing ICT sector needs to expand into higher margin services.”

Current market conditions

“Moldova has comparatively advanced levels of broadband services and internet speeds.”

“Consolidation is the most significant factor in the last four years, and we could see further acquisitions.”

“There is an ongoing struggle to continue developing the sector.”

“There is huge population shift to urban areas, people are leaving rural areas.”

“Many of our rural sites are a burden now, they are not profitable, but they have to be there because of our licence obligations.”

“The main factor driving investment decisions is the relatively poor overall economic level of the country.”

“Mobile 4G investments have not yet seen a return on investments.”

“Broadband services are a really good price deal for consumers.”

“The pre-existing networks inherited by today’s entities were demanding for operators.”

“A new entrant to the market would have to ‘steal’ subscribers from an existing operator.”

“Network expansion by an existing operator would also encounter existing operator(s) in any geographic expansion.”

“The market is segmented – there is competition in urban areas so the focus should now be on rural expansion.”

“There is already a map available showing where the mobile operators are – this should be developed to include more on the quality and price of services for consumers.”

“There is fierce competition so now the operators are looking for convergent services covering fixed and mobile broadband.”

“The fixed broadband market is very strong, but the last mile cost is very high.”

“New investment is shifting to fixed broadband but there are some low cost and low quality ‘roof to roof’ methods of provision, rather than good quality investments.”

“‘Roof-to-roof’ fixed broadband distribution suffers in bad weather and heavy snow – the trees come down and the service is lost.”

The overall strategy for the sector

“Moldova has actively encouraged the development of the ICT sector with regulatory development, investment attraction and support for industry initiatives.”

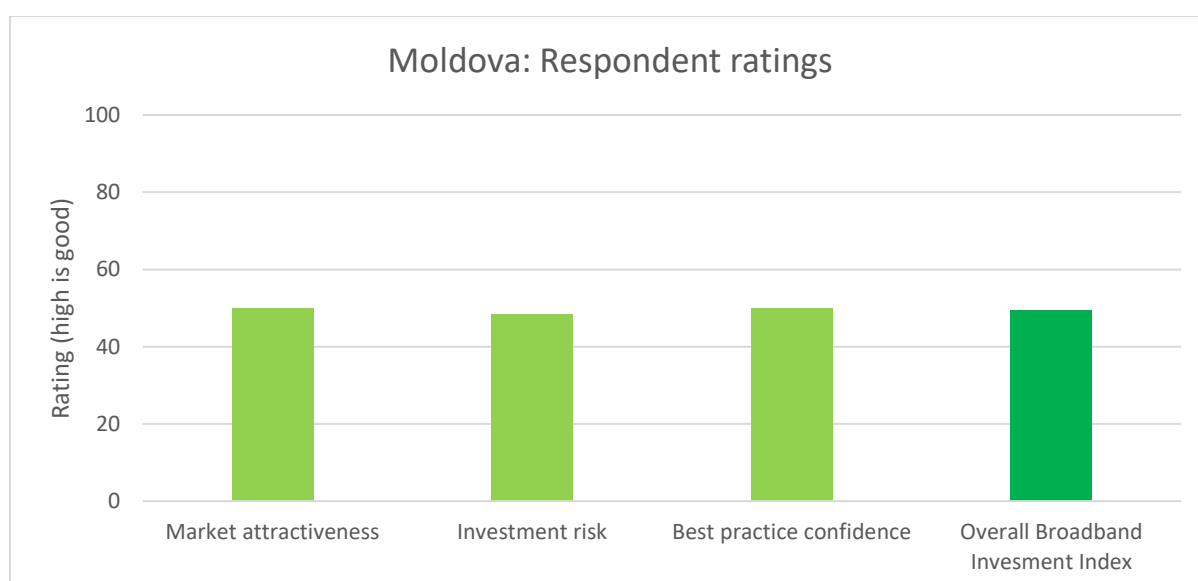
Survey results – Moldova

“Government programmes have been quite successful and have resulted in significant growth in the ICT sector.”

“The digital TV switchover never happened, there were too many competing interests.”

“There is a draft law intended to impose some ownership restrictions on critical infrastructure, which includes broadband infrastructure. The restrictions are generally intended to ensure trust in the investors acquiring pieces of critical infrastructure in Moldova.”

“The Digital Roadmap in response to COVID-19 was pushed by the ICT sector, focussing on digitisation, eCommerce and solving issues.”



The overall Broadband Investment Index (right hand pillar) is calculated from the three indexes represented by the first three pillars. The full calculation methodology is given in section 2 of this report. For each pillar, the higher the score, the better the conditions are.

Moldova has only a medium score for market attractiveness and best practice confidence. Investment risk is considered medium, as measured by the broadband investment risk index. The top concerns are political stability and corruption, legal and regulatory issues, the role of the state in the sector and insufficient digital skills. Other investment risks are relatively low in Moldova, including trade barriers and labour regulations.

The overall index of broadband investment Index rates Moldova as the least-best investment climate of the four EEC countries surveyed.

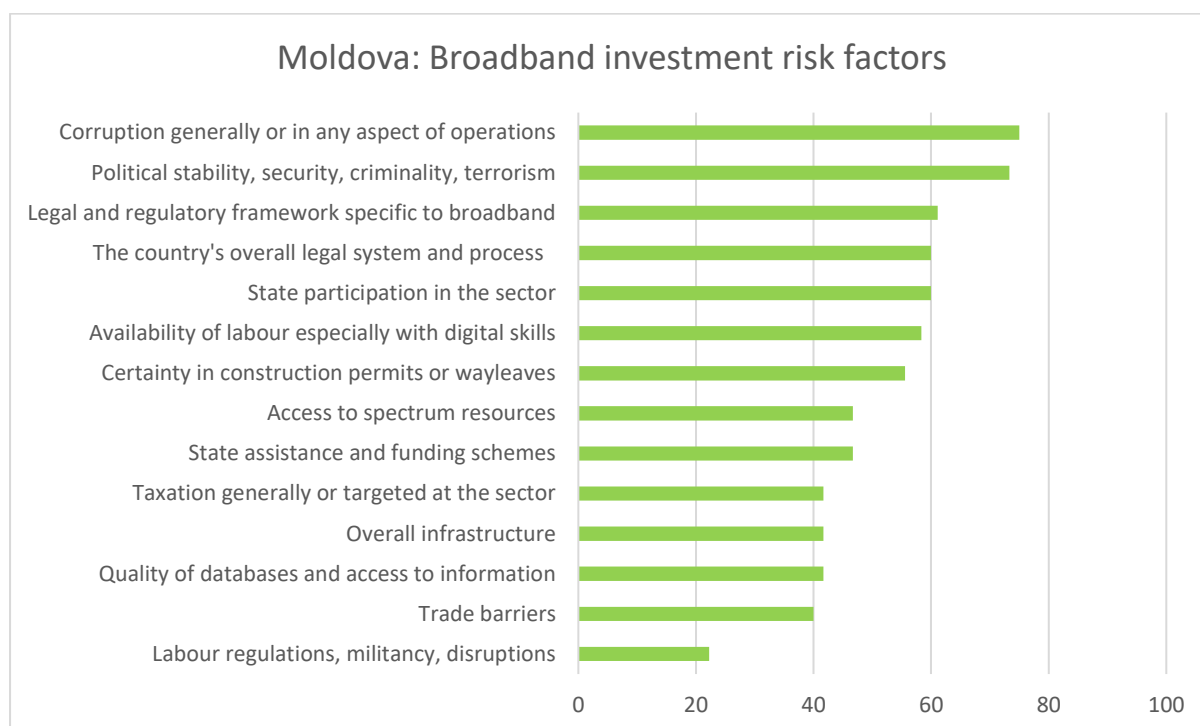
More detail regarding the main investor concerns is given in their comments below.

Respondent views

The survey considered 14 factors related to investment in ICT infrastructure. A description of these factors is given in section 2 of this report. Respondents were asked to express their view on whether the conditions for investment are affected by each factor in any of the following ways:

- Positively encourages investment
- Does not deter investment
- Mildly deters investment
- Strongly deters investment
- No opinion.

By assigning relative scores normalised to a scale of zero to 100, each factor has been ranked in terms of how much it contributes to investment risk.



A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

Respondents perceive that issues related to political stability and corruption contribute the most risk to broadband investments. The associated legal and regulatory risks generally and as applied to the sector, also contribute significantly to the risks faced by investors. Parallel concerns are the perceived power of state-owned Moldtelecom to distort competition, the difficulties in recruiting staff with digital skills and the inconsistencies with obtaining permission to install infrastructure.

Other factors, including spectrum granting and taxation contribute less to investment risks.

The following comments give more details of the specific concerns of investors.

Political stability and corruption

How respondents expressed views about political stability and corruption in Moldova

“Moldova’s greatest deterrent is the corrupt or non-independent judiciary. Investors are rightly concerned that their businesses and investments will not be protected.”

“Access to inter-urban infrastructure, such as alongside the railroad, is not regulated and is a point for corruption.”

“Moldova’s political instability generally affects investments as well as the trust in the justice system.”

“There are challenges for the business climate related to bribes and corruption, involving state authorities.”

“Political instability continues to be a problem for Moldova and a deterrent to investment.”

“Moldova’s business environment is one of the most challenging in the eastern European region and is undermined by pervasive public sector corruption, political instability and a burdensome regulatory environment.”

“The main sectors affected by corruption are healthcare, procurement, the judiciary, law enforcement and customs.”

“The telecommunications sector is more protected from acts of corruption.”

“Ministry changes mean that every time there is a new team, there has to be a new dialogue.”

“The political environment and its changes are a risk; we have to be careful with our investments and we need more stability.”

“The ICT sector has one of the strongest voices with government in Moldova, but not all ministries see its importance.”

“Because it is so small, Moldova has the potential to change course and develop rapidly. Slovakia, Slovenia and Georgia continue to be examples of what Moldova could achieve.”

“Unfortunately, a political will currently does not exist to take the decisions and implement the measures that would be necessary to achieve economic successes.”

Political instability and corruption issues were expressed as the top inhibitors to investments in the sector. Although these issues are raised by the sector players with the responsible ministries and the sector regulator, the frequent changes (there have been seven ministers responsible for the sector in the last ten years) are seen as adding greatly to the overall unpredictability and risk in making new investments in broadband infrastructure.

These significant concerns could be to some extent allayed by a more positive public stance generally toward the need for broadband investments to improve the overall growth of the economy, requiring a clear national strategy for digital connectivity and access to modern digital services.

Recommendations for improvement of digital awareness and investment promotion are given in Recommendations 1 and 2 in section 4 of this report.

The legal and regulatory framework for broadband

How respondents expressed their views on the legal and regulatory framework for broadband in Moldova

“For smaller operators we do not have symmetric regulations.”

“The mobile companies have licence obligations to cover territory and major highways. But they did not comply and were found out.”

“The regulations say that the number portability fee should be cost-based but in fact, the amount charged by is much higher than in other countries.”

Critical infrastructure has been raised in government, to protect personal data, educational entities and companies doing government activities.”

Infrastructure access

“The Ministry are preparing a 2021 - 2025 programme of legal changes including to improve the regulatory framework for sharing infrastructure including telecommunications and other utilities.”

“There is always space for better sharing of infrastructure.”

“There is now an agreement among the three mobile operators to share backbone national infrastructure, in order to avoid duplication.”

“The mobile operators have now agreed mutually beneficial conditions for sharing infrastructure.”

“We can get ducts and wholesale broadband bitstream access but the wholesale prices expected by Moldtelecom are very high and have not been revised for several years so there is not enough margin.”

“Recent road improvements were done without planning for telecommunications cables and without underground conduits for fibre.”

“We use the existing ducts for our backbone network and for distribution we use aerial cable on electricity and tram poles.”

“Access to urban and inter-urban infrastructure is not regulated and this is a major impediment to investment in fixed infrastructure.”

“For the backbone network, using our own fibre is the best solution.”

“We rent fibre infrastructure to our competitors and we also buy from competitors. Infrastructure sharing works well in Moldova.”

“Tower sharing is expensive and there is a risk - what you gain on cost you lose on revenue.”

“Duct rental prices are still not regulated. You don’t want to rent from Moldtelecom because that gives you a low margin and they could raise the price more.”

During 2020, the Ministry of Economy and Infrastructure carried out a “gap analysis” to identify the actions necessary to bring Moldovan laws into line with the EU practices²⁹ with particular reference to the cost efficiency of broadband infrastructure. A number of ways to improve the legal and regulatory framework for broadband investments in Moldova³⁰ were recommended, including:

- Improving the sector regulator’s enforcement powers
- A single information point
- Dispute settlement procedures
- Clear rights, procedures and prices of access to properties
- Access to the infrastructure of electronic communications network operators
- Coordination of civil works
- Streamlining authorisations and permits
- Improving in-building infrastructure and access

Further details of the EU’s practices in ensuring that the legal and regulatory frameworks fully support broadband infrastructure investments are included in Recommendation 3 and 4 in section 4 of this report.

The overall legal system

How respondents expressed views about the overall legal system in Moldova

“The weak and non-independent judicial system continues to be the biggest deterrent to investment and poses a threat to Moldova’s long-term potential for development across all sectors.”

“The Ministry are planning to develop the law and to improve investments.”

“Future mergers and acquisitions should be validated by the competition agency and also a special agency for critical infrastructure.”

29 See <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

30 See report “Gap Analysis MD Law 28 & Directive 2014/61/EU Analysis and Recommendations on Alignment” prepared by World Bank Group and the European Commission (June 2020)

“Moldova has joined several international investment protection agreements, but these tend to protect only foreign investors and are often cost-prohibitive for investments on the scale appropriate for Moldova.”

“There is a law that gives free access for infrastructure on government buildings, but the building occupiers ask for money.”

“With commercial laws in Moldova are still in need of modernisation, inadequacy of the legislative framework is one of the major factors contributing to the low quality of court judgments.”

“Lack of a well-developed system of judicial education combined with judges’ lack of experience with commercial law and practice is another major factor affecting the quality of judgments.”

Investors in broadband infrastructure do not feel that the overall legal system sufficiently encourages or protects their investments. The existing measures are seen as too general and do not recognise the growing importance of the ICT sector to the economic development of the country. General consideration regarding overall commitment to the sector and the specific investment-enabling legal and regulatory framework for broadband are given in Recommendations 1 and 3 in section 4 of this report. Regarding the need for a special agency for critical infrastructures, network and cyber security aspects are further considered the Annex to this report.

State participation in the sector

How respondents expressed views about state participation in the ICT sector of Moldova

“The government wants to protect Moldtelecom, so they put barriers to new entrants, like raising the cost of duct access.”

“A national wholesale network would have to be a separated entity from Moldtelecom to make it work - but this is a pipe dream.”

“Historically, refusal to allow access to infrastructure has been one of Moldtelecom’s strongest tools for anticompetitive activity.”

The views expressed relate to the remaining state ownership of the incumbent telecommunications operator Moldtelecom. These views reflect that the objective for a fair and competitive market has not been fully achieved alongside the presence of a state-owned dominant market player.

The role of the state in its ownership of Moldtelecom is seen as an inhibitor to investment by the newer broadband providers. In the opinion of its competitors, Moldtelecom uses its market power to limit the growth of other networks and services. This is a general issue across all countries where the sector has typically developed from a single state-owned entity into a more liberalised competitive market. The protection of a state-owned telecommunications operator against privately-owned entrants into a competitive market could have a number of motives, including the need to protect public sector jobs and state revenues. In the European Union, only a few member states still retain some of ownership of telecommunications operators, but competitive markets have grown, along with overall sector jobs, new services and revenues³¹. The role of the state as an enabler to competition and investments under these conditions is examined further in Recommendation 5 in section 4 of this report.

³¹ See <https://link.springer.com/article/10.1007/s11151-019-09686-6>

Survey results – Moldova

For a fully efficient investment market, a clear framework of sector policy is required, backed up by a modern legislative and regulatory framework for the sector. The components of the policy, legal and regulatory frameworks are further explored in Recommendations 1, 2 and 3 in section 4 of this report.

Skill shortages**How respondents expressed views about obtaining skilled staff in Moldova**

“Overall, there is a shortage of qualified ICT professionals in Moldova - recruiting and retaining good people is a challenge.”

“Moldova has high technical capability, but the problem is the loss of these skills due to emigration.”

“Recruiting is a challenge, so we hire very fresh graduates and train them ourselves.”

“We increased the pay to try to match European salaries.”

“For the IT park project, the government have introduced salary advantages to the people who work there.”

“The ‘no salary tax’ for ICT employees is a major encouragement for investment in the sector and has contributed to the overall development of the sector.”

“The population that is skilled has already moved to the capital Chisinau, so the problem is mainly in the regions.”

“Moldovan policy is towards a cheaper labour force to attract high tech companies, but salaries are not that small.”

“In trying to reduce the brain drain, the effect is that the skilled people who remain start their own businesses, or the big multinationals cherry pick the best ones.”

“Customer service and business management skills are generally available.”

“The labour and skills required for network construction and operations are more challenging.”

“The private sector tends to train and invest in the development of their own teams.”

Although the government has introduced measures to improve the availability of skills for the ICT sector, the main problems as expressed by respondents appears to be the migration of workers with these skills towards higher salaries or other benefits from large companies with offices in the Moldova’s capital city or to work abroad.

In 2017, the government introduced tax incentives for companies that locate in IT parks³² including:

- A unified tax of 7% on income from sales (with the tax to include corporate income tax, personal income tax, social security, and health care contributions payable by both employers and employees, local taxes, property tax, and road fees).
- An exemption from customs duties and value-added tax for imported IT hardware needed to conduct business activities.

As a result, companies in the telecommunications sector (which do not benefit from these special tax concessions) find it difficult to attract employees with good ICT skills. The responses of the telecommunications sector have been to raise salaries to attract experienced staff and also to recruit inexperienced staff with potential and then provide in-house ICT skills training.

³² For details see also: <https://www.roedl.com/insights/moldova-common-tax-it-sector>

Other issues

How respondents express their views on other issues in Moldova

Obtaining permissions and wayleaves

“In the city most towers are on government buildings and access should be free according to the law. But the building occupiers ask for money.”

“The municipality chiefs sometimes block access to buildings because it remains on local discretion.”

“We have to get permissions from a number of institutions, including ministries, local government and householders. The process should be coordinated to encourage us to invest.”

“The process of obtaining the necessary approvals for construction of infrastructure, is challenging when public institutions are involved.”

“Simplified procedures governing modifications to existing infrastructure are being requested by the telecommunications operators.”

“Other required approvals for physical construction or civil engineering works and the placing of plant on private land is generally accessible. There are challenges due to lack of cooperation in sharing infrastructure.”

