

2020



Investor Perceptions and the Broadband Sector

A survey by the European Bank for Reconstruction and Development

South Eastern Europe Region

&

Serbia

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 Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia – collectively the South-eastern European markets EBRD operates in (“SEE”). To collect these views, a survey team has held over 50 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, financial institutions, sector representative bodies and consultants. These meetings were conducted during the second half of 2019.

In addition, and to back-up these face-to-face meetings, an on-line questionnaire was sent to a wide variety of stakeholders from the ICT sector in the seven 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. Many of 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 growing investments include smart cities, vertical industry sector partnerships, logistics, content, data analytics and the “Internet of Things”¹. 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 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 make their next investment decisions in 5G and/or fibre networks more confidently.

The survey has attempted to make a comparison between the investment conditions in the seven 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
- Certainty in 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

¹ <https://ec.europa.eu/digital-single-market/en/news/b-day-boosting-connectivity-investments>

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These factors have been identified from previous surveys conducted by EBRD². 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. They were asked to choose one of the following answers for each factor considered:

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

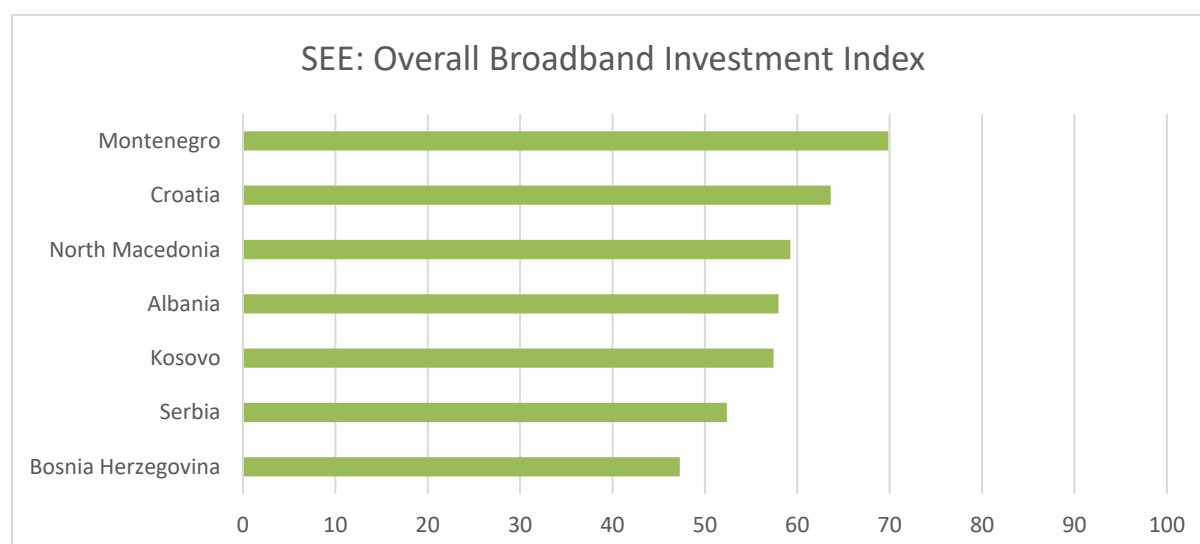
Respondents were also asked to indicate, when they are making investment decisions, what was the relative emphasis they place on the *pure market factors* on the one hand and the *investment risk factors* on the other. The results were:

Relative weights in broadband investment decisions (SEE markets)

Pure market factors: 57%

Investment risk factors: 43%

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:



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.

Montenegro, although the smallest market in population terms, came out the with the best measure, taking into account its market potential and the investment risks involved. Croatia, although already part of the EU,

² The EBRD carried out surveys of the ICT sector in 2008, 2012 and 2016, results are available on request.

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still has some risks mainly associated with taxation and the granting of permissions to install infrastructure. Kosovo has good growth potential but has investment risks associated with political and legal uncertainty. North Macedonia's market has some growth potential but has high costs, especially for spectrum. Albania has good growth potential but has problems with the granting of permissions. Serbia has the largest population but with the lowest broadband growth forecast. Bosnia and Herzegovina is a disjointed market with regulatory and political risks.