State assistance and funding schemes

“There is no effective instrument from the state budget. The universal service mechanism is not used to satisfy the real needs.”

Access to spectrum and other government-controlled resources

“The arrangements to obtain spectrum and other state-controlled aspects are generally helpful to investments.”

“There are general procedures used in frequency spectrum, numbering or any other types of networks and services licences or authorisations.”

“Spectrum access is transparently done; the price is set and there is sector consultation.”

“Spectrum prices have been high compared with revenues – we realise that the government needs the money.”

“Mobile operators complained that pricing for new spectrum was not economically justifiable and that the pricing was not tied to market economics. However, both private mobile operators eventually bought 4G spectrum.”

“The consultation has yet to happen on 5G but the question of high price for spectrum will be raised.”

“5G in the future could be a good substitution product instead of fixed broadband.”

“Spectrum is no problem.”

“5G will be more complex and there is a risk that the government will push for high prices as they did with 4G, together with licence obligations.”

“4G spectrum was overcharged immensely, given the expected low returns. The operators paid to stay in the market and not to upset the government.”

“The prospect of the government making 5G spectrum available cheaply is not there. This is because there is a lack of strategic thinking.”

“There is a budgetary shortfall, so any new spectrum will be at a high price.”

“Low prices on spectrum might be seen as corruption.”

Taxation and trade issues

“Taxation is the top issue we raise with the Economic Council.”

“There is a 2.5% tax on total mobile services turnover (a so-called “luxury tax” introduced in 2000 and paid into the Population Social Fund) plus a universal service contribution, portability fees and spectrum fees. These taxes total 30% of revenues.”

“Mobile services are subject to a luxury tax, but today mobile services are not a luxury anymore; instead of investing in improvement of their operations, mobile operators are suffocated by irrelevant taxes.”

“The copyright levy is 5% on ICT sector revenues, but this is based on vague laws and none of the money ever goes to the copyright holders.”

“Internet service providers are not charged the copyright tax, so this is not fair on the other operators who are charged.”

“Copyright tax has to be sorted.”

“For imported equipment there is a large black market with no tax – for example smartphones at half the price, making it difficult to compete.”

Access to information

“Much of the population statistics, disposable income etc. are either non-existent, out-dated or inaccurate.”

“We have to rely on our own staff to collect information because the available statistical data is unreliable.”

“The sector bears the costs related to the national statistics and in addition studies are funded by the companies when needed.”

Labour regulations

“Labour unions are uncommon in Moldova’s ICT sector and this is not a major consideration for investors.”

“There have been several initiatives in recent years to reform the labour code with significant participation from the private sector.”

The difficulties in obtaining permissions for placing infrastructure on government land and buildings appears to be a general concern. This could be improved by a strengthening of the legal basis and the streamlining of procedures for obtaining permits (see also Recommendation 4 in section 4 of this report).

If Moldova is to take full advantage of the expected transformational benefits of 5G and its related applications, then the procedures for awarding 5G spectrum need to be improved using a more liberalised, fair and transparent approach, taking account of the needs of the market (see also Recommendation 6 in section 4 of this report).





Tax issues are examined in Recommendation 8 in section 4 of this report.

Recommendations

The detailed recommendations in this report are given in section 4. There are two types of recommendations, the first type to improve the overall attractiveness of markets and the second type to reduce investment risks.

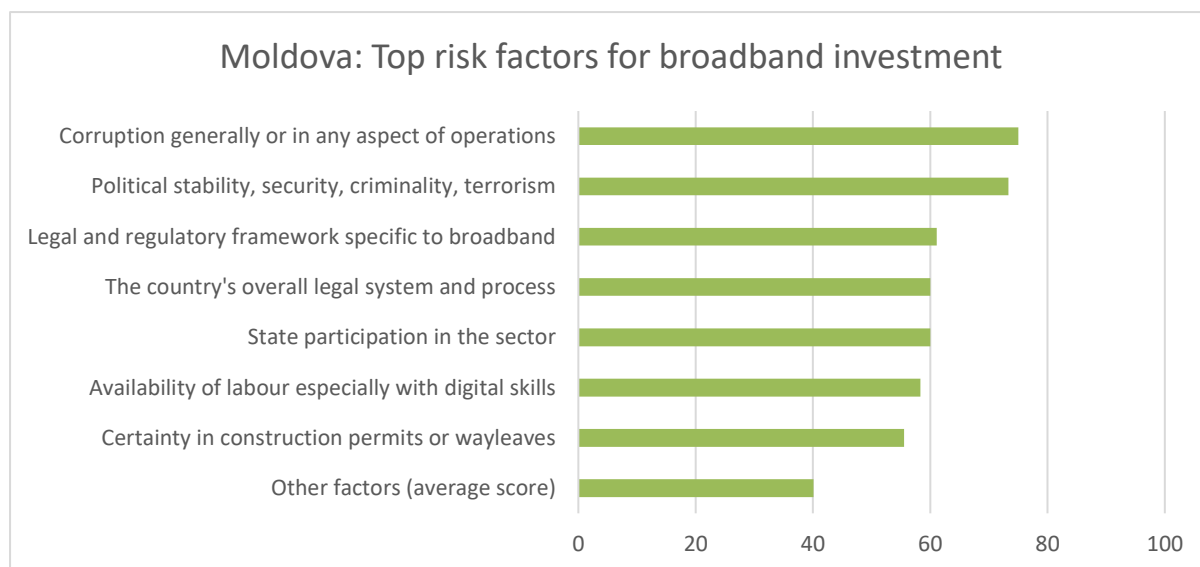
Survey results – Moldova

For Moldova, the respondent views regarding market attractiveness are summarised below, together with the relevant recommendations for improving the overall attractiveness of the market.

Market attractiveness factors	Moldova	Recommendations for improving the overall attractiveness of the market (See section 4)
Overall size of the market, in population terms and relative spending power		Recommendation 1
Growth potential of the market, in terms of demand for broadband-services		
Efficiency of the markets in terms of fair competitive conditions		Recommendations 1 and 3
A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up		Recommendation 2


 - Good /  - Medium /  - Poor

The issues raised by respondents that most contribute to broadband investment risk in Moldova are shown below.














A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

The priorities for investors are summarised below, together with references to the relevant recommendations for reducing broadband investment risks given in section 4 of this report.

Investment risk factors	Moldova	Recommendations for reducing broadband investment risks (See section 4)
Corruption generally or in any aspect of operations.		

Survey results – Moldova

Political stability.		Recommendations 1 and 2
.Legal and regulatory framework specific to electronic communications and broadband		Recommendation 3
The country's overall legal system, predictability and process.		Recommendation 1
State participation in the sector.		Recommendation 5
Availability of labour especially with digital skills		Recommendation 7
Certainty in construction permits and wayleaves.		Recommendation 4
Access to spectrum resources		Recommendation 6
State assistance and funding schemes		Recommendation 9
Taxation generally or targeted at the sector.		Recommendation 8
Overall infrastructure		
Quality of databases and access to information		

 - Medium priority/  - High priority

UKRAINE

At a glance

Headline market statistics - Ukraine	2016 report	current
Population (millions)	45	42
Fixed broadband penetration per 100 population	12	16
Mobile broadband penetration per 100 population	8.1	47
Internet usage (% of population)	49%	63%
Forecast overall broadband market growth up to 2024 (% compound growth per annum)	7.3%	

[Sources: UN, ITU, Fitch Solutions]

Ukraine has a relatively large but declining population. The mobile broadband growth has accelerated in recent years but overall penetration remains low in comparison to the other countries in the region. Fixed broadband penetration also remains at a relatively low level. The growth in mobile broadband subscriptions is forecast to be relatively high at 8.3% per annum up until 2024. Fixed broadband is forecast to grow at only 3.2% per annum. Although mobile broadband coverage is generally good, fixed broadband connectivity outside the main population centres remains underdeveloped.

Survey results

Ukraine	Rating	EEC average	EEC Ranking
Broadband Market Attractiveness Index/100	52	54	3 rd
Broadband Investment Risk Index/100	50	55	3 rd
Best Practice Index/100	50	55	3 rd
Overall Broadband Investment Index/100	51	55	3 rd

In general, an index above 50/100 indicates a relatively good market for broadband investments.

The survey results show that Ukraine is perceived to have below average broadband investment conditions, behind both Armenia and Georgia, but ahead of Moldova. This is despite Ukraine’s position as the largest market by population, with a relatively high forecast growth rate for broadband.

What respondents are saying about the market

Market size and potential

“Mobile is a good business. Fixed is not good.”

“Fixed broadband business is very low and there is a big need for change.”

“Fixed operators continue to use old technology, meanwhile the mobile operators invest in 4G but don’t have enough funds left for fixed.”

“Ukraine was very late with 3G and 4G and mobile number portability has only been available since 2019.”

“I think that there will be significantly higher growth in the mobile broadband market, compared with growth in the EU.”

“There is still a huge demand for smartphones.”

“Now we are in good shape, mobile broadband is available almost everywhere.”

“The mobile companies have saturated the broadband market and they are looking for diversification into fixed broadband and also discussing with content providers for more income.”

“Ukrainian consumers like free upgrades – 4G and 5G upgrades are expected to be provided at no extra cost to subscribers.”

“Netflix-type streaming services are expensive, but they are getting more popular.”

“It is impressive the way that Ukraine has turned streaming from a free illegal service into a paid for legal one.”

“Fibre is improving the market, ADSL was always limited,”

“With government help we can now extend 4G well beyond the cities.”

“Adding new subscribers can only be found in rural places and there are very low numbers and usage patterns there.”

“With the many thousands of small local ISPs, everybody says that there will be significant market consolidation.”

“The ‘grey’ (unlicensed) operators are an impediment, some owners operate many entities to avoid tax. They are faster, more flexible and largely unregulated.”

“Some of the smaller operators are giving quite a good service.”

“There are four main fixed operators with 30% of the market. The remaining few thousand have 70%”.

“Many of the smaller companies have no remote support from equipment vendors and have bad practices, for example fibre in trees.”

“Some of the smaller ISPs have no billing systems and there is no continuity if an engineer leaves.”

“There are opportunities for more revenues for big operators if there was consolidation, bringing economies of scale, for example on billing systems, call centres etc.”

“Ukraine has amongst the lowest tariffs and lowest usage in the world.”

“We were late with the launch of mobile broadband so there are still good growth prospects.”

“We partner with foreign banks on green field projects.”

“Greenfield expansion makes up 20-25% of investment cases and is attractive because it is profitable.”

“Investment is uncertain at the moment because we do not know what the new law will say about regulating access to infrastructure.”

“At present we do not have local unbundling so we cannot use other networks and if we do invest, we may have to open our networks to others – this makes things more uncertain.”

“No one has figured out how to make money out of 5G, all operators see is more capital expenditure.”

“For now, the investment balance is better for us, but we need to postpone 5G so that we can wait a couple of years before investing.”

“There may be businesses interested to put up a significant percentage of the money needed to bring infrastructure to the rural areas, but the risk is that when the state subsidies cease after the first year, the private companies will pull out.”

“The government are subsidising rural communities to give access for public buildings and once there, the problem will be whether ordinary people afford it?”

“We see good cooperation with regional governors with a healthy appetite for capital infrastructure projects from mobile operators.”

“The need to fund future investments like 5G has reignited interest amongst the mobile operators towards cost reduction by infrastructure sharing.”

“Later on, when spectrum problems are resolved, then we will have 5G but no one will be willing in the early stages.”

“For 5G, there will be high fees because the government will take the revenues.”

“There could be interest in creating a separate tower company, if the problems in creating an independent entity can be solved.”

“The mobile companies have renewed interest in monetising their tower assets by selling them off to a separate entity in order to raise cash for diversification and 5G investments.”

“Fixed broadband is increasing, although it is still geographically limited.”

“4G and fixed broadband have been slow to expand out of the cities.”

“The MVNO sector remains underdeveloped because the three mobile network operators have promoted their own low-cost subsidiaries.”

“When there is more clarity about overall fixed broadband and infrastructure strategy, the market will tend to consolidate to achieve more investment efficiency.”

Current market conditions

“This market is unique - there are many thousands of small and local ISPs operating without legal status and regulations.”

“One person may own ten or twenty ISPs because if it was one entity it would be taxed and regulated properly.”

“We are not happy with the mobile market, so we are considering diversification into fixed-mobile convergence to appeal to all customers in Ukraine.”

“To prevent the criminal activity of cut and stolen cables, we restored connections using fixed wireless terminals, but it took two years with the regulator to arrange this.”

“The universal service market is highly regulated by a price cap. Fixed-mobile convergence terminals were set at the same low prices, so we cannot charge market rates for fixed broadband.”

“The fixed operators are trying to stay innovative to compete with 3G and 4G mobile broadband, but rural areas lack fixed infrastructure.”

“Fibre cannot fulfil the broadband demand, so mobile and fixed mobile convergence services are the short-term answer.”

“Roaming is used to share subscribers, filling coverage gaps outside the cities.”

“4G faces a long profit recovery period and mobile operators face renewals to their licences in 2022.”

“Everything about fixed broadband is bad in our country”.

“The larger companies with the possibilities for investment funding do not go to rural areas where the margins are less.”

“The smaller operators accept smaller margins, they are local and nearby.”

“The larger operators are making up to 40% margins by focussing only on the main population centres.”

“If you live in an apartment, you get a flyer from a broadband provider offering 100Mbps, then you get another flyer from another company to sell you a higher rate.”

“The revenues from rural villages will be too low to attract serious investors.”

“The cost basis of covering 95% of the Ukrainian population has been estimated by the larger operators, but the licences are more likely to go to the smaller companies.”

“The cost calculations show that the smaller local operators can provide connectivity at one third of the cost quoted by the larger operators.”

“Cost uncertainty is the main impediment for operators considering investments – changing business models and changing financial circumstances mean that we simply don’t know the likely cost.”

The larger operators see things in their own terms and not involving the smaller operators – but both work for the benefit of the population.”

“In depressed rural areas, the mobile companies will not be interested in the low volumes and low usage.”

“The mobile companies have obligations in their licences to cover roads, plus villages with over 12,000 population.”

“All operators act separately on their own networks and this is slowing down the building of digital infrastructure.”

“There are a very large number of operators - some who do not pay taxes or stick to the regulations – this is unfair competition.”

“For fixed broadband services, the incumbent operator’s market share is down dramatically, because many local operators have moved in where the incumbent did not have sufficient coverage.”

“There is massive over-fragmentation in the market, but there is no consolidation activity either.”

“There are around 3,000 local villages, each with perhaps 200 to 300 subscribers.

“The smaller players have no access to commercial financing, they are typically family-owned, investing only what they earn.”

“If you ask people on the street if they have problems with the internet - probably not!”

“We have a legacy of large and small operators, there can be competition in both rural and urban areas.”

“There are a large number of local operators – there is scope for consolidation but there are only around ten or twenty strong candidates for purchase, and that’s before due diligence.”

“Most of the small local companies have no transparency, they are not disciplined by the general investment markets, they have local ‘under-the-radar’ funders.”

“The largest of the local companies (top 20) have their licences. The smaller definitely breach the law. It is very difficult to compete with them because they do not have the permits and licences. The state does not have the capacity to go after all these guys.”

“It will be hard to provide any competition in the small villages.”

“The local operators are pretty good at operating their networks, sometimes doing a better job than the bigger operators.”

“Quality of service is measured by broadband speed test results.”

“Many people complain about the quality provided by larger operators, quoting fault restoration times of more than a week.”

“The local users know the managers of the local providers and they restores the network within 24hours.”

“There is no problem with the quality provided by the smaller local operators.”

“It’s too early for 5G, we need industry agreement, but first we should allow 4G to be completed.”

“It does not make sense to implement 5G in Ukraine from an economic viewpoint.”

“We will not be ready for 5G for a couple of years.”

“Licences should be corelated with coverage.”

“It’s very difficult to plan investments because there are many localised competitors with connections to local and regional government power structures.”

The overall strategy for the sector

“To improve regulatory enforcement, the national strategy has action points for better regulation.”

“Two years ago, there was a sector strategy summit which prepared a list of challenges facing the sector. A memorandum of understanding was signed by the President, the Cabinet of Ministers and businesses in the sector.

“One of the key issues identified was access to infrastructure but it still has not been resolved.”

“The final goal is not just to attract investments but also to provide service to villages, with connections at reasonable quality.”

“The operators understand the need for a long-term fixed broadband strategy and will help the government to set up the rules.”

“The government should have a role in social businesses, along with a strong regulator to ensure transparency and fair competition.”

“The established sector players are fully supportive of clear rules for good competition and to transform the market – everyone has to follow the new law.”

“The government now has programme of around €15m for the first stage of a subsidised broadband connectivity initiative.”

“There will be a budget transfer from central to local government to pay for connectivity to villages.”

“The discussion on a national broadband plan is not new but the key issue is who to subsidise when we have many thousands of small companies that do not file their accounts.”

“The priorities are for new mobile spectrum releases with 95% population coverage obligations plus all main roads within two years.”

“Rail is the best way to move inside and outside Ukraine but there is no mobile coverage – the business case is too expensive.”

“There should be government funds for broadband coverage of the rail network because many people use the railways.”

“The business case for railway coverage should include the demand from the local rail-side communities – but in many cases there is no electrical power available so if the government paid for the electricity, that would help.”

“The new government scheme aims to provide connectivity to the smaller villages using the small local companies that are already present.”

“The government scheme starts with villages that have public buildings, then the new connections can be expanded to the rest of the village.”

“After considering several investment models, there is going to be a scheme that gives money to local municipalities for them to commission the networks by tender.”

“The tenders will be let by the smaller local government entities, there won’t be any large procurement on national or regional level.”

“The government money, based on the distance from the nearest backbone fibre networks, has been divided between 3,500 villages based on the need to connect public buildings.”

“This still leaves around 12,000 villages for further government funds later.”

“The funding comes from public budget. Then the state will invite private companies to provide infrastructure and service to the chosen 3,000 villages.”

“The state will cover the first-year costs then the chosen private businesses take over.”

“There is a problem - after one year the company will start having to pay for their attachments to electricity poles and without a transparent system of charging, the risk could be too high, so companies may pull out.”

“Initially the new investment will connect only public buildings in the villages, but a universal service obligation is also envisaged to serve the total population.”

“Originally the operators were against this idea, but they are now submitting their bid prices.”

“Soon there will be a bidding competition between the large and small operators.”

“There should be no problem about the size of the tenders - if a business is interested then they will tender.”

“It is better for the small and medium companies to provide the service because, they are local and they can maintain the networks better than a large operator whose staff are generally elsewhere.”