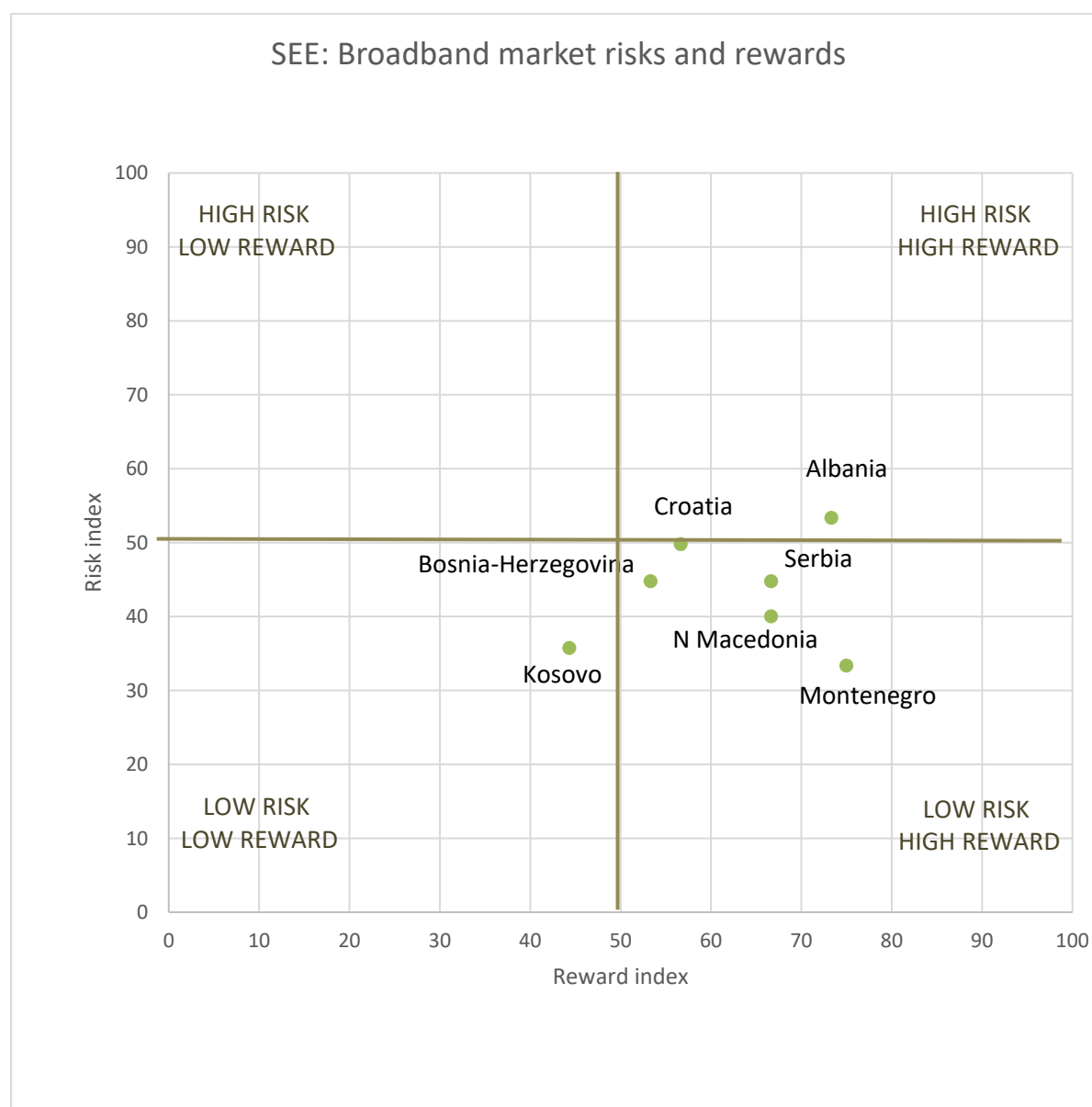
The features of each country's market, as expressed by the respondents to the survey, are explored in more detail in this report. The overall measurement of broadband investment risks and rewards has taken place in the context of growing markets throughout the region. The average growth rate for broadband services, based on forecasts by Fitch Solutions³, is 2.2% per annum compound up until 2023. Fixed broadband growth contributes most to this forecast, at 5.0% per annum, with mobile broadband growth forecast at only 1.4% per annum.

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 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, taxation and availability of resources. A value of zero represents zero risk and 100 represents absolute risk.

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

³ <https://store.fitchsolutions.com/telecommunications>



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

Montenegro and Albania were rated as having the highest relative reward, with broadband growth potential, reasonable market conditions and clear national ICT focus. Kosovo had the least reward in relation to the other markets. Montenegro, together with Kosovo were judged to have the lowest relative risk. Albania and Croatia have the highest investment risk. North Macedonia and Serbia have reasonable reward and medium risk.

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 issues 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.

SEE markets: Priorities for reducing investment risks

Investment risk factors	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	North Macedonia	Serbia
Certainty in construction permits or wayleaves	⚠	⚠	⚠	✅	⚠	⚠	⚠
Availability of labour especially with digital skills	⚠	⚠	⚠	⚠	⚠	⚠	⚠
State participation in the sector	⚠	⚠	⚠	⚠	✅	⚠	⚠
Taxation generally or targeted at the sector	⚠	⚠	⚠	✅	⚠	⚠	✅
Political stability, security, criminality, terrorism	⚠	⚠	✅	⚠	✅	✅	✅
Corruption generally or applied to the sector	⚠	⚠	⚠	⚠	✅	✅	⚠
State assistance and funding schemes	⚠	⚠	⚠	✅	✅	⚠	✅
The country's overall legal system, predictability and process	⚠	⚠	⚠	⚠	✅	✅	✅
Access to spectrum resources	✅	⚠	✅	⚠	✅	⚠	✅
Legal and regulatory framework for broadband	⚠	⚠	✅	✅	✅	✅	⚠
Quality of databases and access to information	⚠	⚠	⚠	⚠	✅	⚠	⚠
Labour regulations, militancy, disruptions	⚠	✅	✅	✅	⚠	✅	⚠

✅ - Low priority/ ⚠ - Medium priority/ ⚠ - High priority

The recommendations for each country are given in more detail in Section 3 of this report.

The general recommendations resulting from this survey

Taking the respondents' own views, the survey offers a number of general recommendations for increasing the attractiveness of these seven markets and decreasing investment risks. 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.

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- 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 markets⁴.
- 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.

The general recommendations, taken together, have resulted from respondent’s views. 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.

Overall outlook

The overall view of respondents is one of good market potential, especially with continuing broadband growth together with the promises of 5G⁵ and the increasing demand for fibre access services. These technologies are confidently expected to lead to a significant expansion to the current range of ICT services and have a transformational impact on the development of all sectors of economic and social activity. The improved broadband speeds, quality, and reliability promised by 5G and fibre will revolutionise the sector, bringing increased scope for more cross-sector coordination and new business models, all bringing new revenue sources to the ICT sector.

In this survey, respondents expressed the view that the full benefits of the ICT market are currently not being achieved in the SEE 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 will need to explore new, more co-operative ventures in partnerships with a larger number of players. These new business models will involve joint investments, not only within the broadband sector, but also with other sectors, including manufacturing, transport, utilities, agriculture, logistics, education, healthcare, public administration and many more.

Respondents also expressed the opinion that their current experience in relation to joint investments and industry cooperation has not been good. There are too many examples of separately owned infrastructure (for example ducting, fibre backbone networks and transmission masts) where cost-saving joint investments or infrastructure sharing opportunities have been missed. With the need for greater network reach, more

⁴ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:025:0001:0026:EN:PDF>

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

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ducting and even more transmitter masts, these cost reduction measures must become a more normal feature of broadband infrastructure investments.

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 ICT sector regulators as they move to adopt many of the best practices already being used elsewhere.

Additional statement regarding the COVID-19 pandemic

The analysis for this report took place in the second half of 2019 and no account has been taken of the subsequent impact of the COVID-19 pandemic. The forecasts of fixed and mobile broadband growth are based on 2019 data and cover the period up to 2023. These forecasts are likely to be affected by the pandemic, typically arising from a greater demand from personal and business users for social and work-related networking.

Although the impact is likely to vary from market to market, the overall relative growth rates should remain consistent. For example, the relatively high growth rates for broadband services in Albania, Kosovo and Montenegro (around 3% to 7% per annum) are likely to be maintained because the fundamentals of their competitive market growth remain unchanged. The relatively low growth rates in Croatia and Serbia (around 1% per annum) will continue to reflect the greater level of saturation already achieved in those markets.

Broadband speeds appear to be affected⁶ for example in Albania, where average mobile broadband download speeds have decreased by 9% while fixed broadband speeds have increased by 1%. In Montenegro, fixed and mobile broadband speeds have increased by 3% and 13% respectively while in North Macedonia these have both decreased slightly. The inconsistency of these changes will add further uncertainty to investment conditions.

This report makes both general and detailed recommendations based on the analysis of respondent views given before the coronavirus outbreak. These recommendations will still apply and in many instances with their relevance brought more into more focus by the new situation. 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.

An “Agenda for Action” recently adopted by the United Nations Broadband Commission for Sustainable Development⁷ suggests 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 initial recommendations cover measures on resilient connectivity, affordable access and the safe use of on-line services.

⁶ <https://www.speedtest.net/insights/blog/tracking-covid-19-impact-global-internet-performance/#/>

⁷ <https://broadbandcommission.org/COVID19/Pages/default.aspx>

UN Broadband Commission

COVID-19: Short-term, agenda for governments and policy makers/ regulators

“Temporarily 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.)

*[Extract from short term actions for resilient and secure connectivity
<https://broadbandcommission.org/COVID19/Pages/default.aspx>]*

Although these UN Broadband Commission recommendations have been made in the context of short-term actions for mitigating the impact of the COVID-19 pandemic, they include some specific themes that enhance broadband infrastructure efficiencies that have been viewed as desirable by investors before the pandemic arose.

In section 4 below “Detailed Recommendations” we make the case, based on the views expressed by our survey respondents during 2019, for greater investment efficiencies, notably in the following areas which are also relevant to short-term COVID-19 mitigation:

- Clear national policy for broadband, based on public and private sector investor consultations, supported by a best-practice legal and regulatory framework (Recommendations 1, 2 and 5).
- Faster permission granting procedures for network construction (Recommendation 3).
- Taxation of the telecommunication sector with regard to a wider strategic view of the required investments in the sector (Recommendation 6).
- The use of state aid (and for example universal service funds) to work alongside private investment, accelerating broadband access and affordability (Recommendation 7).
- Efficient exploitation of spectrum resources, particularly in the planning and management of spectrum releases for 5G (Recommendation 8).
- 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 9).

Our recommendations are fully consistent with the UN Broadband Commission work. Both sets of actions arise out of consultations with the public and private sector investors. Our recommended actions on network and market efficiencies were relevant to investors before the COVID-19 pandemic and are judged to be more urgent now.

1: 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.

This 2020 survey report takes a different approach, one in which the informed views of investors has 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 survey are:

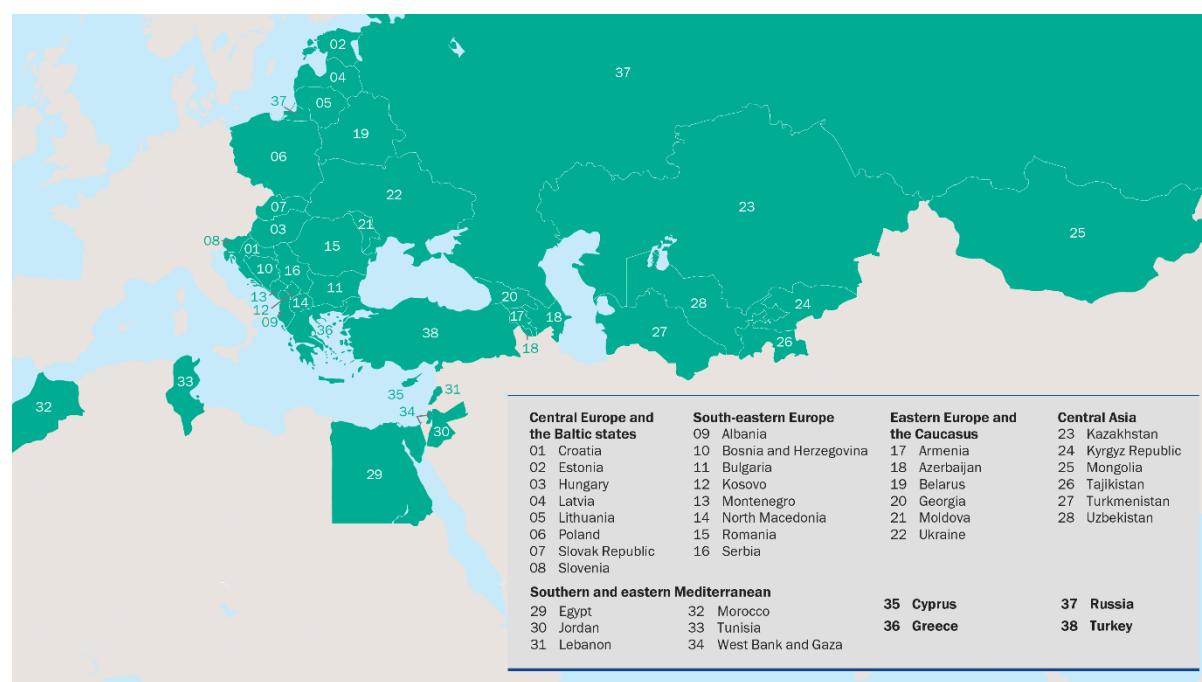
- From the Southern and eastern Mediterranean (SEMED) region: Egypt, Jordan, Lebanon, Morocco and Tunisia
- From the South eastern European (SEE) region: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia
- From the Eastern Europe and the Caucasus (EEC) region: Armenia,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