“What we don’t want is local monopolies.”

“Combinatorial bidding to achieve more cost efficiency for broadband networks is not so relevant here because we don’t have an operator with national coverage in most rural areas.”

“In some cases, different localities should join together but in most cases, they will be separated.”

“The problem with the government subsidy scheme for achieving village connectivity is that it focusses only on achieving service, not on the overall efficiency of the infrastructure investment in the country.”

“We need a better analysis of ‘white areas’ together with the required business models, then award licences that create the best fit.”

“We can see the possibility for a public-private partnership to provide broadband services along the main roads, but not yet anything for the railways.”

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“The government now understands better the balance between the fees they take from operators for spectrum and what’s left for our investment needs.”

“A research study is looking at the limitations on 5G in the lower frequency bands, this will report by April 2022.”

“There should be certain demand-side measures because even if we get digital services in remote areas, there are many people are not able to utilise it.”

“We are in favour of pursuing infrastructure and education in parallel to promote usage.”



The overall Broadband Investment Index (right hand pillar) is calculated from the three indexes represented by the first three pillars. The full calculation methodology is given in section 2 of this report. For each pillar, the higher the score, the better the conditions are.

Ukraine has relatively low ratings for market attractiveness, investment risk and best practice confidence. The top concerns are confidence in the political system, in particular linked with weak implementation of the legal and regulatory frameworks. Other issues include access to spectrum resources and the high taxation levels for the sector. There is a generally held view that the adoption of best practices in the governance and regulation of the sector, although desired by most sector participants, will be slow to achieve.

The overall index of broadband investor confidence places Ukraine third in the ranking of EEC countries, behind Armenia and Georgia but above Moldova.

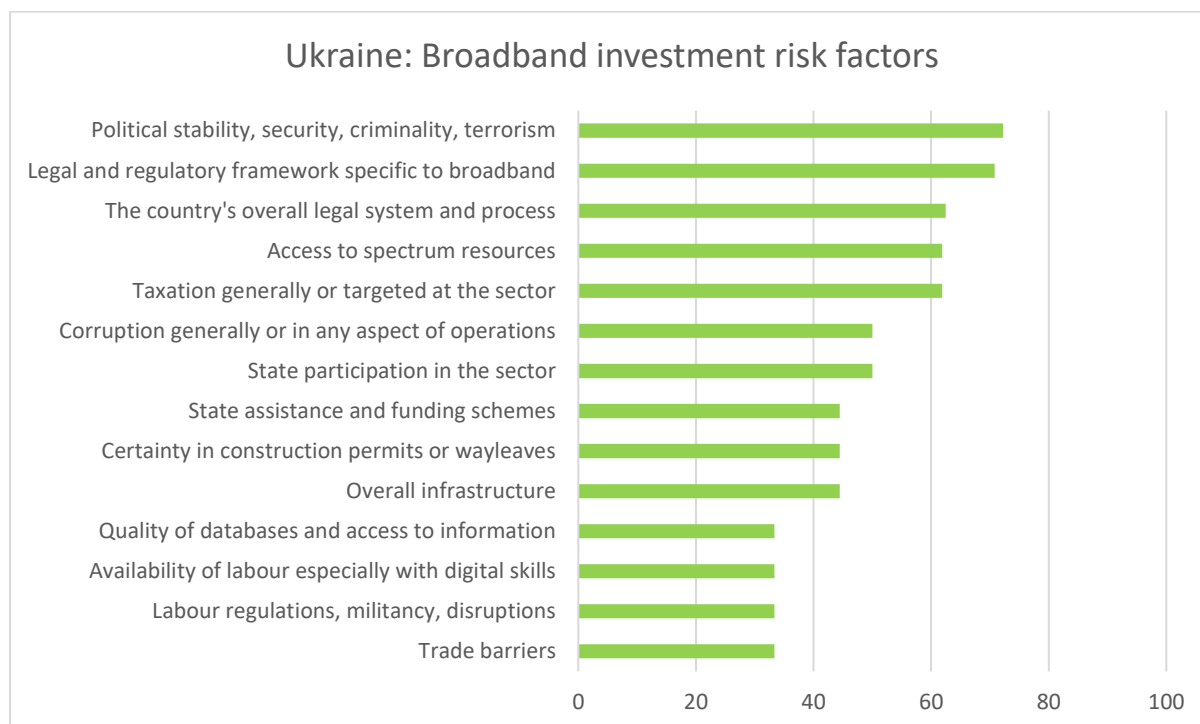
More details regarding the main investor concerns are given in their comments below.

Respondent views

The survey considered 14 factors related to investment in ICT infrastructure. A description of these factors is given in section 2 of this report. Respondents were asked to express their view on whether the conditions for investment are affected by each factor in any of the following ways:

- Positively encourages investment
- Does not deter investment
- Mildly deters investment
- Strongly deters investment
- No opinion.

By assigning relative scores normalised to a scale of zero to 100, each factor has been ranked in terms of how much it contributes to investment risk.



A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

Respondents perceive that issues related to political stability and the shortcomings of the legal and regulatory framework and its implementation contribute the most risk to broadband investments. Changes to the legal and regulatory framework applied to the electronic communications sector have recently been prepared. These will bring the sector in Ukraine more into line with the EU frameworks, especially in regard to aspects that promote broadband infrastructure investments. However, there is a real lack of confidence expressed by respondents whether these proposed changes will be passed into law in the short term and even if they are, that there will not be sufficient enforcement. More details of the proposed changes and their relevance to the broadband investment market are given in the comments expressed below, together with a summary of the views expressed about the lack of confidence regarding implementation.

Other significant factors include uncertainties in access to the required spectrum resources to support future mobile broadband investments and the high taxes applied to the sector in Ukraine.

There are also several other, although less important factors that also contribute to investment risks, including corruption, state participation and funding, permission granting and overall infrastructure.

The following comments give more details of the specific concerns of investors.

The overall legal framework, political stability and corruption

The views regarding these three key topics have been grouped together because they have been expressed as closely linked factors contributing to the relatively high investment risks in Ukraine.

How respondents expressed views about the overall legal framework, political stability and corruption in Ukraine

“Compliance is the number one risk factor - if the laws and regulations were applied, we would be ready and go forward.”

“The political and legal environment is getting better but the courts sometimes make strange and bad decisions.”

“Courts are mainly unpredictable.”

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“It has to be decided who resolves disputes when there is a problem with building broadband infrastructure? Given how corrupt our legislation is, disputes cannot simply be resolved in telecommunications regulation.”

“We have a real problem because amendments to the law have not been passed.”

“The draft law is stuck. It has passed the parliamentary committee and is on the agenda for parliament, but it does not yet have enough votes to allow progress.”

“It is difficult to change existing laws and even when we do, then it is difficult to execute and apply the laws.”

“Since there is no liability and enforcement, the law is not followed by anyone even the state-owned entities.”

“We are trying to bring in a new law that aligns more with the EU framework. But this is very broad, so the sector will then have to generate around 100 bylaws this year to ensure that the new law works in practice.”

“Our system is different from the EU. Here, the different sector ministries will do the job rather than the telecommunications regulator.”

“There is a crime problem with cut and stolen copper cables, we renew them and they are stolen again.”

“Where cooperation is needed from railway operators and energy companies, the telecommunications regulator has no powers.”

“The draft law was not voted by parliament because there is clear opposition from two sides – the residential housing sector are against the new law because operators could cause damage to property and the electricity operators are against giving access to their networks for other purposes.”

“The energy sector is against the new law because they would have additional cabling on their structures and this would reduce the lifespan of their assets.”

“We cannot build a digital society without infrastructure so in the end its about political will and there is still opposition.”

“Many of the smaller local ISPs are owned by local current or ex-officials who invested in telecommunications using undeclared cash.”

“Unfortunately, the locally elected Members of Parliament are lobbied not to support changes in the law, because their local constituencies will lose money.”

“If a local Member of Parliament supports the changes in the law, they will not get elected by their communities next time.”

“The team responsible for the preparation of the new draft law were stopped by the lobbying from local Members of Parliament.”

“We need clever people who understand it is better to comply with laws – it should be a natural process. But we have already taken five to ten years to get to this stage.”

There appears to be widespread support from the main players in the sector towards better alignment of the legal and regulatory framework with the EU rules, especially with regard to the measures adopted by EU countries for the encouragement of broadband investments. These changes are covered below under the comments expressed on Ukraine’s legal and regulatory framework.

There is a strong view that the changes are being opposed by other interests, notably lobbying from other infrastructure sectors and from local government. These parties wish to retain the power to decide on allowing their assets to be used for broadband expansion and what to charge for the right to use their facilities. The established broadband sector players also express their view that the many

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smaller entities (mainly local ISPs serving small communities) are opposed because they believe their operations will have to become licenced and regulated for the first time.

The overall investor view is that there is not yet a common view, politically or from of the over-fragmented market players themselves, that broadband infrastructure investment is important strategically to the long-term effectiveness of the economy at large.

These significant concerns regarding the lack of commitment to a common view, could be to some extent allayed by a more positive public stance generally toward the need for broadband investments to improve the overall growth of the economy. There is a need for this commitment to be expressed in a clear national strategy for digital connectivity and access to modern digital services.

Recommendations for improvement of digital awareness and investment promotion are given in Recommendations 1 and 2 in section 4 of this report.

The legal and regulatory framework for broadband**How respondents expressed their views on the legal and regulatory framework for broadband in Ukraine****Infrastructure access**

“Access to infrastructure is the number one obstacle.”

“There is no regulated sharing and operators have constructed their own networks.”

“We struggle and we try to change the law, but the difficulty is in the execution of the law.”

“The draft law is based on the EU broadband Directive.”

“The plan is for a new government subsidised broadband infrastructure to be taken over by private businesses - but without the new infrastructure law this is very unlikely.”

“Looking ahead to 5G, we expect to change the law - if sharing is not sorted out then we see more problems.”

“We now have a very good draft law on access to infrastructure.”

“Let’s hope we will get justified and consistent prices for access.”

“The largest operators share their networks between themselves but not with the smaller operators.”

“We have a law on access already, but it has deficiencies in the responsibility and enforcement aspects.”

“The problem is that the entities that hold the infrastructure are not interested in granting access and they can milk the access seekers if they want to.”

“The existing law states that telecommunications companies can share infrastructure but not spectrum.”

“At present only 50 or 60 mobile transmission towers are shared out of thousands.”

“If we don’t regulate infrastructure access tariffs, sharing won’t happen”.

“Spectrum sharing is the same issue, the conflict between competitive advantage and cost reduction.”

“Access costs are linked to minimum wages and these need to change with rising labour costs.”

“Under the existing law it is possible for a network operator to refuse access – the new law resolves this.”

“The key part of this problem is money. No one wants the state to set a flat rate for infrastructure - all owners want to set their own fee themselves.”

“Operators face \$10 charges in one place and \$1,000 in another place – this is just not satisfactory.”

The role of the regulator

“The network was traditionally underinvested. Then mobile companies invested in voice services and also small ISPs started to emerge.”

“Any technically-minded person could buy some cable and connect up computers in buildings and then interconnect with the fixed network operator.”

“Over time, the small ISPs started to consolidate but the quality remained low.”

“The regulator did not adopt any rules, there was no internet regulation.”

“These small companies started to invest as broadband demand increased but there are still around 3,500 very small networks.”

“Some rules on the quality of internet connection were devised but they were not respected.”

“Each provider measures quality in its own way and most of them do want to comply and no one prosecutes them.”

“The ministry and regulator can consult with the larger companies, but the majority of the market is with the many small entities.”

“Under the new EU-based law, there are regulatory enforcement powers. But with so many small players in Ukraine, it will not be easy to deal with.”

“Most of the small companies have a close relationship with local rural communities and the links will be difficult to break. A lot of small operators think the regulator wants to put them out of business.”

“The new regulations are not a 100% match with the EU code - there will be some local specifics - the regulator does not have the resources and understanding to implement the new law.”

“Not all the proposed changes are supported by the operators and the small ISPs are trying to prevent changes.”

“The role of the regulator has increased, with the new law defining more responsibilities.”

“There will need to be more resources to implement the new regulatory developments.”

“There is a discussion across government bodies about the regulatory process, independence, resources, decision powers, financing – all these are still up for discussion.”

“There is a fight with the small ISPs and the regulator cannot influence their activity.”

“If a legal operator is up against a ‘grey’ ISP then the regulator seeks to close the ISP down, but there are a lot of small ISPs.”

“In the EU there is a dispute resolution role for the regulator and lots more – the regulator will have to increase resources by 30% to deal with several thousand operators.”

“The new law should include establishing a database of infrastructure access but this will need a budget to finance this.”

“To ensure market efficiency with the new government injection of funds for rural areas, ideally it should be an auction. But the regulator does not have enough powers to achieve this through normal market regulation.”

“Perhaps when we have the new law, the regulator will gain powers and work better.”

“The move to best practices in the legal and regulatory area of telecommunications will take up to three years.”

“At the moment the regulator only approves universal service tariffs, not competitive market enablers like infrastructure access charges.”

“There are two areas of required development - structural and institutional changes, there is no certainty on either of these.”

“The energy companies are opposed to this focus on telecommunications, they believe their sector is far more in need of attention.”

“If we are talking real life problems, then we need to have a choice of broadband access and to make it affordable.”

“The regulator needs rules for spectrum tenders, they have organised tenders but the process needs to go on-line.”

“A whole set of regulatory documents has to be rewritten by experts.”

Universal service

“Provisions for an internet universal service should be in the new law.”

“There is already a universal service provision for fixed telephony where the regulator sets the tariffs.”

“For universal service to work properly, a social contract is required between the government and the citizen for charges to be affordable.”

“It is not clear how the regulator will calculate the tariffs for fixed broadband - if the tariff has to be lower than cost, then government has to pay the difference.”

“The new law does not have the required detail of how to regulate universal internet services and prices.”

Although key parts of the Ukrainian legal and regulatory framework have been redrafted based on the EU code, including some of the key broadband investment-enabling measures³³, there still appears to be a lack of political commitment to enable the passing of these measures into law. Further analysis and preparation work is also continuing in Ukraine to implement and enforce the new law, once passed. These additional (mainly secondary legislation) measures aim to improve the effectiveness of the sector regulatory agencies for technical and market conditions including spectrum management.

The respondent views express the need for the revised regulatory framework to define more clearly the role of the regulator, its legal powers including much-needed dispute resolution and enforcement mechanisms for the sector. There is also a concern regarding the adequacy of the regulator’s financing and human resource capacity.

As well as expressing these needs to reform the legal and regulatory framework, there is a clear view that the task will be challenging, both in terms of the number and complexity of the required changes and in the political will to proceed in the short to medium term. The telecommunications sector is so fragmented, with its complex set of market, political and structural influences, that the respondents believe the required changes will take at least two to three years to implement.

33 See <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

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Further details of the EU's practices in ensuring that the legal and regulatory framework fully supports broadband infrastructure investments are included in Recommendation 3 in section 4 of this report.

Access to spectrum resources**How respondents expressed views about access to spectrum in Ukraine**

“Historically, some people related to government received spectrum for nothing. Then six years ago the regulator began to price the spectrum more transparently.”

“The spectrum charges were increased for the entities that did not utilise their spectrum, resulting in those entities releasing the spectrum back to the operators.”

“We have ‘special users’ including the military with old soviet equipment – this uses a huge amount of spectrum.”

“There was an attempt to free up unused spectrum, but some existing holders of spectrum are very protective.”

“There have been several spectrum auctions in the past, but Ukraine was almost the last country to do 3G.”

“Spectrum for 4G was also late, we launched 4G services in 2018, well behind the EU.”

“Poor technologies have caused technical problems of interference in the past and this tends to put off introducing technological neutrality into spectrum management.”

“No one now objects to technology neutrality but there has to be new set of rules.”

“There is some scope to use higher bands, but at the moment we cannot clear the lower band for mobile broadband use, as in other countries.”

“The broadcasters and the military currently occupy the 700MHz band” and the 800MHz band still has TV and CDMA usage.”

“No one has the power to remove these broadcasters. There is a separate national broadcasting regulator, but it still has not cleared the spectrum which should now be devoted to mobile broadband.”

“State financing is needed for the switchover from analogue to digital broadcasting in order to free the required spectrum bands.”

“For 700MHz there is the whole messy thing about digital dividend so we have to clear out analogue TV, which should have been done years ago.”

“Russian streaming in the occupied territories is pushing out other users.”

“We have to leave analogue TV transmission at least in the border regions which means that these regions will not see 5G.”

“So far the military can only free around 20MHz of spectrum, beyond that we are unsure.”

“The government will have to finalise the scientific works to remove the military from the mobile broadband spectrum by 2022, then auction 5G spectrum.”

“Even with the free spectrum becoming available, we do not have enough for the three mobile companies.”

“The current mobile licences expire next year, so auctions are expected this year.”

“We do not know if the spectrum auctions will be totally open or what the price will be.”

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“There are yearly fees for spectrum, this is not really the problem, but it has been increased by government twice in five years, by more than ten times in some bands.”

“There are huge spectrum costs for each operator.”

“The voice of the operators is consistent – do not increase spectrum charges.”

“There is not enough spectrum to open the future 5G-oriented market up beyond the three mobile companies, in any case other sectors do not have the expertise to exploit it.”

“Other private sector players would have to be in partnership with the existing mobile operators to exploit 5G.”

“It is expected that the government will try to earn as much as possible, so there will be no wide distribution of spectrum, only the big operators will be able to afford it.”

“There is a certain lack of traction on 5G - the government has to provide industry with the means to introduce new technology - give them the spectrum and let them figure out how to use it.”

“Most new spectrum will go to existing operators – maybe some smaller parts to smaller regional players if there is demand, but right now we don’t see that demand.”

“Consultation regarding new spectrum releases started in 2020. If we do not have spectrum auctions this year, then next year is uncertain.”

“Spectrum auction costs are high and then there are the yearly fees - if you compare spectrum charges with EU markets then Ukraine is not very expensive but our revenues per subscriber are very much lower than in the EU.”

“We are now waiting for the next spectrum release. The situation is now better but not ideal. At least now we will not be pushed by the local spectrum holders.”

“The spectrum allocations must be done in transparent way - then it will be less risky to buy spectrum from the regulator than from the old local spectrum holders. Only then will companies be more ready to increase capacity and to expand 4G.”

With the market for broadband growing strongly in Ukraine (mobile broadband is forecast to grow at 8.7% per annum up to 2024) and with limited free spectrum available, the survey respondents have expressed a clear view that action needs to be taken in the short term. Some parts of the spectrum that are commercially useful for mobile broadband expansion are being made available. Other large parts of the spectrum that are already earmarked (by international agreement) for mobile broadband are not yet available for release in Ukraine.