This report covers: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia.

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 on 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.

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 exploited 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.

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

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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 – e.g. 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.

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

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

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 required new investments in ICT infrastructure will require new and more collaborative challenges to be met. 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 access more. 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

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

Background and objectives

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.

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 survey, we have recorded directly the views of a wide range of existing and potential stakeholders in investment in broadband infrastructure and service, including finance providers, 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 achievements, expressed in terms of each country's current standing in published world rankings. For example, the International Telecommunications Union (ITU's) ICT Development Index and world rankings are used alongside their published data for fixed and mobile broadband penetration and internet usage.¹⁶

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>

¹⁶ https://www.itu.int/dms_pub/itu-s/opb/pol/S-POL-BROADBAND.20-2019-PDF-E.pdf

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, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Egypt, North Macedonia, Georgia, Jordan, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Morocco, Serbia, Tunisia, Ukraine and Uzbekistan. This report covers seven markets of the SEE region: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia.

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.	57%
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”.	43%
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. 		

Survey methodology

<p>4. State assistance and funding schemes 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>

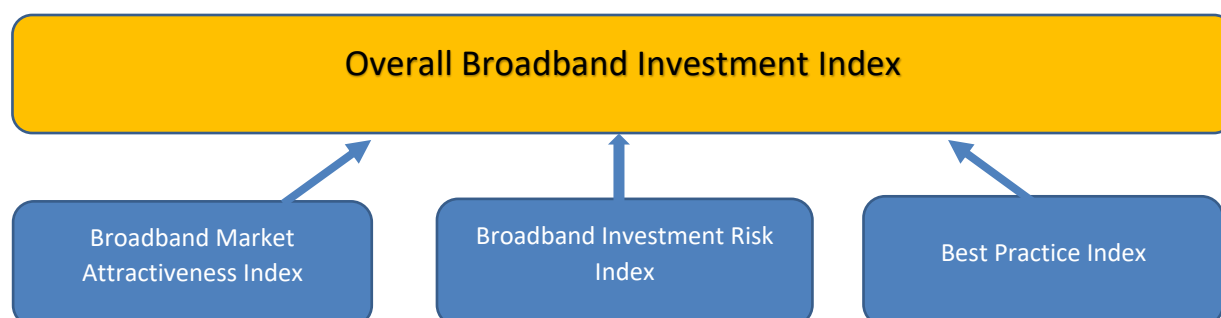
Progress towards the adoption of best practice

An additional part of the survey concerns the levels of confidence that respondents have regarding the country's movement towards best practice.

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 ranking 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?”*

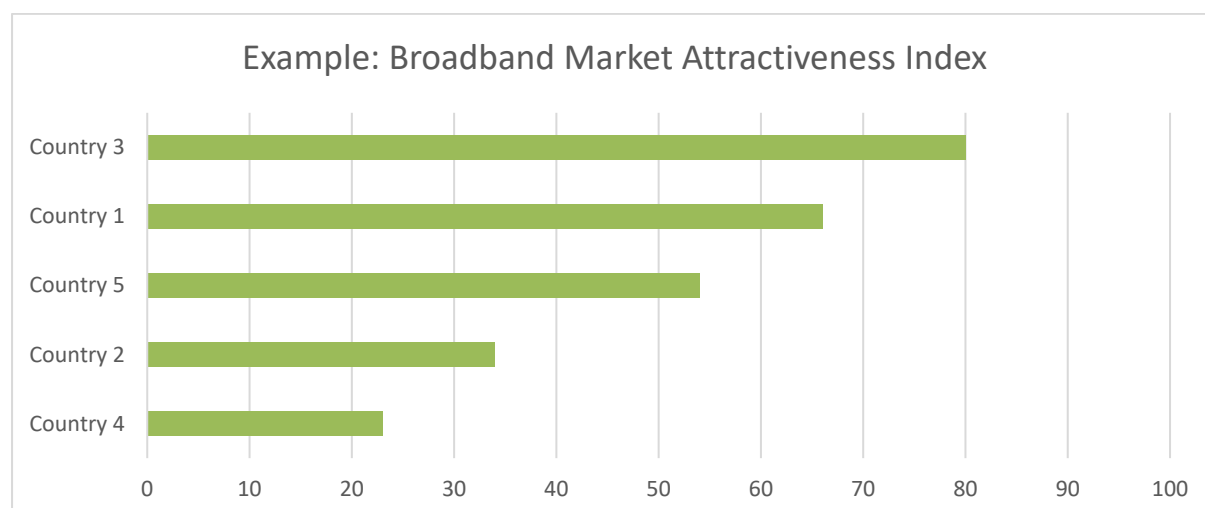
The respondent is asked to choose one response from five options:

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

Survey methodology

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

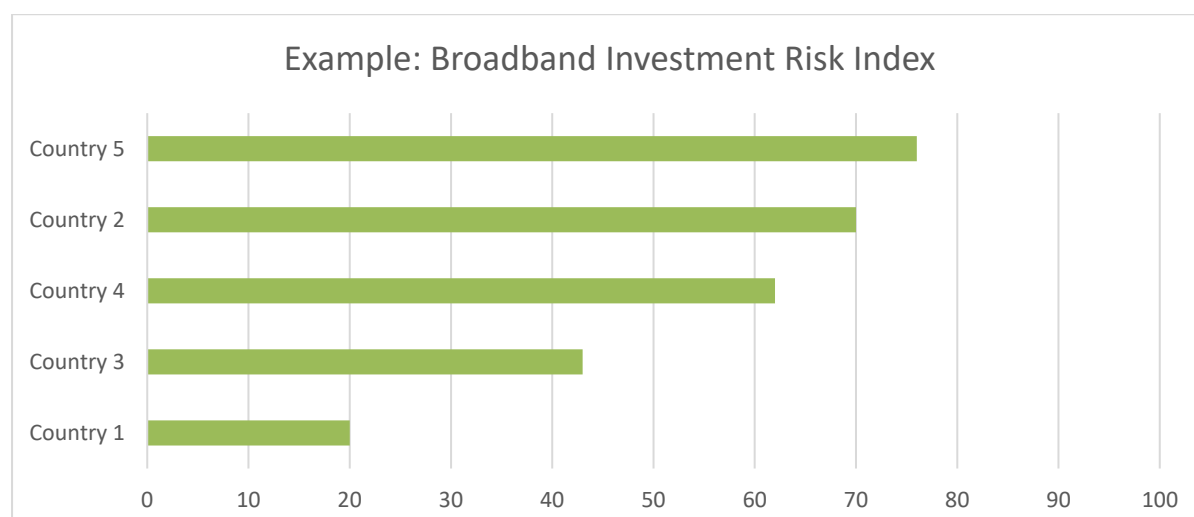
The Broadband Investment Risk Index for each country is calculated from the average of responses to a section of the questionnaire which lists 14 relevant investment risk factors. For each factor in turn, the respondent is asked *“In this part, we go through a list of 14 factors, which could influence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

The respondent is asked, for each of the 14 factors in turn, to choose one response from five options:

- 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

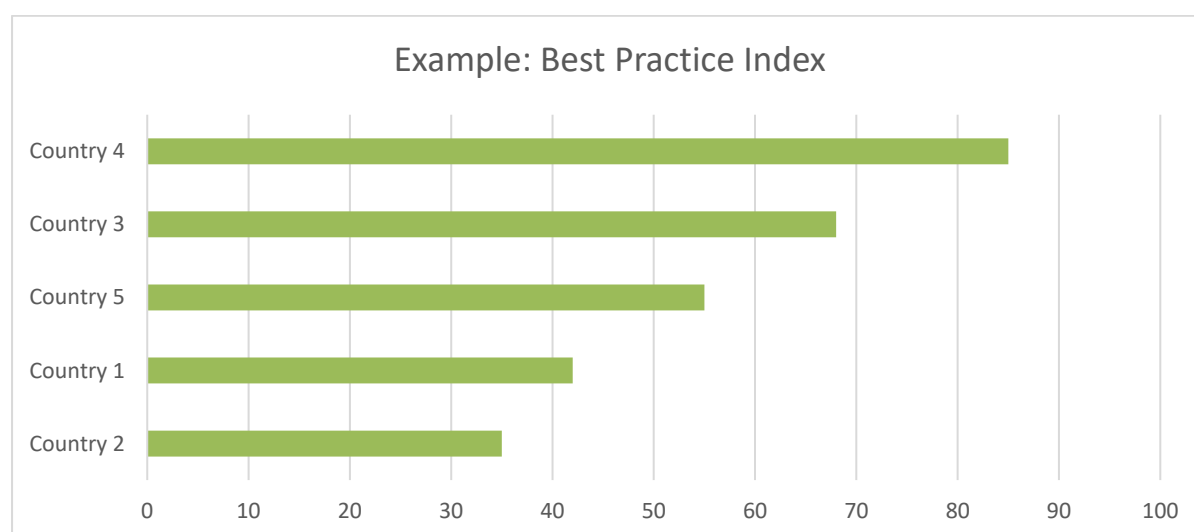
The Best Practice Index is calculated by using the responses to the specific question: *“Please rate the confidence that you place on the country’s policy makers/regulators etc. being motivated and able to improve towards implementing best practice conditions for investors.”*

The respondent is asked, to choose one response from five options:

- 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,

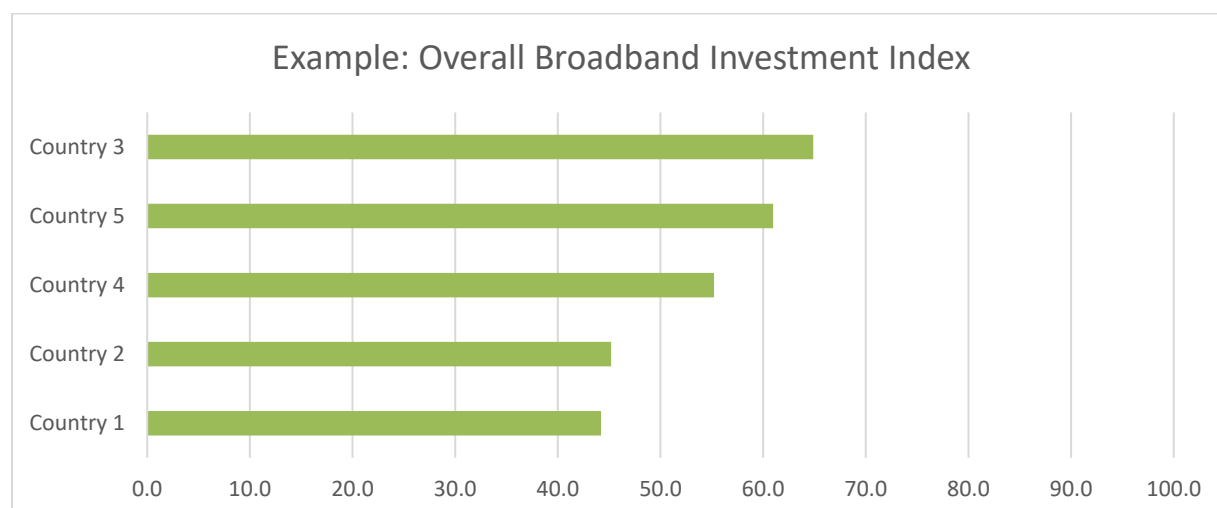
W_m = weighting applied to the Broadband Market Attractiveness Index (MAI)_c for the country

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

BPI_c = Best Practice Index for the country

And $W_m + W_r = 1$

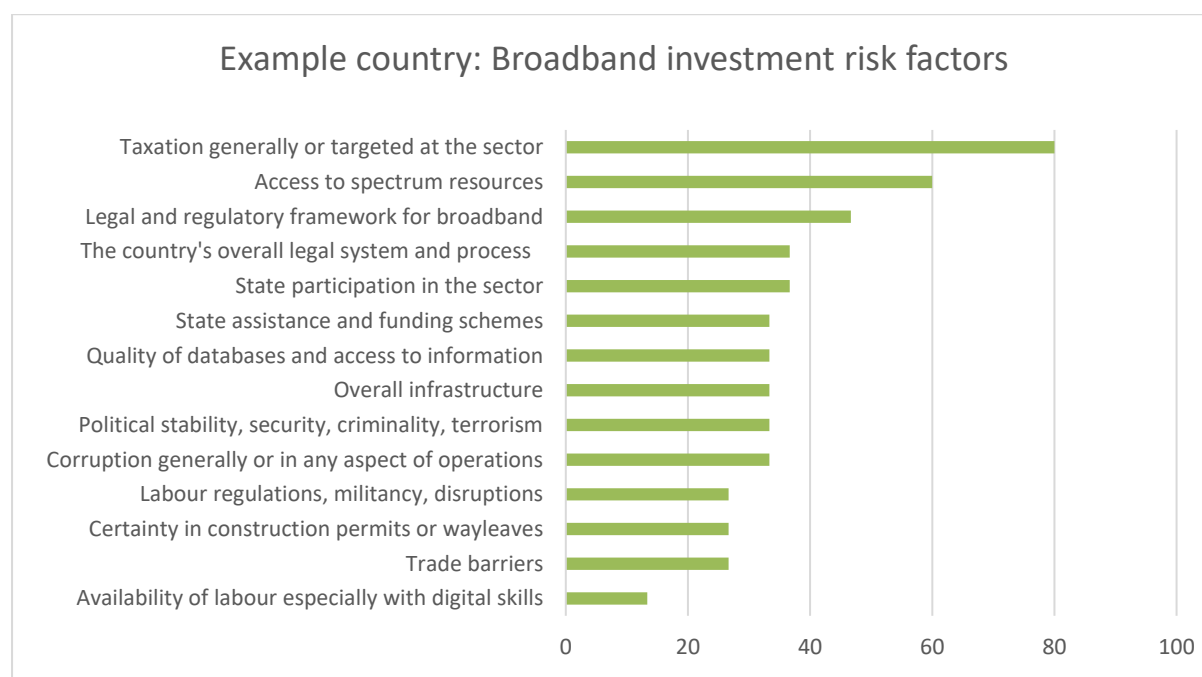
The values of W_m and W_r are derived directly from the aggregated results (average of all respondents for all markets) to a specific question in the survey. Respondents are asked to judge how much relative weight that they place on pure market attractiveness factors on the one hand and investment risk factors on the other hand. For the SEE markets, W_m has a calculated value of 57% and W_r is 43%.



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.