One key difference in Ukraine is the late changeover, still ongoing, from analogue to digital terrestrial TV broadcasting. Another constraint is the ‘special usage’ category, mainly military and navigational applications that cannot be cleared until old equipment is updated for use in separate parts of the spectrum. These remedial “digital dividend” actions require government expenditure, planning and in some cases cross-border coordination.

The respondents believe that these issues will not be resolved in time to allow the required volume of spectrum to be released by the government for growth in mobile broadband services.

The respondents also express uncertainty regarding the process and pricing of any future spectrum releases. The current regulator has conducted competitive tender spectrum auctions in the past and is expected to continue this when allocating any future spectrum releases. The respondents believe that the rules and responsibilities for transparent processing and pricing should be clarified within the current round of redrafting of the sector’s legal and regulatory framework.

In the medium to longer term, the spectrum release methodologies and pricing will become a significantly greater issue. The prevailing respondent view is of greater uncertainty in the future especially with regard to the role of 5G mobile services in an expanding digital marketplace. The key issues are the balance between spectrum pricing and the investment needs for 5G infrastructure and whether other sectors of industry

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should be able to exploit spectrum in a wider 5G digitally connected environment, rather than having to collaborate solely with the established telecommunications sector players.

If Ukraine is to take full advantage of the expected transformational benefits of 5G and its related applications, then the procedures for awarding 5G spectrum need to be improved using a more liberalised, fair and transparent approach, taking account of the needs of the market (see also Recommendation 6 in section 4 of this report).

Taxation**How respondents expressed views about taxation of the sector in Ukraine**

“There is a ‘Presidential tax’ of 7% on all mobile retail tariffs.”

“Telecommunications businesses are paying more than anyone - we are paying already a lot of money and we need a better balance between investment and tax – the sector can’t have both.”

“The special taxation on telecommunications businesses is jeopardising the future of our country – we should be investing far more in infrastructure.”

“We have some of the highest profit margins for telecommunications in the world so it’s difficult to argue.”

“Many companies use the advantageous ‘entrepreneur scheme’ for small company taxation – this is legal but it is difficult to prove that entities are not one large company instead of 20 smaller ones.”

“Even the larger companies can seek to get round the higher labour taxes on the sector by setting up subsidiaries that are not deemed to be telecommunications entities.”

A 2020 report on telecommunications sector taxation in Ukraine³⁴ calculated that the total tax and regulatory payments in Ukraine were 35% of total market revenues, which is significantly above the average tax burden seen in Europe. The mobile sector specific taxes alone were equivalent to 14% of total mobile sector revenues compared to only a 4% average across the EU.

The report concluded that the high tax burden could reduce investments, risking the delivery of wider benefits of increased broadband connectivity and digital inclusion across the whole economy.

Tax issues are examined in Recommendations 8 in section 4 of this report.

Other issues**How respondents express their views on other issues in Ukraine****Obtaining permissions and wayleaves**

“The regional municipalities have the power to charge what they want for local infrastructure permits, so the broadband providers are lobbying for fairer charges.”

“There is no legally-backed agreement with municipalities for placing infrastructure.”

34 https://www.gsma.com/publicpolicy/wp-content/uploads/2020/11/GSMA-Mobile-taxation-in-Ukraine_EN_2020.pdf

“At the moment there is no consistent and transparent pricing for infrastructure permits and access, the local government officials charge what they like and exploit the operators.”

“Some local government offices charge unrealistic prices for us to place infrastructure – they see us as a source of easy money.”

“For getting permission, no operator has any advantages from being formerly part of government.”

“It takes time to serve some multi-tenant buildings that are owned by local government, they just want to get the money.”

“Sometimes an electricity company will specify some special requirements – a special type of fixing which is not standard and therefore more expensive.”

“In the EU anyone can set up networks in municipalities with the full support of the law. In Ukraine you have to do a deal with the municipalities each time and this is often inconsistent and unfair.”

“There is a strong move to change the system to align our legal framework with the EU code.”

“Adoption of the rules at local levels is challenging especially for fixed broadband infrastructure.”

“We get charged different prices for permissions in different regions, unjustifiable prices.”

“In the cities we have best practice and can negotiate, for example one city council has already passed the law and applied it so we can use the underground metro, building our broadband network during the hours that the metro is closed.”

“There are twelve cities with a metro, so we are hoping that we can expand elsewhere.”

State assistance and funding schemes

“There is a new state project in infrastructure, designed to provide broadband connectivity to small villages, using a tendering procedure.”

“It’s good that there is a scheme, but the larger companies are unlikely to be interested in the tender procedure at local level because it seems to be weighted in favour of the small local operators – it’s too fragmented.”

“Is not certain who will win the tenders and some companies do not have the administrative capacity to participate in so many different tenders.”

“If it could be scaled in a different way then there could be more economies of scale and the larger companies would be better placed.”

Digital skills

“There are not enough data specialists, so companies have to set up their own training centres and get the best teachers.”

“The biggest need is IT outsourcing, the specialists here in Ukraine could go and work for American companies, so we have to pay good salaries to attract them.”

“Digital skills in Ukraine are getting much better - older people are adopting new technologies now.”

“The situation with digital education is now much better – operators are trying to sell greater bandwidth.”

“There is a ‘Government ACTION’ initiative, providing access to government services via a smartphone, the situation is getting much better as a result.”

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The lack of consistent and enforceable procedures for obtaining permissions to place infrastructure is a general concern expressed by respondents. Improvements to strengthen the rights of broadband infrastructure providers have been drafted into a new law on telecommunications, using the examples of best-practice already applied within the EU. In Ukraine, it is alleged that these changes are being resisted by some entities that would normally grant permission because they would lose their current power to set charging rates themselves. There is currently no effective dispute resolution process where parties can resolve these inconsistencies.

Examples of best practices to strengthen the legal basis and the streamlining of procedures for obtaining permits are given in Recommendation 4 in section 4 of this report.

The state intervention and subsidy scheme for accelerating broadband connectivity has been designed to bring high-speed infrastructure to villages in Ukraine that are not currently connected. In the first stage, 3,500 qualifying villages have been offered funds and around 3,000 will start to let contracts during 2021. The process will involve a transfer of funds, based on tendered costs by private firms, from central to local government. The infrastructure provided will connect public entities in the villages to the nearest existing high-speed infrastructure. From this point of presence in each village, the chosen network provider can offer broadband services to the wider village community on a commercial basis.

The public funding for around 3,000 chosen villages during 2021 will still leave an estimated 12,000 villages in Ukraine left unserved. It is hoped that budget provision will be made in future years to complete the broadband coverage. The respondents expressed their remaining uncertainties regarding this state scheme, which included the following points:

- There are doubts about whether competitors to the company providing the new networks would be allowed wholesale unbundled access. Without this access, the village services would operate under local monopoly conditions. This will only be resolved once the new telecommunications law is passed and then only if the details of operator obligations on access, wholesale charging and service quality standards are clear.
- It is not yet clear whether the existing universal service regulations will apply to broadband retail tariffs and quality. If they do then the service operators will not be free to set commercial rates in the market.
- The public sector contracts are being let on a village-by-village basis, with only limited scope to combine network architectures and create greater economies of scale and reduced provisioning costs. The prevailing view of respondents is that this tender process is likely to favour smaller local companies in the bidding. Furthermore, this skewed position is likely to be exacerbated because the larger companies do not have the administrative capacity to respond to so many individual tenders.
- There is no clear idea about how the new law will be enforced or whether there will be an effective dispute resolution system should a small village operators remain unlicensed.
- Under the proposed local contracts, the initial capital costs of serving the village will be subsidised by public funds, together with the first-year operational costs. The amount of funding is determined by choosing the lowest amount bid by the winning tender. There is a view, expressed by respondents that after the first year of operation, the private broadband network provider will then be faced with the full costs of their business and could simply close down, leaving the state to run the network.





These views together demonstrate a significant level of uncertainty regarding the proposed state subsidy scheme for broadband infrastructure. The first contracts are planned during 2021 when it is unlikely that full clarity of the changing legal and regulatory framework will be established. Once the first round of projects has been undertaken, then the experiences with their operation should greatly inform future schemes for the remaining unserved villages. Of particular relevance will be the possible opportunity in subsequent funding rounds, to create better economies of scale - for example by allowing combinatorial bidding for more than one local geographical area. Experience with rural broadband schemes from other countries should also play a key part in informing future policy and implementation in Ukraine.

The views expressed by respondents on the availability of digital skills in Ukraine echo the views expressed in most other countries surveyed. The concerns cover not only the limited availability of skilled staff to work in broadband networks and service suppliers, but also in the skill levels of consumers and businesses which could limit future broadband usage and market growth. Further analysis on both the demand and supply side responses are given in Recommendation 7 in section 4 of this report.

Recommendations

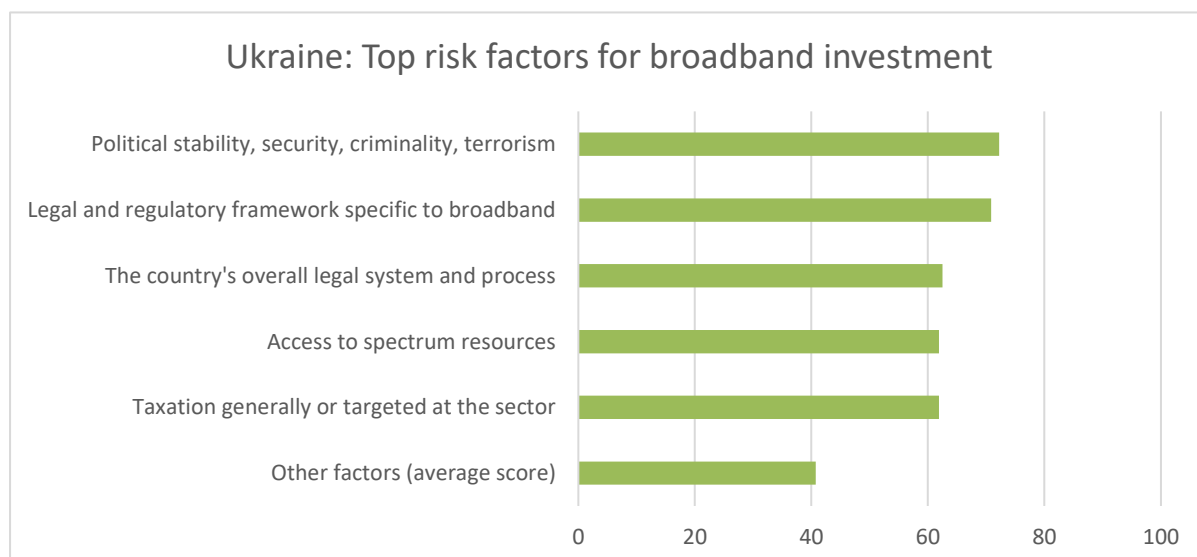
The detailed recommendations in this report are given in section 4. There are two types of recommendations, the first type to improve the overall attractiveness of markets and the second type to reduce investment risks.

For Ukraine, the respondent views regarding market attractiveness are summarised below, together with the relevant recommendations for improving the overall attractiveness of the market.

Market attractiveness factors	Ukraine	Recommendations for improving the overall attractiveness of the market (See section 4)
Overall size of the market, in population terms and relative spending power		Recommendation 1
Growth potential of the market, in terms of demand for broadband-services		
Efficiency of the markets in terms of fair competitive conditions		Recommendations 1 and 3
A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up		Recommendation 2

 - Good /  - Medium /  - Poor











The issues raised by respondents that most contribute to broadband investment risk in Ukraine are shown below.



A score of zero would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

The priorities for investors are summarised below, together with references to the relevant recommendations for reducing broadband investment risks given in section 4 of this report.

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Investment risk factors	Ukraine	Recommendations for reducing broadband investment risks (See section 4)
Political stability and security		
Legal and regulatory framework specific to electronic communications and broadband		Recommendations 1 and 3
The country's overall legal system, predictability and process		Recommendation 1
Access to spectrum resources		Recommendation 6
Taxation generally or targeted at the sector		Recommendation 8
Corruption generally or in any aspect of operations		
State participation in the sector		Recommendation 5
State assistance and funding schemes		Recommendation 9
Certainty in construction permits and wayleaves.		Recommendation 4
Overall infrastructure		

 - Medium priority/  - High priority

4. DETAILED RECOMMENDATIONS

The comments made by respondents regarding the attractiveness of each of the four EEC markets surveyed (Armenia, Georgia, Moldova and Ukraine) and their concerns about the investment risks involved are given in section 3 of this report. The analysis in section 3 has also resulted in a set of priorities for actions in each market to improve investment conditions.

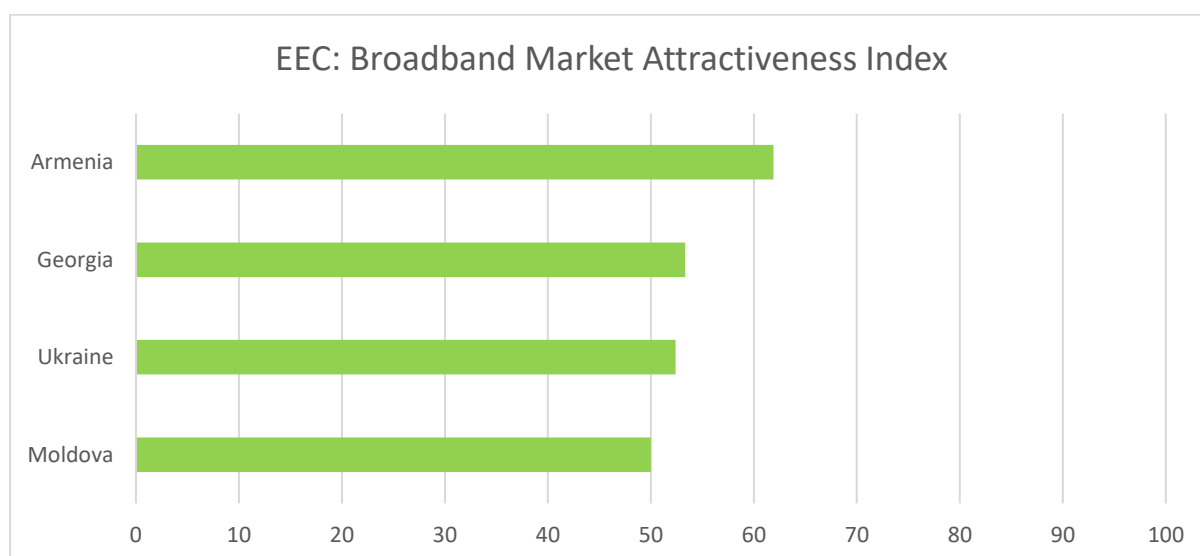
Some general recommendations are given in the executive summary (section 0) of this report under the heading “The general recommendations resulting from this survey”.

This section gives a set of more detailed recommendations to improve the investment conditions in the broadband markets of the EEC countries. These detailed recommendations focus on the priorities for action resulting from the survey, with the key recommendations for each market being determined by the specific priorities for action, country-by-country.

The general recommendations in section 0 should be taken together with the detailed recommendations in this section dealing with the specific priorities for action identified in section 3 for each country. The main purpose of these recommendations, in accordance with the survey’s overall objectives stated in section 1, is “to inform investors, policy makers, regulatory and other influencers of investment so that they can make decisions that will increase effectiveness in sector investments and thereby improving broadband infrastructure coverage and capacity”.

Recommendations on improving the overall attractiveness of the market

The market attractiveness, in terms of the pure market potential regardless of the investment risks involved, was rated by respondents as follows:



On the comparative scale, zero would indicate a perception that the broadband market has no attraction. A score of 100 would indicate a perception that the market potential is perfect.

From the comments received from respondents in each market, the general factors that make a market more or less attractive can be summarised as follows:

- The overall size of the market, in population terms and consumers’ relative spending power.
- The growth potential of the market, in terms of demand for broadband-enabled services.
- The efficiency of the markets in terms of fair competitive conditions.
- A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up.

The following table summarises the views of respondents for each country:

EEC markets: Market attractiveness factors

Market attractiveness factors	Armenia	Georgia	Moldova	Ukraine
Overall size of the market, in population terms and relative spending power				
Growth potential of the market, in terms of demand for broadband-services				
Efficiency of the markets in terms of fair competitive conditions				
A clear national ICT market strategy for the country with stated ambitions and goals, for example targets for broadband coverage and take-up				

- Good / - Medium / - Poor

Market size and spending power

In terms of market size, Ukraine has the highest population at 42m. The other three markets have relatively small populations of 4.0m (Georgia and Moldova) and 3.0m (Armenia). The populations of Ukraine and Moldova are declining.

In all markets, broadband growth arises from a combination of new subscriber take-up, network expansion into new geographical areas, and most significantly from consumer demand for higher data speeds. New demand is being taken up by both fixed and mobile broadband offerings. The respondents recognise that in the future, significantly more investments in fixed (mainly fibre-based) broadband infrastructure will be necessary, as business and consumer demand embrace more digital services. Mobile broadband services have more universal geographical coverage in all four markets, with fixed broadband infrastructure lagging behind, particularly in rural areas. In Armenia, mobile broadband users outnumber fixed broadband users by over seven to one. This compares to a figure of around three to one on average in the EU. In Georgia, Moldova and Ukraine, the ratio is around four to one.

Low levels of broadband service usage and relative spending power are often cited by respondents as reasons for a relatively unattractive market.

Broadband affordability	Armenia	Georgia	Moldova	Ukraine	European average
Fixed broadband price as % of GNI per capita	3.2%	2.8%	2.3%	1.8%	1.2%
Mobile broadband price as % of GNI per capita	1.0%	0.6%	0.5%	1.5%	0.5%

[Source: ITU]

In terms of pricing, fixed broadband is most affordable (relative to Gross National Income per capita) in Moldova and Ukraine and most expensive in Armenia. Mobile broadband is most affordable in Georgia and

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Moldova and most expensive in Ukraine. All four countries are more expensive overall relative to income per capita than the average tariffs within the EU³⁵.

Market growth potential

The potential for broadband growth is still good, with mobile broadband forecast to grow strongest in Ukraine and Armenia (at 8.7% and 6.7% per annum up to 2024 respectively). Mobile broadband growth is less strong in Georgia and Moldova (at 5.6% and 4.1% per annum). Fixed broadband growth will remain restricted by the relative lack of infrastructure outside the main population centres. The fastest growth forecasts for fixed broadband are in Armenia and Georgia (at 4.3% and 4.2% per annum respectively) with Ukraine and Moldova both lagging at 3.2% per annum growth up to 2024).