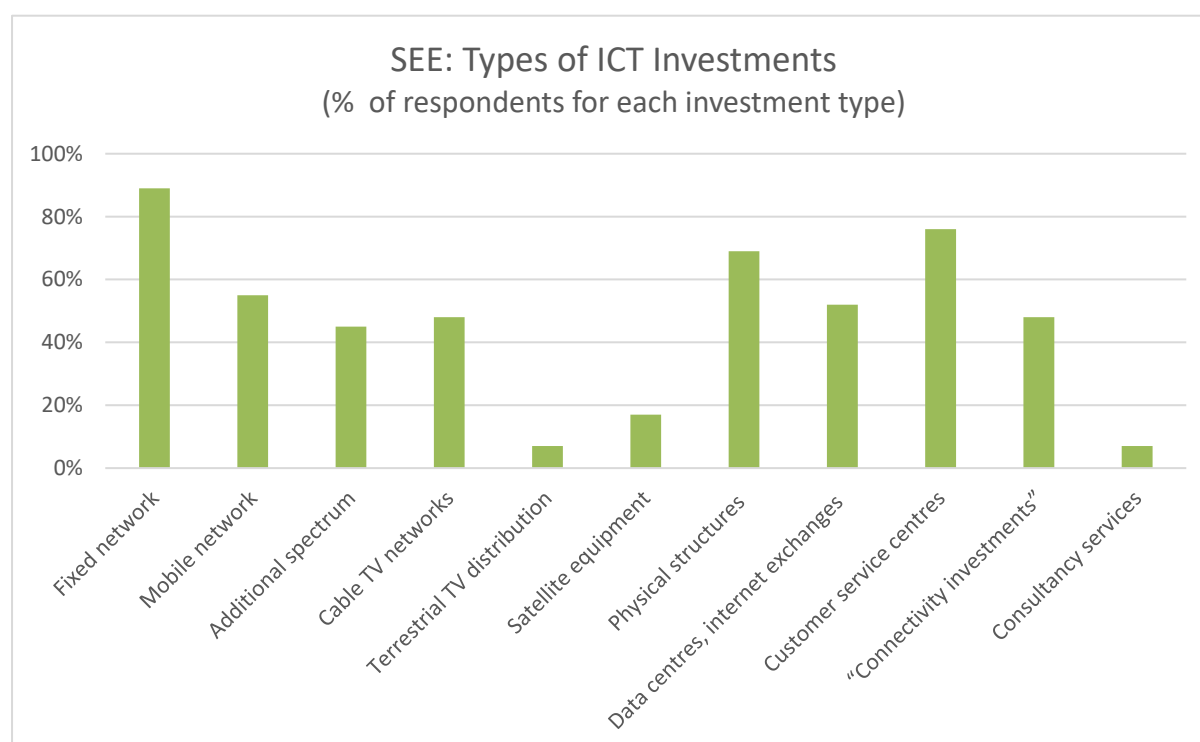
A score of zero for any factor would indicate that the factor has no influence at all on investment decisions, a maximum score of 100 would indicate that the risk associated with the factor is so high that it completely puts off any investment.

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 fixed networks including basic voice, internet, cable TV and fixed broadband services. More than half the respondents operated mobile networks, and many of these also provided fixed 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 services in the seven SEE markets outnumbers fixed broadband by around over 3.0 to one. The equivalent ratio in the EU is around 2.5 to 1. However, the fixed broadband market is now growing at a faster rate than mobile broadband, encouraging more investments in fibre access infrastructures.

Infrastructure assets include the sector specific cabling and switching equipment, almost all of which is imported by 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, are becoming limited to specialist players.

Most major 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 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, more collaborative cost sharing initiatives have appeared and there is a more positive attitude towards

Survey results – SEE

infrastructure and network sharing in the lead up to investment decisions regarding 5G and more widespread fibre access.

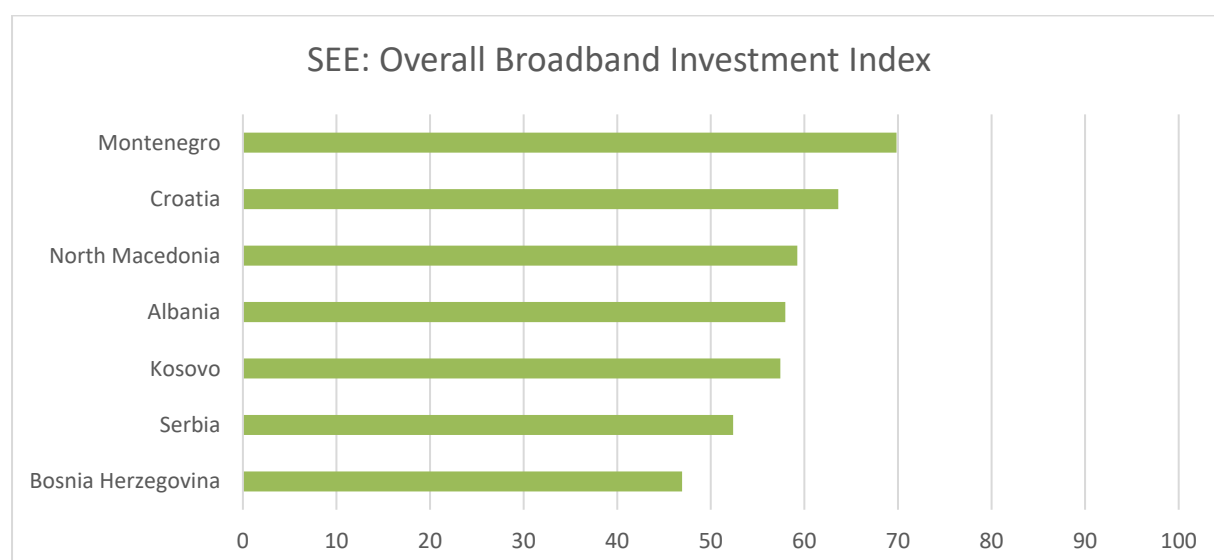
Of growing importance in a market now dominated by broadband services are investments in data centres, which include storage capacity for the fast-growing use of “cloud” services. Data services growth has risen very sharply in all markets, as the number of internet users (currently averaging around 60% of the population) increases. Consumer appetite for higher broadband speeds continues to develop as 4G mobile services are being deployed and fixed broadband infrastructures grow.

There is a firm interest in additional spectrum investments, particularly for 5G, with the expected demand for a range of new business models linked to connectivity – e.g. smart cities, vertical industry sector partnerships, logistics, content, data analytics and the “Internet of Things”. However, all mobile service providers in the SEE markets are currently mainly concerned with achieving returns from their investments in 3G and 4G infrastructures.

Telecommunications market players are starting also to offer consultancy services to enhance their ability to offer full ICT solutions, rather than just individual voice, internet and broadband services.