The respondents' views of market potential are affected by uncertainties in the market at a time of continuing and costly investments, currently including fibre network and 4G broadband rollouts. There are also added risks in the mobile broadband market, especially with the lack of clarity on future spectrum release dates and the current uncertainties of a mobile operator-based business case for 5G investments. There is also no clear indication yet in the four countries that other significant players will enter future markets to exploit the added potential 5G-enabled "Internet of Things" markets.

Market efficiency

Another factor creating market uncertainty is the lack of confidence by respondents regarding the development of their legal and regulatory frameworks for the more liberalised market conditions. In Ukraine and Moldova particularly, the competitive market conditions have been the slowest to adapt, with investors expressing uncertainties about progress towards greater liberalisation and the adoption of best-practices. Analysis of the responses from all four markets has indicated the priority areas for market reforms, as detailed in section 3 of this report.

A national broadband strategy

Of general further concern to respondents is the lack of an agreed national policy-led approach to sector development, acknowledging broadband's increasing role in creating a more efficient digital economy. The participants in the survey expressed the general need for a comprehensive national plan for broadband incorporating clear targets for coverage and take-up, backed up by sector-wide policy, regulatory and financing frameworks.

It follows that, in order to increase the overall attractiveness of the markets for broadband infrastructure investments, a good perception of a country's policy and regulation towards more effective markets is needed. The first two recommendations below seek to increase investor confidence, even in those markets that are already reasonably attractive in pure market size and growth terms.

The remaining recommendations (3 to 9) seek to reduce the specific investment barriers and risks highlighted by respondents and prioritised in the survey on a country-by-country basis.

Recommendation 1: Demonstrating a clear commitment to the effective implementation of an investor-friendly legal and regulatory framework for the broadband market

Although the four countries surveyed have moved to more competitive markets, the transition to fully liberalised, investor-friendly legal and regulatory conditions has not yet been achieved. For example, in Moldova, respondents believe that the remaining state ownership of network operators still has a detrimental influence on competitive market conditions. In Ukraine, where many thousands of small local internet service providers have entered the market to fill the gaps left unfilled by the more established market players, the ability of the legal and regulatory framework to ensure fair competitive market conditions has been severely exposed. In Armenia and Georgia, there remain some structural and competitive market

³⁵ See https://www.itu.int/en/ITU-D/Statistics/Documents/publications/prices2020/ITU_A4AI_Price_Briefing_2020.pdf

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barriers, including uncertainties regarding spectrum availability and the lack of effective procedures for obtaining permissions to expand broadband infrastructure.

The nature of these market distortions in each country, as perceived by the survey participants, is examined more closely in section 3 of this report.

In all four markets, respondents still perceive a strong preference for operators to construct and operate their own separate networks. Looking to the future, as markets expand into more rural geographical areas, relative costs will rise alongside declining average revenues and investment returns. There is a clear realisation amongst the survey participants that more collaborative models for joint investments and infrastructure sharing will have to be developed. The traditional regulatory approaches, mainly based on allowing new operators wholesale access to the incumbent's established infrastructure, have largely failed in all four countries.

In the survey, the most often cited model for promoting more effective broadband infrastructure investments is the EU's legal and regulatory framework for electronic communications³⁶. As well as clear rules on universal services and quality, consumer protection, fair competition, regulatory oversight and enforcement, the EU regulatory framework includes the "Directive on measures to reduce the cost of deploying high-speed electronic communications networks"³⁷ which has been applied in all EU countries since 2016. These measures have led to better coordinated investments between the public and private sectors, in particular to promote more infrastructure investments and increase connectivity in rural areas.

The commitment to broadband investment enablers is part of the EU's overall policy towards a better-connected society. All four EEC countries surveyed have similar "digital society" aspirations and respondents generally recognise the EU approach to broadband investments as being best practice for the sector. The general message from the survey is that unless the legal and regulatory frameworks in the four countries are updated explicitly to support broadband investment efficiency, then the markets will continue to operate in a relatively uncoordinated way. Failure to adopt best practices will lead to far slower progress in achieving the universal high-speed broadband coverage required for better overall economic and societal development.

It is recommended that the EEC markets continue on a path to faster adoption of best practice broadband market regulation, backed up by a fully effective sector regulatory body with the powers to enforce the relevant competitive market safeguards and investment-promoting measures. The remainder of these detailed recommendations (below) include more details of the required policy, legal and regulatory best-practices aimed at broadband markets and investments.

Recommendation 2: Agreeing a clear national broadband strategy with stated ambitions and goals, including targets for broadband coverage and take-up

In the opinion of respondents, national government policy makers need to demonstrate a strong commitment to the sector and in particular, emphasising the increased role of broadband infrastructure investments for promoting economic growth and better living standards. Clear targets should be set at national level for broadband connectivity to allow businesses and households full access to internet services of high speed and quality at affordable prices. The results of this survey show a lack of clarity and national coordination of overall development of the ICT sector. Generally, respondents expressed their willingness to participate in their national debates and to contribute towards the development of national plans and new investment opportunities.

Experience in preparing and implementing policies across a number of countries³⁸, has highlighted the key characteristics of effective national broadband plans:

³⁶ <https://digital-strategy.ec.europa.eu/en/policies/electronic-communications-laws>

³⁷ <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

³⁸ <https://www.cullen-international.com/studies/2014/Benchmarking-15-national-broadband-plans.html>

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- National broadband plans should have a local context, in terms of both the current stage of ICT development and the political aims of the plans.
- Markets in the earlier stages of ICT development have a greater focus on supply-side initiatives, building network infrastructures and encouraging widespread internet usage. Markets in later stages of ICT development focus more on demand-side measures and embedding ICT into the national society and economy.
- Supply-side targets (for example stated levels of broadband coverage and penetration) lend themselves more readily to being expressed in specific, measurable terms.
- Effective government actions often focus on the stimulation of private funding and commercial activities. However, governments always play an important role in the central coordination of initiatives, in monitoring progress, and in ensuring the plan's goals are achieved.

In three of the EEC countries surveyed, state funding for broadband expansion is being employed in different ways:

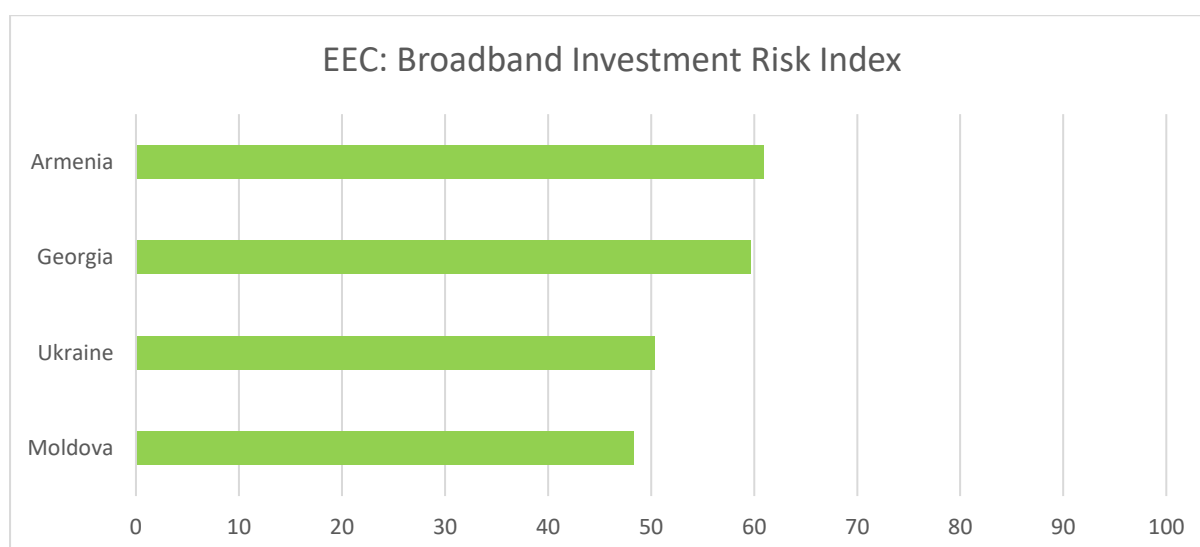
- In Georgia, a separate state-owned and operated network (Open Net) is being established to provide wholesale broadband infrastructure to connect rural areas. The capacity will be available to broadband providers for offering retail services to customers.
- In Moldova, the incumbent operator remains state owned and provides both fixed and mobile retail broadband services but there are no special funds available for connecting the more remote areas.
- In Ukraine, state funding is being transferred to local government entities, allowing them to select private sector offers for building new connecting infrastructure and operating broadband services in small villages.

In Armenia, only private investments are used for broadband infrastructure expansion.

Further recommendations regarding the role of the state and the use of state funding subsidies in promoting broadband investments in areas that remain unattractive to private investors, are further considered in recommendations 5 and 9 below.

Recommendations on reducing the overall investment risks

In addition to the factors related to market attractiveness, this survey has examined the opinions of respondents regarding investment risks – including a list of 14 potential barriers to investment. These opinions are summarised in section 3 of this report.



On the comparative scale, zero would indicate a perception that the broadband market has no enabling policy or has other absolute barriers and risks to investment. A score of 100 would indicate a perception that the full implementation of policies, legal and regulatory frameworks and other enabling conditions are already in place leaving no barriers or risks to investment.

The results show that, taking all 14 risk factors into consideration, Armenia has the least investment risk for broadband infrastructure, closely followed by Georgia. Moldova has the most risk.

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The risks for each factor varied from market to market, as shown in the table below. Of the 14 factors, 12 have medium to high risk in at least one market:

- The legal and regulatory framework specific to electronic communications and broadband investments.
- Political stability, security, criminality, terrorism.
- Certainty in construction permits or wayleaves.
- The country's overall legal system, predictability and process.
- State participation in the sector.
- Access to state-controlled resources, particularly spectrum.
- Availability of labour especially with digital skills.
- Taxation generally or targeted at the sector.
- Corruption generally or in any aspect of operations.
- State assistance and funding schemes.
- Quality of databases and access to information.
- Overall infrastructure.

The following two remaining factors presented only low risk in all markets:

- Labour regulations, employment agreements, militancy, disruptions.
- Trade barriers.

EEC markets: Priorities for action

Investment risk factors	Armenia	Georgia	Moldova	Ukraine
Legal and regulatory framework for broadband				
Political stability, security, criminality, terrorism				
Certainty in construction permits or wayleaves.				
The country's overall legal system, predictability and process				
State participation in the sector				
Access to spectrum resources				
Availability of labour especially with digital skills				
Taxation generally or targeted at the sector.				
Corruption generally or applied to the sector				
State assistance and funding schemes				
Quality of databases and access to information				
Overall infrastructure				

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Labour regulations	!	!	!	!
Trade barriers	!	!	!	!

! - Low priority/ ! - Medium priority/ ▲ - High priority

The following recommendations aim to reduce overall investment risks for broadband markets across the EEC markets, with the priorities for each country taken from the above table.

Recommendation 3: Ensuring that the legal and regulatory framework fully supports broadband infrastructure investments

1) The importance of effective wholesale markets

Across most countries, specific legal and regulatory conditions have been applied to the electronic communications sector in order to facilitate the significant technological and institutional changes that have taken place in the sector. These frameworks have resulted in more competitive markets by allowing greater consumer choice and by implementing specific competitive safeguards that apply to new entrants in order to limit the market power of a previous monopoly incumbent.

The capital-intensive nature of telecommunications infrastructure means that a new entrant cannot simply replicate the main components of a network in order to compete fully with an incumbent operator that has previously enjoyed a monopoly position. A faster transition to more competitive market conditions can be achieved by the creation of an effective wholesale market for infrastructure. Regulators have therefore sought to impose obligations on an incumbent operator to open up its network so that capacity can be rented out to other operators on fair terms.

This means that in going for market growth, a more recent market entrant has two options to expand its reach:

- The new entrant could invest in its own infrastructure or,
- if it is not ready to invest, it could rent capacity from the incumbent.

Where using the wholesale option is clearly more cost-effective, retail competition can grow to meet market demands quicker, because the infrastructure to provide service is already in place.

The regulators in the markets surveyed have created rules that oblige incumbent operators to open up (or “unbundle”) their networks. Typically, the respondents to this survey have expressed dissatisfaction that this obligation has not been properly enforced or has not operated fairly. Typically, the incumbent fixed line operator has not made it routinely possible for the newer market entrants to use their network on the terms specified by the regulator. The result of this wholesale market barrier is that the fixed broadband retail market has grown more slowly in comparison to other markets. The average fixed broadband penetration in the four CEE markets is 16.5 per 100 population, which is less than half the average penetration rate for fixed broadband in the EU, where wholesale market regulations have been applied more effectively.

The wholesale market barriers typically used by incumbents fall into several categories:

- Procedural barriers – the incumbent operator will typically give preference to its own needs rather than releasing capacity for the use of other operators. This often leads to long delays (respondents have claimed wholesale requests can take up to two years to fulfil).
- Lack of capacity – the incumbent operator claims that there is no capacity available for renting, for example that a duct is already full or that a cable has no spare capacity. In an effective wholesale market, the capacity planned and implemented by the supplier should take account of the additional demands of all types of retail and wholesale users, but this is rarely the case in practice.
- “Price squeezing” or “margin squeezing” – the incumbent typically calculates the wholesale charge at a rate deliberately designed to ensure that a competitor cannot match the incumbent’s offerings in the downstream retail market on price. The solution is for the regulator to use a cost

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modelling approach that assumes the most efficient technology use in the network and imposes a fair “cost plus rate of return” wholesale price. (In the absence of a cost model, the regulator could impose a “retail minus” charge with sufficient margin to attract users into the wholesale market.)

In most cases, where an operator seeking wholesale access is denied, there are no effective dispute resolution procedures in operation to enforce the regulations. In the most extreme cases, where wholesale access regulations do exist, they are simply ignored.

It is therefore recommended that the conditions for effective wholesale markets are fully implemented by sector regulators and if necessary, backed up by legally binding dispute resolution and enforcement measures. Unless best practices in wholesale access regulations are implemented effectively in the four EEC markets surveyed, fixed broadband markets in particular will develop more slowly than would normally be expected and consumer demands will not be fully satisfied.

2) Cost reduction measures for broadband investments

The roll-out of broadband infrastructure requires substantial investments. The civil engineering component of these investments, such as the digging-up of roads, the building of towers, manholes and other specialist street works, can account for up to 80% of the overall cost of deploying high-speed networks³⁹.

EU rules on broadband cost-reduction

“To help achieve its “Connectivity for a Gigabit European Society”⁴⁰ targets, the European Union has sought to incentivise as much broadband infrastructure investment as possible in the EU member states. Focusing on the high civil works component of the necessary investments, the “Directive on measures to reduce the cost of deploying high-speed electronic communications networks” (2014/61/EU)⁴¹, aims to facilitate and incentivise the deployment of high-speed electronic communications networks by reducing its cost.

“The Directive includes measures, such as the sharing and re-use of existing physical infrastructure, which can create conditions for a more cost-efficient network deployment. It will help create a digital economy that delivers sustainable economic and social benefits based on modern online services and fast internet connections.

“The measures of the Directive focus on four main areas:

- Access to existing physical infrastructure (e.g. ducts, poles or masts) including those belonging to energy and other utilities, for operators willing to deploy high speed broadband networks.*
- Efficient coordination of civil works.*
- Faster, simpler and more transparent permit-granting procedures.*
- Equipping new buildings and major renovations with high-speed physical infrastructures (e.g. mini-ducts, access point) and access to in-building infrastructure.*

“Member States had to transpose the EU Directive into national legislation and since 1 July 2016, they have applied these measures.”

Extract from “EU rules to reduce the cost of high-speed broadband deployment”
<https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

Respondents in all four markets surveyed expressed views that their existing conditions for all the above topics (access to ducts, poles and masts, coordination of civil works, the granting of permits and for

³⁹ <https://www.nic.org.uk/wp-content/uploads/Cost-analysis.pdf>

⁴⁰ <https://ec.europa.eu/digital-single-market/en/policies/improving-connectivity-and-access>

⁴¹ <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

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equipping buildings for broadband) were unnecessarily slow, inconsistent and in many cases unfair. There is also a clear recognition that the EU measures represent sector best practice.

It is recommended that regulators and government bodies (both at state and municipal level) should examine the scope of the specific regulatory provisions described above for the EU and incorporate these into their legal and regulatory frameworks. If these best-practice measures are implemented in the EEC markets and properly enforced by the regulator, then the investment conditions for broadband infrastructures would improve significantly.

Further consideration is given in Recommendation 4 to the procedures for faster, simpler granting of permits.

3. Network sharing will be a key lever to reduce cost and make 5G deployments feasible

Network sharing should become a standard part of the operating model for mobile operators, and this awareness is accelerating as decisions on investing in 5G networks approach. The business cases for 5G investments are still uncertain in all four EEC markets surveyed. It remains unlikely that commercial 5G services will be launched before 2023 in these markets.

Until now, the imperative for gaining market share has been the predominant justification for mobile operators to invest. This still applies to the current roll-out of 4G services in the four EEC countries surveyed, where network coverage is still seen as one of the key competitive differentiators. The more established mobile operators have been generally reluctant to share their infrastructure with newer entrants that are still rolling out their networks. The drive for market share has resulted in mobile operators investing largely in their own separate infrastructures in the knowledge that trying to coordinate with a competitor would delay investments at the expense of market share gains. Investment returns on the current 4G markets are still not guaranteed in the short term. There is also some uncertainty about the availability, timing and cost levels of additional spectrum resources in each country.

Respondents have expressed the view that during the lead-up to the decisions for 5G investment, that is between now and 2023, the sector stakeholders should seek more collaborative ways to achieve further mobile services development in the 5G and 'Internet of Things' era. If cooperation can be agreed, then significant cost reduction opportunities can be achieved across the sector, leading to more confident investment conditions and faster roll-out of new services.

Network sharing and 5G: A turning point for lone riders

“Operators in some countries have been able to reduce the total cost of ownership by up to 30% while improving network quality through sharing a variety of both active and passive equipment. 5G will be no exception, with operators eyeing new ways of accelerating the deployment of an otherwise daunting investment.”

“The cost savings potential for network sharing is even stronger with 5G, as greenfield deployment is better suited for sharing because it avoids the cost of network consolidation. For example, the cost of small-cell deployment can be reduced by up to 50 percent if three players share the same network. But the rationale for sharing extends beyond cost, as it could solve many practical roadblocks of 5G deployment in urban areas, such as the potential for urban disruption and visual pollution from the installation of excessive equipment and fibre.”

“Given these arguments for network sharing, operators will need to have strong commercial rationale to justify stand-alone deployment of 5G, rather than sharing a common 5G network. Although such cases may exist for certain operators in particular markets, for many operators, sharing will be a necessity and requires preparation now.”

[Source: <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/network-sharing-and-5g-a-turning-point-for-lone-riders>]

Network sharing is widely seen as a means to accelerate 5G deployment, and to minimise disturbances from construction work and visual pollution. Given that 5G thinking is still in its infancy in the EEC markets,

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operators have the opportunity to participate in regulatory dialogue on alternative development paths and positive conditions for deployment.

There are a range of network sharing options available, which can be analysed in the context of network providers' different needs:

- Sharing infrastructure at different network levels, from microcells up to whole network 'Internet of Things' (for example industry sector-specific) macro layers.
- Different sharing models in urban and rural markets, where cost structures and coverage areas differ.
- The number of players sharing could depend on the level of cost savings that are required to attract investment participation – in the most extreme case, a single network could be built on which all players in the market gain wholesale access.

In some countries, market players have already started work on network sharing as a separate business model. Tower companies, for example, which have already proved attractive in rural areas, are predicting diversification into urban areas by securing access to lampposts and rights of way for investing in fibre infrastructures.⁴²

It is recommended that network sharing should become a standard part of the operating model for broadband operators in order to improve the commercial case for many of the expected investments for the future, particularly for 5G. Regulators should engage in sector-wide consultation and if necessary, prepare statutory rules for facilitating network sharing.

Recommendation 4: Construction permits and rights of way

For the civil works typically associated with broadband infrastructure investments (including buildings, manholes, ducts, masts, towers, poles and street cabinets), companies normally have to seek certain permissions before construction work can begin. These permissions can include access to public or private rights of way, approval of construction details and permissions to carry out civil works.

Typical problems arise in:

- Negotiating wayleaves for access to land and buildings (particularly in the situation of absentee landlords or where there are multi-tenancy buildings).
- Negotiating with local authorities regarding street access and works coordination.
- Accessing existing infrastructure to reduce overall costs.

The survey respondents generally ask for faster, simpler, more transparent and fairer permit-granting procedures. This is true in all markets surveyed.

In some cases, newer market entrants find it more difficult than incumbent operators to obtain permits. This tends to prolong an incumbent's competitive advantage in the market and also disincentivises alternative operators from investing in their own networks where this would be otherwise profitable for them.

In Georgia and Moldova, the survey participants view this aspect as a major contributor to overall investment risks. In Armenia and Ukraine, the issue is seen to be of lesser importance, but respondents generally agree that procedures should be more transparent and more consistently applied. Charges should be set in relation only to administrative cost and any disputes should be settled by the sector regulator using legally binding resolution and enforcement procedures. In the case of greenfield developments, the right of broadband providers to install infrastructure is generally permitted without additional procedures or delay.

The recommended best practices, in the form of relevant powers, obligations, procedures and coordination are described below.

⁴² McKinsey & Company "Network Sharing and 5G: A turning point for lone riders"

<https://www.mckinsey.com/~media/McKinsey/Industries/Technology%20Media%20and%20Telecommunications/Telecommunications/Our%20Insights/Network%20sharing%20and%205G%20A%20turning%20point%20for%20lone%20riders/Network-sharing-and-5G-A-turning-point-for-lone-riders.ashx>

The UK's Digital Connectivity Portal provides practical guidance and resources about building digital infrastructure

In 2018 the UK government established, after public consultation, a “Digital Connectivity Portal <https://www.gov.uk/guidance/digital-connectivity-portal> that provides resources and advice for local authorities and commercial providers to facilitate deployment of digital infrastructure (full-fibre and mobile networks).

Under the Electronic Communications Code (the UK regulatory framework) operators can be granted “code rights” by Ofcom, the sector regulator. This grants the operator the rights to install, operate, maintain and upgrade electronic communications infrastructure (such as fibre broadband cables) on private and public land. Ofcom publishes a register of operators with code rights.

The code has provisions for calculating the rent to be paid to landowners for hosting equipment. Rent is now calculated based on the value of the land to the landowner rather than the value to the telecommunications company.

It provides a framework for what landowners and network operators should expect from each other when negotiating wayleave agreements and suggests best practice to facilitate positive and productive engagement between all parties, including some practical examples.

If such an agreement cannot be agreed consensually, the operator can apply to the Court to impose an agreement to confer the code rights.

[Extract from the UK government Digital Connectivity Portal

<https://www.gov.uk/guidance/digital-connectivity-portal>]

The coordination of civil works in the EU

The “Directive on measures to reduce the cost of deploying high-speed electronic communications networks” (2014/61/EU)⁴³, enables any network operator to negotiate agreements with other infrastructure providers for coordinating civil works with a view to deploying high-speed electronic communication networks. It also enables a better coordination of civil works in support of efficient infrastructure.

Additional obligations apply to network operators fully or partly financed by public means; these operators have to meet any reasonable request for coordination of works, provided that it does not entail any additional costs and does not impede control over the coordination of the works.

In order to facilitate coordination, any network operator should make available, upon specific request or via a Single Information Point, the following minimum information related to its on-going or planned civil works:

- the location and type of works*
- the network elements involved*
- the estimated starting date and duration of works, and*
- a contact point.*

[Extract from Digital Single Market policy “Coordination of Civil Works

<https://ec.europa.eu/digital-single-market/en/coordination-civil-works>]

⁴³ <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

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It is recommended that governments and regulatory agencies implement best practice legislation, procedures and on-line capabilities (such as those described above) that will significantly ease the problems associated with providers seeking permissions to install broadband infrastructures.

Recommendation 5: The role of the state

Respondents in the four EEC markets expressed a number of opinions regarding the proper role of the state in the broadband investment sector. The state's role can be summarised into the following categories:

- The need for clear state policy for the ICT sector with national targets for broadband (see also recommendation 2).
- The level of taxation, spectrum charges and other payments to the state should be consistent with the state's overall ICT policy, with regard to the need for sufficient investments by market players to achieve the policy objectives (see also recommendations 6 and 8).
- A clear legal and regulatory framework needs to be in place for the sector, enforced by an independent regulator. This legal and regulatory framework should be applied fairly, without bias towards operators that are fully or partly state-owned (see also recommendations 1 and 3).
- Effective state-aid mechanisms need to be in place, for example rural development funding or other support measures offered by the state to private investors in order to achieve policy objectives where these objectives cannot be met by commercial investments alone. (See also Recommendation 9).
- Where state investments are used to create national infrastructures, there is a clear danger that the state investments will "crowd out" further private investments. This will weaken competition and could result in an over-dependence on a single infrastructure with the resulting losses in consumer choice and quality of services.

The overall view of respondents is that when government decisions are made that significantly impact the ICT sector (especially sector policy, law and regulation, taxation and spectrum payments), these issues should be discussed with the sector participants so that they can express their views, especially regarding their forward investment planning.

In most markets surveyed there is still a high level of reliance on the existing backbone and copper access networks. Any significant new state investments in new national fibre-based networks, (for example the new Open Net national wholesale broadband network in Georgia), could "crowd out" further investments by private operators.

The key role of the state is to establish a clear policy for the ICT sector, within which the investment strategies of market players can have greater confidence. This recommended consultation is particularly important for the broadband sector because any adverse impact on infrastructure investments also spills over onto all other sectors of the economy that rely on ICT services for their development.

It is recommended that governments should involve the private sector in consultations aimed at creating an investment environment that encourages all investments and maximises private incentives. Experience from other countries clearly shows that private participation in broadband infrastructure programmes makes any state ICT policies and public funds used go significantly further. Private involvement also helps to create programmes that are commercially sustainable in the long term, as opposed to ones that continually rely on state aid and other subsidy programmes.

Recommendation 6: Ensuring that spectrum resources are used effectively

The survey has supported a general view that restrictive spectrum management policies are in conflict with sector investment needs and in a wider context, to be against the future interests of national economic development.

Respondents in all four countries surveyed expressed the view that operators have paid relatively high sums for new spectrum awards and in addition, have to pay high yearly spectrum fees. In all the markets surveyed, the respondents feel strongly that the investment case for 5G services will be difficult to make, unless there is more certainty about spectrum management policy, especially in the timing and pricing levels of new spectrum releases.

GSMA position on spectrum pricing

“To deliver affordable, high quality mobile broadband services, operators require fair access to sufficient radio spectrum. As a result, governments and regulators carefully manage mobile spectrum, which in turn supports a vibrant digital economy. Sometimes this includes charging a price for access to spectrum to encourage efficient use. However, evidence shows that when prices are too high, consumers can suffer from slower mobile data speeds, worse coverage and slower rollouts.”

- 1. High spectrum prices can harm consumers through lower quality mobile broadband services*
- 2. Governments should prioritise improved mobile broadband services – above revenue maximisation – when awarding spectrum*
- 3. Avoid limiting the supply of mobile spectrum (for example through set-asides), publish long-term spectrum award plans and hold open consultations*
- 4. Set modest reserve prices and annual fees, and rely on the market to determine spectrum prices*
- 5. Avoid creating unnecessary risks that put operators’ current or future services in jeopardy*
- 6. Consult with industry on licence terms and conditions and take them into account when setting prices*
- 7. Auctions must be well designed and implemented to be an effective award mechanism*
- 8. There is no single best approach to estimating the value of spectrum and international benchmarks should be used with caution*
- 9. Spectrum pricing decisions should be made by an independent regulator in consultation with industry*
- 10. The rise in the total cost of spectrum is a threat to mobile broadband growth – especially 5G*

Extract from GSMA Public Policy Position on Spectrum Pricing May 2021

<https://www.gsma.com/spectrum/wp-content/uploads/2021/05/Spectrum-Pricing-Positions.pdf>

There is a widespread view in the markets surveyed that the spectrum management strategies adopted by governments and regulatory agencies should be better harmonised within the overall context of a wider ICT strategy⁴⁴. More specifically, modern spectrum management strategies should promote investments in a more liberalised telecommunications market. Broadband infrastructure providers should be able to access spectrum resources in order to facilitate geographical universality, to meet the growth of existing services and to support the expected 5G market transformation.

In planning the release of new spectrum, governments and regulators should recognise that investors need more certainty, for example by ensuring technological neutrality, extending licence periods and by aligning new spectrum release dates.

The charges raised for spectrum should be based on market needs as well as on the need to reflect any remaining spectrum scarcity. Open market consultations, well in advance of spectrum releases, should be used to find the right balance in spectrum charges, recognising the cost pressures faced by operators in meeting national ICT objectives. Similarly, any quality or coverage obligations faced by spectrum holders should be subject to consultation. The general view of survey participants is that service quality and coverage

⁴⁴ For example, see <https://londoneconomics.co.uk/wp-content/uploads/2011/09/56-Economic-Impacts-of-Increased-Flexibility-and-Liberalisation-in-European-Spectrum-Management.pdf>

Also <https://www.sciencedirect.com/science/article/pii/S030859611730126X>

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are already subject to, and are best left to, competitive market forces. These competitive pressures are likely to increase when a wider range of 5G-based services become available, so regulatory obligations should be set only at the level required to achieve good investment conditions.

It is likely that in the future, 5G and 'Internet of Things'-based market presence will be considered not only by the traditional network operators, but also by a potentially large number of application-driven, commercial and industrial sector-driven interests.

The potential scope of 5G

"5G is expected to support significantly faster mobile broadband speeds and lower latencies than previous generations while also enabling the full potential of the 'Internet of Things'.

"From autonomous vehicles to smart cities, 5G will be at the heart of the future of communications. 5G is also essential for preserving the future of today's most popular mobile applications – like on-demand video – by ensuring that growing uptake and usage can be sustained.

"5G goes beyond meeting evolving consumer mobile demands by also delivering carefully designed capabilities that will transform industry vertical sectors. 5G introduces a new level of flexibility and agility so the network can deliver customisable services to meet the needs of a huge variety of users and connection types.

"Features like network slicing means industrial sectors can rely on the network delivering precisely what they need – ranging from speed, latency and quality of service to security."

Extract from "5G Spectrum GSMA Public Policy Position July 2019"

<https://www.gsma.com/spectrum/wp-content/uploads/2019/09/5G-Spectrum-Positions.pdf>

Expected technology development horizons:**5G and the Internet of Things connectivity****Enablers:**

Advances in cloud and edge computing will increase demand for 5G by driving data-hungry applications including the proliferation of connected devices (around 42Bn connected IoT devices by 2025), increasingly complex devices driving exponential growth of generated data and the demand for real-time analysis, decision-making, and adjustments, for example connected cars/ drones.

Core technologies have become increasingly affordable over the past years (sensors -44% price drop, storage -72% and computing power -57%). This will make several connectivity-driven use cases financially viable.

Barriers:

Inconsistencies in legislative process and content across geographies are likely to create significant barriers to the deployment of 5G.

Lack of demonstrable cost efficiency and return on investment, further complicated by connectivity not being part of R&D plans for manufacturing companies.

Concerns around incompatibility and interoperability of mobile networks when it comes to integrating with existing industrial systems.

Cultural barriers to working with companies in different sectors including telecommunications, as well as start-ups.

Extract from McKinsey analysis "Technology deep dive, industrial Internet of Things"

<https://www.mckinsey.com/~/media/mckinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/The%20top%20trends%20in%20tech%20final/Tech%20Trends%20slides%202%203%204>

What will 5G be used for?

The ITU has outlined specific criteriawhich will support the following use cases:

- 1. Enhanced mobile broadband, including peak download speeds of at least 20Gbps and a reliable 100Mbps user experience data rate in urban areas. This will better support increased consumption of video as well as emerging services like virtual and augmented reality.*
- 2. Ultra-reliable and low latency communications: Including 1msec latency and very high availability, reliability and security to support services such as autonomous vehicles and mobile healthcare.*
- 3. Massive machine-type communications: Including the ability to support at least one million Internet-of-Things connections per square kilometre with very long battery life and wide coverage including inside buildings.*
- 4. Fixed wireless access: Including the ability to offer fibre type speeds to homes and businesses in both developed and developing markets using new wider frequency bands, massive Multiple-Input-Multiple-Output and 3D beamforming technologies.*

Extract from: GSMA report: 'Fixed Wireless Access: Economic Potential and Best Practices' (2018)] <https://www.gsma.com/futurenetworks/wp-content/uploads/2018/08/Fixed-Wireless-Access-economic-potential-and-best-practices.pdf>

The views of respondents on the required spectrum conditions to inform better investment decisions regarding 5G, lead to the following recommendations:

- Governments and regulators should avoid inflating 5G spectrum prices as this risks limiting network investment and driving up the cost of services.
- Regulators must consult potential 5G stakeholders to ensure spectrum awards and licensing approaches take account of various business models of technical and commercial deployment of 5G services.
- Governments and regulators need to adopt national spectrum policy measures to encourage long-term heavy investments in 5G networks, including long-term licences, a clear renewal process the expected timeframe for future spectrum releases.

One of the barriers to 5G adoption identified in a recent McKinsey report⁴⁵ is the problem of 'cultural barriers' to working with companies in different sectors including telecommunications, as well as start-ups. This barrier is likely to be confounded by the apparent reluctance, expressed in this survey of EEC countries, by the existing spectrum holders (notably mobile telecommunications operators) to accept the need for new market entrants to bid for and obtain future spectrum releases for 5G.

The existing operators typically state their preference for the emerging 5G markets to operate through themselves, rather than be initiated and operated within specific sectors or application areas. If this is the case, then the innovation and speed of the introduction and exploitation of 5G will be slower and opportunities will be missed. This potential barrier can be reduced if policy makers and spectrum regulators adopt a transparent, informative and open market consultation approach, as well as watching other countries' experiences, before taking decisions about the exploitation of future spectrum capacity.

This points to the need to ensure that new stakeholders are not excluded from applying for and receiving new spectrum releases. Greater participation will promote innovation and ensure that all sectors of the economy can exploit new spectrum capabilities without having to rely only on the traditional holders of spectrum for telecommunications use.

⁴⁵<https://www.mckinsey.com/~media/mckinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/The%20top%20trends%20in%20tech%20final/Tech%20Trends%20slides%202%203%204>

Recommendation 7: The availability of digital skills

Respondents in all four EEC markets surveyed reported problems in hiring and retaining staff with skills relevant to modern digital networks and services. Typically, there is a reasonable supply of people with the necessary potential, but there is a risk that they will choose to take vacancies in other IT sector companies with local offices, or they will move abroad to find better opportunities. The problem of finding sufficient digital skills in the future is not just a local problem within the broadband sector, most economies are already experiencing digital skills shortages and the demand for well qualified staff with good digital skills is expected to grow further⁴⁶.

In response to the potential digital staff shortages in the EU, The European Commission is promoting various initiatives aimed at increasing training in digital skills for the workforce and for consumers; modernising education across the EU; harnessing digital technologies for learning and for the recognition and validation of skills; and anticipating and analysing skills needs. For example, the EU has plans⁴⁷ for:

- Master's Programmes in cutting-edge digital technologies developed together with EU excellence centres.
- Short-term specialised training courses in advanced digital technologies for job seekers and employed people especially in SMEs.
- Job placements in companies or research centres where advanced digital technologies are developed or used.

It is recommended that, using the existing channels for co-operation in the telecommunications sector, that the issue of digital skills shortages is raised and plans developed for national and regional initiatives for the sector.

Recommendation 8: Aligning the taxation regime with the national objectives for ICT development

This issue is of high concern in Ukraine and medium concern in Moldova. In both cases, additional sector specific taxes are imposed on the operators.

It has been estimated⁴⁸ that in Ukraine, taxation represents 35% of total market revenue, which is significantly above the 21% average tax burden seen in Europe. Furthermore, Ukraine's mobile-specific taxes are equivalent to 14% of total mobile sector revenue, significantly above the European average of 4%. The mobile-specific burden is driven by the accumulation of regulatory fees and a special pension fund. In the view of respondents, the high tax burden makes conditions less conducive to investment, risking the achievement of increased mobile connectivity and the sector's wider impact on economic development.

Overall taxation levels, coupled with other sector specific charges such as high spectrum fees (see also recommendation 6), take cash out of the sector that would otherwise have been available for further investments in infrastructure. In this respect, at macro-economic policy level, the aims of promoting ICT are directly contrary to the policy of taking high taxes from the broadband infrastructure and services sector.

The indirect impact of telecommunications/ICT taxation: macro effects

In its 2013 report "Taxing Telecommunications/ICT services", the International Telecommunications Union stated that:

"Analytical research has demonstrated that although the telecommunication/ICT sector tax revenues play an important role in supporting national public services, this role must be

⁴⁶ <https://www.weforum.org/agenda/2019/03/the-digital-skills-gap-is-widening-fast-heres-how-to-bridge-it/>

⁴⁷ <https://ec.europa.eu/digital-single-market/en/policies/digital-skills>

⁴⁸ https://www.gsma.com/publicpolicy/wp-content/uploads/2020/11/GSMA-Mobile-taxation-in-Ukraine_EN_2020.pdf

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weighed against the potentially adverse effects that taxation can bring to the growth of the sector, broadband penetration and national economic growth.”

“One of the most interesting and important aspects of the debate concerns a feedback mechanism which is widely considered to be particularly important in application to telecommunications/ICT.

“The feedback works as follows. A government levies a tax on telecommunications. As a result, the roll-out of services is delayed. This has a direct effect on national income, which includes telecommunication/ICT output. However, there is also a spill-over effect. This arises because telecommunication/ICT services are used in many other sectors and can increase productivity there.

“Accordingly, the tax has a broader effect on the growth of national income, and hence on future tax revenues from other sectors.”

Extract from “Taxing Telecommunications/ICT Services: An Overview” (ITU 2013)
<https://www.itu.int/en/ITU-D/Regulatory-Market/Documents/Publications/Taxation2%20E-BAT3.pdf>

The survey results support in the following recommendations:

- Governments should consider whether the apparently low cost of collection of telecommunication taxes is a strong enough consideration to justify a special tax on the sector.
- More weight should be placed on the exceptional macro-economic benefits of investment in broadband infrastructures as sufficient grounds for not taxing them.
- Whether there is a special economic development case for the application of an especially low and advantageous tax rate to facilitate greater investments in specific broadband-enabled projects.

Survey participants placed special emphasis on the second point because there was a general view that national policy makers were not sufficiently aware of the positive and wider economic benefits of broadband infrastructure investments.

Recommendation 9: State assistance and funding schemes

Regarding the state’s role in state aid including universal service mechanisms, survey respondents generally welcome such support provided that the funding is administered in a fair and transparent manner and the state component of the funding supports private sector investments rather than competing with (or “crowding out”) private investment.

There are various options for state support for broadband investments:

- State funding to “top up” private investments and ensure there is sufficient incentive for the private sector to invest. The fair and transparent method for the state to allocate this type of funding is by a competitive “subsidy auction”, which ensures that the investor offering the most cost-effective solution is awarded the subsidy. This auction mechanism, widely used in the EU, is being launched in Ukraine for the very specific case of connecting small villages with high-speed broadband infrastructures. Respondents to the survey in Ukraine expressed some doubts about the inherent lack of competitive safeguards in the scheme, coupled with the lack of potential for economies of scale and therefore risking service affordability.
- Direct state investment in networks that connect outlying regions into a national backbone network. The concept of a state-owned national broadband network has been launched in Georgia, but survey respondents there expressed worries that this state investment would crowd out private investments and duplicate capacity where it is not needed. The proposed use of this type of state operated network is to provide wholesale capacity for use by any retail broadband service provider. The government itself will generally also be a major user of this network for example to connect its own offices and to provide a platform for eGovernment services.
- An alternative to a fully state-funded broadband infrastructure, or “top-up” funds for private investments, is some kind of public-private partnership (PPP) venture that uses both state and private investment for the specific purpose of expanding broadband connectivity to otherwise

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unprofitable locations. The PPP options include a range of different ownership, funding and governance models. There are no such examples being used in the four EEC markets surveyed.

The choice of state funding mechanism from the above options should be supported by relevant laws and regulations, for example a framework and supporting procedures for obtaining construction permits and rights of way. In the Ukraine scheme, the necessary permits are granted along with the funding as part of the contracts between the government and the private operators awarded each project. There is however not sufficient clarity about the level of charges faced by the private operators for the use of public assets in constructing their networks, or whether the broadband tariffs will be capped by any universal service regulations.

A key aspect in the choice of any government injection of funds is the potential this creates for distorting competition in the market, including the danger of “crowding out” of private investments. The EU has addressed this issue with a specific set of rules in relation to “state aid for broadband”⁴⁹. It is also recommended that the legal and regulatory framework adopts a specific set of rules regarding the relevance of state aid for any particular broadband scheme, following the examples already implemented within the EU.

Following the views expressed in the survey, it is recommended that a full range of state-funding options is considered by governments in consultation with the market before decisions are reached. The different options should be tested against full cost/ benefit criteria as well as taking into account the implications of each option on the potential impact on market efficiencies, competition and consumer choice. The chosen model should be piloted in limited geographical areas to gain experience before scaling up into a full national scheme.

⁴⁹ https://ec.europa.eu/regional_policy/sources/conferences/state-aid/broadband_rulesexplained.pdf

5. Glossary of terms used in this report

3G and 4G mobile services	These 3 rd and 4 th generations of mobile technology currently provide the mainstream services in most countries. See also GSM, LTE and 5th Generation mobile .
5th Generation mobile (5G)	5G is the latest generation mobile technology for digital wireless networks that began deployment in 2019 and is expected to become the standard for mobile broadband access with better quality and latency , supporting a further range of high-speed services and applications, in particular the growing “ Internet of Things ”.
ADSL	Asynchronous Digital Subscriber Line (ADSL) has been the most prominent existing infrastructure technology for providing fixed broadband access to end users over traditional copper cables in the access network. The achievable performance is dependent on the distance between the premises and the nearest network exchange node. Although in most cases it can provide reasonable quality and broadband capacity, it cannot reach the performance that can now be delivered over Fibre access technologies.
ARPU	Average revenue per user – the basic measure of revenue for telecommunications operators. ARPU is calculated by dividing the total revenue from a given service by the number of subscribers to that service. It is normally quoted as a monthly figure – most operators send out monthly bills for their services.
B2B	Shorthand for “business to business.” It refers to the sales companies make to other businesses rather than to individual consumers. Sales to consumers are referred to as “business-to-consumer” or B2C. In the context of this report, the B2B market consists of connecting businesses to telecommunications services including leased line networks and VPNs .
Bandwidth	True internet speeds are measured by a combination of bandwidth and latency . Bandwidth is the amount of data transmitted per second (bps). Typical broadband rates are measured in Megabits per second (Mbps) up to Giga bits per second (Gbps).
Bitstream	A wholesale service provided by an operator as a working broadband fixed connection to customer premises which can be used by another operator to provide a competitive fixed broadband service to the customer. The handover point in the network can be at a local or more remote level. The term Bitstream now generally refers only to non-fibre broadband technologies (notably ADSL). The broadly equivalent term for fibre wholesale access is VULA .
Bluetooth	A short-range wireless technology standard that is used for exchanging high-speed data between fixed and mobile devices over short distances, normally up to around 10 meters.
Broadband services	Telecommunications, media and internet services that are delivered individually or together to consumers and businesses

	<p>over high-speed access links. The average bandwidth (speed) of broadband services has been steadily increasing and are now available from around 2Mbps (2 million megabits per second) up to Gbps speeds (Gigabits per second) using different technologies.</p>
Broadband infrastructure	<p>Investments in broadband infrastructure take the form of networks to support fixed and mobile broadband services, together with the supporting civil engineering structures and associated equipment. National and international connectivity also includes terrestrial TV and satellite network infrastructures. Of growing importance are investments in new business models linked to connectivity. These growing investments include smart cities, vertical industry sector partnerships, logistics, content, data analytics data and the “Internet of Things”.</p>
Best Practice Index	<p>One of the comparative indexes derived from this survey, which rates each country on a score from zero to 100 based on the respondents’ confidence that the country will adopt best practices in the investment conditions for broadband within a reasonable timescale. A value of zero would indicate that the country has no best practices in the broadband sector. A score of 100 would indicate that the country has already adopted all relevant best practices.</p>
Broadband Market Attractiveness Index:	<p>One of the comparative indexes derived from this survey, which rates each country on a score of zero to 100 based on the respondents’ perception of the pure attractiveness of a broadband market taking account of such factors as market size and growth. On the comparative scale, zero would indicate a perception that the broadband market has no attraction. A score of 100 would indicate a perception that the market potential is perfect.</p>
Broadband Investment Index	<p>See Overall Broadband Investment Index</p>
Broadband Investment Risk Index	<p>One of the comparative indexes derived from this survey, this rates each country on a score of zero to 100 based on the respondents’ perceived barriers to investment. On the comparative scale, zero would indicate a perception that the broadband market has no enabling policy or has other absolute barriers to investment. A score of 100 would indicate a perception that the full implementation of policies, legal and regulatory frameworks and other enabling conditions are already in place leaving no barriers to investment.</p>
Cable networks	<p>This term generally refers to stand-alone networks (separated from traditional telecommunications networks) that were originally established within defined geographical areas to provide end users with “Cable TV” services. Using current digital technologies these networks have now been exploited to provide competitive fixed broadband access including voice, internet and media services.</p>
Capex	<p>Capital expenditures, most relevantly (in the context of this report) investments to install and upgrade broadband infrastructures.</p>

Glossary of terms used in this report

CDMA	Code Division Multiple Access, along with GSM , was one of the early standards for mobile network expansion, now superseded in favour of the better quality and higher speed 3G , 4G and 5G/LTE networks.
Cloud computing and storage	The on-demand availability of computer system resources, especially data storage (cloud storage) and computing power, without direct active management by the user. The term is generally used to describe data centres available to many users over the internet. Now predominant, large clouds often have functions distributed over multiple locations.
Critical infrastructures	Critical infrastructure means any system which is essential for providing vital economic and social functions: health, food, security, transport, energy, information systems, financial services, etc. Once these critical infrastructures are defined (on a country-by-country basis) there is a need to prepare special measures to protect networks and services from disruption by both natural disasters and man-made threats (including terrorism, cyber-attacks, disinformation, hostile foreign ownership). Planning and coordination should also take into account the increasing links between sectors and new threats including climate change and pandemics.
Digital dividend	The term “digital dividend” is normally used to describe the benefit from the release of valuable commercial spectrum resulting from the changeover from analogue to digital terrestrial broadcasting. By international agreement, large amounts of spectrum previously used by analogue TV broadcasters should be made available for the expansion of mobile broadband services. Some other outdated technology users may also be blocking spectrum release for mobile broadband growth, for example older military and navigational systems. The transfer of these systems to other bands using better technologies can also contribute to the digital dividend.
EBITDA	A company’s earnings before interest, tax, depreciation and amortisation. This is a measure of the cash surplus of a company during a defined accounting period because it is calculated by subtracting all expenses except interest, taxes, depreciation, and amortisation from business revenues.
eCommerce	Electronic commerce is the buying and selling of goods and services, or the transmitting of funds, over an electronic network, primarily the internet. These business transactions occur either as business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer or consumer-to-business.
Edge computing	A distributed, open IT architecture that features decentralised processing power, enabling mobile computing and Internet of Things (IoT) technologies. In edge computing, data is processed by the device itself or by a local computer or server, rather than being transmitted to a data centre.
EEC	The collective name given to the Eastern Europe and Caucasus markets surveyed in the current round of EBRD reports.
eGovernment	Electronic government refers to the exploitation of web-based information technologies to improve and enhance the scope,

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	efficiency and effectiveness of service delivery in the public sector.
FDIs	Foreign direct investments.
Fibre access, Fibre to the home (FTTH)	Optical fibre cables providing an infrastructure technology for fixed broadband access to end users giving very high (Gigabits per second) broadband speeds. If the fibre connection continues all the way to users' premises it is generally referred to as FTTH or fibre-to-the-premises (FTTP). If the fibre stops at an intermediate point and continues to the user on an existing copper connection, then it is usually referred to as fibre-to-the-cabinet (FTTC) or fibre-to-the-kerb (FTTK). The generic label used for connections that include fibre is FTTx.
Fixed-mobile convergence (FMC)	This generally refers to the ability of telecommunications companies to provide their subscribers with services that interact with and use both the fixed networks and mobile networks using a single customer device. At its simplest, the customer uses a mobile device installed at a fixed location, by-passing the need for a fixed connection. More sophisticated "seamless" FMC provides a mobile service that roams automatically onto the best available local network, including a mobile broadband signal, fixed wireless, WiFi , Bluetooth etc.
GNI per capita	Gross national income per capita is the monetary value of a country's final income in a year, divided by its population. It is used as an indicator of the relative economic value of markets and spending power of the population.
Grey areas	This term is used in the context of broadband network planning to refer to a geographical area of the country where only one operator plans to invest in high-speed broadband infrastructure within a timescale defined by the state policy for achieving universal broadband access. See also White areas .
Grey operators, entities	In the context of this study, grey operators are ones which are not complying with current legal or regulatory requirements for the sector, for example for tax, licencing or regulatory obligations. Companies that do comply regard grey operators as unfair and illegal competition.
GSM	The General System of Mobile was the previous standard (that is before 3G , 4G and 5G) used in Europe and adopted widely elsewhere for mobile voice communications and with some very limited data capability.
GSMA	The GSMA is an international body that represents the interests of mobile operators worldwide.
HD	High-definition service, normally used to describe better quality visual and media services that can be delivered over broadband networks.
Internet of Things (IoT)	IoT is a concept that predicts pervasive presence in the environment of a variety of things/objects that connect through wireless and wired connections. Unique addressing schemes and high-speed data capabilities are used to interact connected objects and to cooperate with other things/objects creating new applications/services and reach common goals. Applications and

Glossary of terms used in this report

	sectors that are being developed include smart homes, smart cities, smart grids, industrial/ supply chain/ logistics, connected cars, digital healthcare, smart retail, smart agriculture and many more.
IPTV	Internet protocol television – the technical name given to TV programmes for streaming over an internet (fixed or mobile broadband) connection.
ISPs	Internet Service Providers offering internet usage to fixed and mobile broadband customers.
ICT	Information and Communications Technologies (ICT) covers a range of digital technologies including telecommunications, internet and broadband. The services delivered now includes social media as well visual and print media, eCommerce and eGovernment. ICT infrastructure includes electronic communications networks providing access through higher speed fixed and mobile broadband services.
IT	The term Information Technology usually refers to the elements and activities (including hardware, software and labour skills) that exploit computers, storage, networking and other physical devices and processes to create, manage, store, secure and exchange all forms of electronic data. When IT is used in the communications sector (telecommunications, internet and broadband) the term ICT is often substituted.
ITU	The International Telecommunications Union is the United Nations specialised agency for information and communication technologies to facilitate international connectivity in communications networks and technologies and to allocate global radio spectrum and satellite orbits.
Last mile	The term normally used for the part of the network that connects customer premises with a dedicated line back to an operator's local network node. In the past the network was based on copper pair cables (local loops), but most new investments now use fibre-based local access networks. This section of the network remains the most expensive to provide.
Latency	True internet speeds are measured by a combination of bandwidth and latency. Latency is the delay that is introduced by the network between the time of sending the data from one point to receiving it at the next point. Latency is usually measured in milliseconds (ms). It's also referred to (during speed tests) as a "ping rate".
Local Loop Unbundling	A wholesale offering by a network operator to a broadband service provider so that it can provide an end user with fixed broadband service, normally using ADSL technology over the existing copper access (local loop) network. Where fibre access has replaced copper in the network, this wholesale service is now normally called VULA .
LTE	Long Term Evolution is the generic term for the current dominant mobile network standards, superseding 3G . Starting with 4G , LTE is expected to coexist with 5G for some time.

Glossary of terms used in this report

Mbps	Megabits per second – the standard measure used for broadband speeds (bandwidth).
MVNO	Mobile Virtual Network Operator. This is a type of mobile service provider that connects end users via a separate network operator under agreement. The MVNO company provides its own branding on the service and bills the customer. The MVNO then pays wholesale charges to the network operator.
Network slicing	One of the most innovative aspects of 5G architecture, which will let operators provide portions of their networks for specific customer use cases, including separate applications within the “ Internet of Things ” realm – for example the smart home, a factory process, the connected car, or the smart energy grid.
Margin squeeze	An uncompetitive practice used by a dominant network operator. The operator will set its wholesale charges for access to its network at a level which does not allow a competitor to offer a competitively priced service in the downstream retail market.
Number portability	A service to consumers whereby they can change their fixed or mobile telecommunications supplier and still keep their existing telephone number. This has been a key aspect in promoting competition because it has removed an important barrier to consumer choice. Number portability is still important in the broadband market because service providers will typically offer ordinary telephone services within a broadband package.
Opex	Operational expenditures, most relevantly (in the context of this report) to run and maintain broadband networks on a year-by-year basis.
OTT players	Over-the-top players are service providers that offer internet-based applications over the network usually without paying full charges to the network operators. Examples are Skype (and other VoIP (voice-over-internet) brands, which offer very cheap phone calls over the network because the user gains access to the service via the internet.
Overall Broadband Investment Index:	The overall comparative index derived from this survey, which rates each country on a score of zero to 100 for each country surveyed. On the comparative scale, zero would indicate a perception that the investment climate is non-existent. A score of 100 would indicate a perception that the overall conditions are perfect for investment. The Broadband Investment Index is an overall index made up of three component indexes; the Broadband Market Attractiveness Index ; the Broadband Investment Risk Index and the Best Practice Index .
PPP	Public-Private Partnerships are joint mechanisms that define financial, ownership and other responsibilities for both government and private enterprise to be involved in a single defined project.
RAN sharing	Radio Access Network sharing is a way for multiple mobile network operators to share radio access network infrastructure. This leads to increased use of the same bandwidth and also improves efficiency by rendering an increased amount network coverage for the sharing operators.

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Retail-minus	An approach to wholesale service pricing agreements whereby the operator providing the service must charge less than its own retail tariff so that the purchasing operator has room to make a margin on its retail service. The level of wholesale pricing is normally adjudicated by the sector regulator.
Satellite networks	Satellites in stationary orbit (or low flying orbits) around the earth providing mainly international telecommunications links, mass coverage of satellite TV channels and also some limited internet services to more remote regions.
SEE	The collective name given to the Southern and Eastern European markets surveyed in the current round of EBRD reports.
SEMED	The collective name given to the Southern and Eastern Mediterranean markets surveyed in the current round of EBRD reports.
SMEs	Small to medium enterprises, is a convenient term for segmenting businesses and other organisations that are somewhere between the "small office-home office" (SOHO) size and the larger enterprise. The European Union has defined an SME as a legally independent company with no more than 500 employees.
State-aid rules/ regulations	These are a set of conditions, used by governments, that should be applied when government funds are used to invest or to subsidise (wholly or in part) business investments or operations in a country. The intended principal purpose of the rules is to ensure that state funds do not distort the functioning of an effective market, for example by crowding out (replacing) private investments or by leaving private investments at an unfair competitive advantage. The EU has already implemented a special set of state-aid rules for broadband infrastructure investments which are generally seen as a model also to be used in non-EU countries.
Streaming services	Services that provide on-demand film, TV shows, music and video content over a broadband service for instant viewing, rather than having to download or watch at a particular time when something is broadcast. Streaming services can typically be supported by advertising and therefore free to watch, or by subscription. Examples of popular streaming subscriptions are Disney+, Netflix, Amazon Prime, Hulu.
Terrestrial TV networks	These networks broadcast the main national and local TV and radio broadcasting channels from fixed ground-based transmitters on behalf of the media organisations that produce the programmes. In the last decade, most countries have now carried out a modernisation of their networks to complete the "digital switchover" from analogue to digital terrestrial broadcasting.
VoIP	Voice-over-Internet services which are offered by brands such as Skype. These carry voice calls "over the top" (OTT) of the network because the caller accesses the service via the internet and not via the telecommunications network exchange. The only fee paid by the user is normally a small call termination fee which goes to the network operator at the other end of the call.

Glossary of terms used in this report

VPNs	Virtual Private Networks – a specialist service provided by telecommunications companies to large multi-site businesses. Having VPN service means that a business does not have to rent multiple separate leased lines and many of the network management functions previously done by the business customer are now provided within a VPN service by the telecommunications provider.
VULA	Virtual Unbundled Local Access is a wholesale rental service provided by a network operator to a broadband service provider in order for the service provider to serve end users with fibre-based fixed broadband. The forerunner to this wholesale service for copper networks was termed Local Loop Unbundling .
Wayleave	A legal right of way granted by a landowner, generally in exchange for payment and typically for purposes such as the erection of telecommunications street furniture, overhead wires or laying of ducts.
White areas, white zones	This term is used in the context of broadband network planning to refer to a geographical area of the country where no operator plans to invest in high-speed broadband infrastructure within a timescale defined by the state policy for achieving universal broadband access. See also Grey areas .
Wifi	Wireless networks of small reach which are normally provided in public places so that smart phone users can access internet services without using up their network data allowances.

Annex: Emerging policy, regulatory and investor lessons from the COVID-19 pandemic

During 2020 and the first half of 2021, the EBRD survey of investor perception has analysed the views of a range of stakeholders in broadband infrastructure investment in a total of 16 countries. The full implications on broadband network investments have yet to emerge, but there is now sufficient evidence to point to certain policy and investment implications that are now being considered for the future.

The main message arising from the survey analysis appears to be that the COVID-19 experience has re-emphasised to policy makers, regulators and investors the importance of greater connectivity with more geographical coverage and better reliability for broadband networks and services.

Much of the survey analysis, together with wider international discussion and case studies, has been in the context of short-term actions for mitigating the impact of the COVID-19 pandemic. The specific themes that enhance broadband infrastructure efficiencies have been highlighted by investors even before the pandemic arose. Conducting the survey during the course of the pandemic has served to underline the importance of taking account of investors' views so that the remaining barriers to broadband investment, which vary to some extent from country-to-country, can be addressed by policy makers and sector regulatory bodies in close cooperation.

Another key issue that has been brought into sharper focus during the pandemic experiences, as reported by the participants in this survey, concerns the lack of clarity regarding critical critical infrastructures in each country and the required responses to network shocks, failures and security threats (including physical threats from, for example during natural disasters as well as breaches in cyber security).

The key messages arising from the COVID-19 pandemic are best illustrated by the following extracts and case studies.

UN Broadband Commission: COVID-19: Short-term agenda for governments and policy makers/ regulators

At international level, an "Agenda for Action" was adopted during 2020 by the United Nations Broadband Commission for Sustainable Development⁵⁰. This recommends a set of tangible actions to mitigate the impact of the COVID-19 pandemic and to ease the immediate adverse impacts for economies and societies. Their full recommendations cover the following short-term measures on resilient connectivity, affordable access and the safe use of on-line services.

Resilient and safe connectivity

***Industry and private sector** actions include ensuring connectivity and network continuity, increased bandwidth capacity and network resilience and security, including for vulnerable populations. **Government policy makers and regulators** should relieve network capacity constraints and keep networks running and operational (including decreasing taxes and fees, offering wholesale services, temporarily freeing up additional spectrum which can be immediately deployed, infrastructure sharing, using existing universal service funds, promoting cross border roaming etc).*

Affordable access

***Industry and private sector** actions include in-kind support through donation of ICT services, cloud services, software, equipment and end user devices, support working from home, identify solutions for liquidity and financial shortage to ensure service continuity, offer special tariffs for related health, education, humanitarian and emergency workers, offer free SMS and zero rating for access to health, educational content and government information services. **Government policy makers and regulators** should facilitate delivery of (and remove barriers to) industry commitments and general provision of ICT*

⁵⁰ <https://broadbandcommission.org/COVID19/Pages/default.aspx>

services, use universal service funding to support affordable access to health, education, humanitarian and emergency services and people and communities with special needs.

Safe use of online services Industry and private sector actions include making available broadcasting capacity for education and health, safe and secured digital platforms, open source software for health, education, food security, financial and governmental services, promote quality education and information content and services; enhance policies against disinformation, increase transparency, provide online training and safe digital tools to parents and teachers to keep children safer online. **Government policy makers and regulators** should provide guidance to consumers and the general population in areas including child online safety, data protection and cybersecurity measures, increase proactive publishing to promote access to information, support learning institutions to conduct distance classes and take actions to foster media and information literacy.

Edited extract from short term actions for resilient and secure connectivity

<https://www.broadbandcommission.org/covid-19-response/>

GSMA Intelligence 'Global mobile trends report'

Navigating the Covid-19 pandemic

"The Covid-19 impact on telecommunications revenue is primarily concentrated in four areas; roaming, due to a lack of international travel; lower handset upgrades due to retail store closures; challenges in corporate and small- medium-sized enterprise (SME) markets, and general consumer spend pressures, particularly in the prepaid mobile segments.

"However, operators' resilient mobile and fibre networks have met the demands of increased data traffic, spiking to 50-100%. The increases were driven by home entertainment and work from home communications, such as video and voice calls."

Extract from 2020 GSMA report <https://www.gsma.com/newsroom/press-release/gsma-intelligence-shares-global-mobile-trends-2021/>

Defining and coordinating responses to network shocks, failures and security breaches, especially for 'critical infrastructures'

The requirement for telecommunications networks to respond adequately to abnormal traffic loading, service interruptions, physical damage and security breaches, including cyber-attacks, has existed before the COVID-19 pandemic. Respondents from all four EEC countries raised this issue during the survey. In Moldova and Armenia, the need was expressed better national coordination. In Georgia, a law on critical infrastructures has been used in relation to changes in the ownership of telecommunications assets, which has raised questions regarding the role of the state in protecting critical infrastructures.

Broadband networks, in particular, already play a vital role in connecting governmental organisations, businesses and the public. Any shortcomings in network performance, security and resilience have been exposed during the pandemic as a result of abnormal traffic loads. In some cases, the general quality of broadband services has been exposed as inadequate to support critical sectors during the lockdown, like the emergency services, healthcare and education.

'Critical infrastructure' means any system which is essential for providing vital economic and social functions: health, food, security, transport, energy, information systems, financial services, etc. Once these critical infrastructures are defined (on a country-by-country basis) there is a need to prepare special measures to protect networks and services from disruption by both natural disasters and man-made threats (including terrorism, cyber-attacks, disinformation, hostile foreign ownership). Planning and coordination should also take into account the increasing links between sectors and new threats (including climate change and pandemics).

This is a complex area where policy, co-ordination and action preparedness need to be clearly pre-defined. The examples and case studies in this Annex have already highlighted several aspects of the required policy and action responses, including:

-Using policy, regulatory and service provider options for increasing network capacity, including network sharing and wholesale access, temporary spectrum awards, universal service funds, national and cross-border roaming, donation of ICT services to vulnerable entities, free or reduced tariff connectivity for related health, education, humanitarian and emergency workers and free public access to health, education and government information services⁵¹

...-Defining critical infrastructures and preparing ex-ante supervision arrangements in critical sectors (for example energy, transport, water, health, digital infrastructure, finance sector) plus ex-post supervision for critical digital service providers (on-line marketplaces, cloud and online search engines)⁵²

-A clear and defined co-ordination role for the sector's response, including the adoption of a set of network and information security measures along the lines of the EU-wide cyber security legislation⁵³. This has three parts; defining 'national capabilities' including the need to establish a 'Cyber Security Instant Response Team'⁵⁴; cross-border collaboration; and national supervision of critical sectors⁵⁵.

The telecommunication industry in the post-COVID-19 world – increasing broadband connectivity

Most innovative models to bring about universal broadband connectivity existed prior to the pandemic. The pandemic has merely reinforced the need to accelerate, scale up or expand them to more geographical contexts. Broadband expansion into non-commercially attractive areas requires extensive cross-sector coordination between diverse organisations with varied vested interests. Examples of such initiatives are;

-The regulatory enforcement of best-practice wholesale access and unbundling procedures to provide a fair and transparent route for new investors to reduce deployment costs.

-Infrastructure sharing including backhaul, ducts, towers, spectrum and last-mile access.

-The creation of specialist companies to offer wholesale facilities including towers and fibre networks.

-Creating open network environments that reduce deployment costs substantially. The concept involves the creation of joint venture telecommunications and platform companies, supported by direct financing instruments.

Summary extracts from ITU report “The telecommunications sector in the post-COVID 19 world:

<https://www.itu.int/en/myitu/Publications/2021/05/11/08/10/The-telecommunication-industry-in-the-post-COVID-19-world>

⁵¹ <https://www.broadbandcommission.org/covid-19-response/>

⁵² See also https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12462-Protecting-critical-infrastructure-in-the-EU-new-rules_en

⁵³ <https://www.enisa.europa.eu/topics/nis-directive>

⁵⁴ See: [https://www.ncsc.gov.uk/collection/incident-management/creating-incident-response-team#:~:text=A%20cyber%20security%20incident%20response%20team%20\(CSIRT\)%20consists%20of%20the,the%20nature%20of%20the%20incident.](https://www.ncsc.gov.uk/collection/incident-management/creating-incident-response-team#:~:text=A%20cyber%20security%20incident%20response%20team%20(CSIRT)%20consists%20of%20the,the%20nature%20of%20the%20incident.)

⁵⁵ See [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/662604/EPRS_BRI\(2021\)662604_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/662604/EPRS_BRI(2021)662604_EN.pdf)

How COVID-19 has pushed companies over the technology tipping point— and transformed business forever

“During the pandemic, consumers have moved dramatically toward online channels, and companies and industries have responded in turn.... (with)..... a rapid shift toward interacting with customers through digital channels. They also show that rates of adoption are years ahead of where they were....

“The customer-facing elements of organisational operating models are not the only ones that have been affected. (Companies) report similar accelerations in the digitisation of their core internal operations (such as back-office, production, and R&D processes) and of interactions in their supply chains. Unlike customer-facing changes, the rate of adoption is consistent across regions.

“When (companies) were asked why their organizations didn’t implement these changes before the crisis, just over half say that they weren’t a top business priority. The crisis removed this barrier:

Extracts from the 2020 McKinsey survey: <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>

Case studies from European Union countries

France: Ensuring national co-operation

Fortunately, digital networks were able to cope effectively with the sudden and unprecedented increase in digital uses during the first lockdown. However, some content providers experienced overloads, which disrupted access to their services (videoconferencing, eLearning services, etc.) for a short adaptation period.

Following a proactive dialogue involving by the Government and sector stakeholders, ‘heavy’ network users, such as video streaming platforms and online gaming platforms reduced the strain their content put on the network by capping the bandwidth their services required and by scheduling downloads and service updates during off-peak hours.

Stakeholders’ collaboration was efficient in responding to the COVID-19 first “hard” lockdown. For future work, this situation has emphasised the need for close collaboration between national (and European when relevant) ICT stakeholders to increase the ecosystem’s resilience and react promptly to unexpected events that could have an impact on the networks’ traffic load.

Portugal: Better monitoring of complaints

Complaints about electronic communications increased significantly with the COVID19 crisis during 2020, mainly about service faults, technical assistance, service connection and internet speeds. The sector regulator was able to analyse complaints that were being submitted daily by end users. Based on this, the regulator was able to carry out timely consumer protection during the COVID-19 crisis, including publishing frequently asked questions plus a Consumer Guide about the impact of COVID-19.

As a result, a proposal has been made to Government for the adoption of new legal rules protecting end users from the impact of COVID-19 based on the analysis of complaints. These new rules will question service providers about the measures adopted to address the issues most complained about.

The regulator’s website information guide about the impact of COVID-19 on consumers’ experiences and rights was viewed around 9,000 times. The frequently asked questions webpage was accessed over 55,000 times.

Ireland: Temporary spectrum award

The swiftness and impact of the COVID-19 lockdown measures resulted in significant changes to the normal traffic levels and patterns of electronic communications networks in Ireland. Given increased

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traffic demands placed on wireless networks, the regulator consulted upon and put in place a licensing framework for the temporary assignment of spectrum rights.

Spectrum rights for an overall period of up to six months were made available to the three mobile operators for rapid use.

There has been a 67% aggregate increase in data traffic on mobile networks which indicates that the temporary assignment of spectrum rights was an appropriate initiative.

Croatia: Resilience of telecommunications networks

During 2020, Croatia experienced the COVID-19 crisis and two damaging earthquakes. Electronic communications networks showed remarkable resilience, but these crises had a variety of impacts on operators, such as closing points of sale, disrupting the supply chain, increasing the resources needed for customer care, and so on, but the overall impact was limited.

In addition, as a consequence of full or partial lockdowns, there has been a massive shift in traffic from offices, schools, and universities to the home. Work from home via video conferencing, online education for schools and universities, extensive use of online services, and increased use of video streaming and gaming have resulted in unprecedented growth in network usage. The COVID-19 pandemic and the resulting restrictions have highlighted the importance of communications and connectivity of broadband networks.

As a result of this experience, it has been recommended that Croatia adopts an 'Agenda for Action' based on the UN Broadband Commission's recommendations⁵⁶ The medium-term agenda includes a set of high-level actions requiring more coordination among national and international stakeholders:

- 1) Acceleration and implementation of digital cooperation and digital strategies and policies;
- 2) Elevation to the G20 level of resilient broadband networks as a basic right;
- 3) Implementation of agile and flexible regulatory measures to support an inclusive and competitive digital environment;
- 4) Adoption of strategies aimed at promoting universal connectivity by mobilising public and private funding and investment;
- 5) Implementation of streamlined actions and partnerships to promote the expansion of broadband connectivity, digital services, and digital inclusiveness to unconnected communities and populations;
- 6) Promotion of the ongoing importance of connectivity for education, access to information, and online user empowerment through media and information literacy;
- 7) Highlighting of areas where connectivity is playing a key role in the COVID-19 pandemic response and widespread dissemination of these stories to help build better and more resilient societies;
- 8) Identification of major partners for public financing of connectivity to vital services, including schools, and actions to attract institutional finance investors looking for a compelling market opportunity.

Overall lessons from the COVID-19 experience in the EU

The overall resilience of the internet made it possible to cope with the unprecedented increase of traffic on fixed and mobile networks in Europe during the COVID-19 crisis and no major congestion issue occurred.

All national regulators conclude that despite the severity and difficulties introduced by this public health crisis in Europe, they were able to act with considerable flexibility.

⁵⁶ See: <https://www.broadbandcommission.org/covid-19-response/>

Operators were constantly monitoring their networks' ability to cope with the increased traffic and pre-empt capacity shortages, finding solutions proactively in partnership with their associated digital platform service providers, national regulators and governments.

At a time when people were relying much more on electronic communications services and were facing an unprecedented degree of economic and financial uncertainty, operators voluntarily introduced relief measures and new tariff plans to cater to the particular needs of certain consumer groups like doctors or families with schoolchildren.

France, Portugal and Ireland edited case studies from the 2021 draft BEREC Report on COVID-19 crisis – lessons learned regarding communications networks and services for a resilient society:

https://berec.europa.eu/eng/document_register/subject_matter/berec/download/0/9969-draft-berec-report-on-covid-19-crisis-le_0.pdf

Croatia case study: Extract from 2021 World Bank report “Assessment of the digital market in Croatia.”

<https://openknowledge.worldbank.org/handle/10986/35541>

Overall lessons edited extract from the 2021 draft BEREC Report on COVID-19 crisis – lessons learned regarding communications networks and services for a resilient society:

https://berec.europa.eu/eng/document_register/subject_matter/berec/download/0/9969-draft-berec-report-on-covid-19-crisis-le_0.pdf

Regulatory coordination role for the response to COVID-19

In the face of the COVID-19 pandemic, the sector regulator in the United Kingdom set itself two key objectives:

-To ensure network resilience and protect critical services.

-To ensure the networks continued to work well as people moved to work and learn from home, stay in touch with friends and family, and keep themselves entertained.

To achieve these objectives, the regulator worked closely with network providers and the government to track the measures that they were taking to manage network demands and congestion effectively, where necessary prioritising action required to protect critical services.

The reliability of emergency and healthcare calls was a critical priority. Under the regulatory rules, providers must ensure that emergency calls can be connected at all times, even in challenging circumstances. At the request of the government, the regulator acted to introduce a special ‘119’ number for use as part of the National Health Service’s pandemic response programme.

The regulator reinforced its role to keep the UK spectrum free from interference, by prioritising action that protected critical services, such as for power networks. Engineers and technicians were designated as ‘key workers’ and tasked to keep the airwaves safe and functioning.

The regulator pressed ahead with decisions aimed at promoting investment and competition in fibre networks and the release of more spectrum for 5G services.

Reporting to the regulator, telecommunications providers closely monitored traffic on their networks, and measures were taken by content providers, streaming services, content delivery networks and gaming companies, to mitigate the impact of the increased load on the network.

-Christmas 2020 saw a new peak of internet traffic. Fixed data usage has increased almost 80% in the last two years and lockdowns also saw a shift in how people use their services. Daytime traffic increased significantly. Upload traffic also increased, driven by more use of video calling. Mobile networks also successfully coped with the increased demands and changes in network traffic patterns, including a shift of hotspots from city centres to the suburbs and residential areas.

-The regulator noted that networks had the capacity to meet these demands and stayed well within capacity limits

Summary extract from Ofcom July 2021 report:

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https://www.ofcom.org.uk/about-ofcom/annual-reports-and-plans/2020-21-annual-report?utm_medium=email&utm_campaign=Ofcom%20Annual%20Report%20and%20Accounts%202021&utm_content=Ofcom%20Annual%20Report%20and%20Accounts%202021+CID_947445ff15ff9a150556828bb022d55c&utm_source=updates&utm_term=Annual%20Report%20and%20Accounts

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