Overall respondent perception

The overall Broadband Investment Index result for the SEE 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.

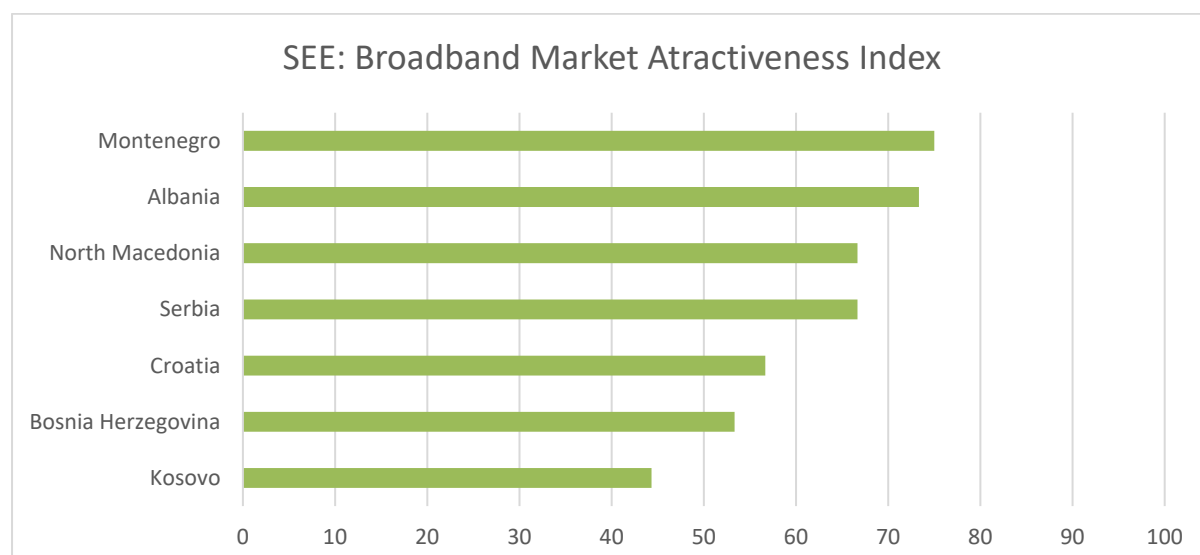
The chart shows that in all the markets, the investment conditions are less than what respondents would ideally wish for. To examine the reasons, the following paragraphs examine the factors that contribute most to the overall results.

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.

Survey results – SEE



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, Montenegro is the most attractive of the SEE broadband markets and Kosovo is the least attractive. For this component, the survey participants were asked to rate only the pure market potential, disregarding any investment risk factors (which are only taken into account in the next component). Both the market attractiveness and the risk factors are combined to calculate the overall Broadband Investment Index.

The main market benchmark indicators of the ICT markets in the SEE markets are shown below.

SEE market headlines

	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	North Macedonia	Serbia
Population	2.9m	3.3m	4.1m	1.8m	0.7m	2.1m	7.0m
Penetration of fixed broadband/100 population	16	22	34	38	25	22	26
Penetration of mobile broadband/100 population	45	51	90	72	55	63	91
% of population using the internet	72%	70%	73%	77%	72%	79%	73%
ICT Development Index (world ranking)	89 th	83 rd	38 th	Not available	61 st	69 th	55 th
Average download speed per fixed broadband user (Mbps)	33.2	32.1	35.7	46.2	30.3	46.4	50.0
Average download speed per mobile broadband user (Mbps)	49.6	33.6	61.5	28.8	49.3	41.3	43.4
Forecast overall broadband market growth up to 2023 (% compound growth p.a.)	6.2%	1.6%	0.9%	6.8%	2.6%	1.1%	0.8%

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

Survey results – SEE

Serbia is the largest market in population terms but is also forecast to be the slowest growing market for broadband services. Croatia is the second largest market by population and also has a low forecast broadband growth rate. The highest forecast growth rates are in Albania and Kosovo. Croatia has the highest global ranking for ICT development, benefitting from its membership of the EU.

Kosovo, Montenegro and North Macedonia are relatively small markets, but with relatively high standing in internet usage together with some potential to grow their broadband markets.

In summary:

- Albania has the lowest broadband penetration and the highest forecast broadband growth with annual rates of 7.6% for fixed broadband and 5.9% for mobile broadband. The country remains relatively underdeveloped in ICT terms.
- Bosnia and Herzegovina has a relatively high penetration of fixed broadband alongside low mobile broadband penetration. Fixed broadband is expected to grow at 4% per annum, with mobile broadband growth remaining low at 1.2% per annum.
- Croatia has the highest overall broadband penetration and very high average mobile broadband speeds. Forecast growth is 3.3% per annum for fixed broadband and a poor 0.1% for mobile broadband.
- Kosovo is a small market with the highest growth potential. Fixed broadband is forecast to grow at 10.9% per annum and mobile broadband at 4.9%. Internet usage is well established, but fixed broadband speeds remain relatively low.
- Montenegro is the smallest market in population terms but has a reasonable forecast of broadband growth. Fixed broadband is well established and is forecast to grow strongly at 16.1% per annum. Mobile broadband penetration is relatively low and is not forecast to grow.
- North Macedonia is a small market with relatively high internet usage and download speeds. Forecast growth rates are 3.2% per annum for fixed broadband and 0.7% for mobile broadband.
- Serbia is the largest market in population size with already high levels of fixed and mobile broadband penetration. Fixed broadband speeds are the highest of the seven markets. Growth forecasts are 3.7% per annum for mobile broadband and only 0.1% for fixed broadband.

SEE markets: Market attractiveness factors

Market attractiveness factors	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	North Macedonia	Serbia
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 applying 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:

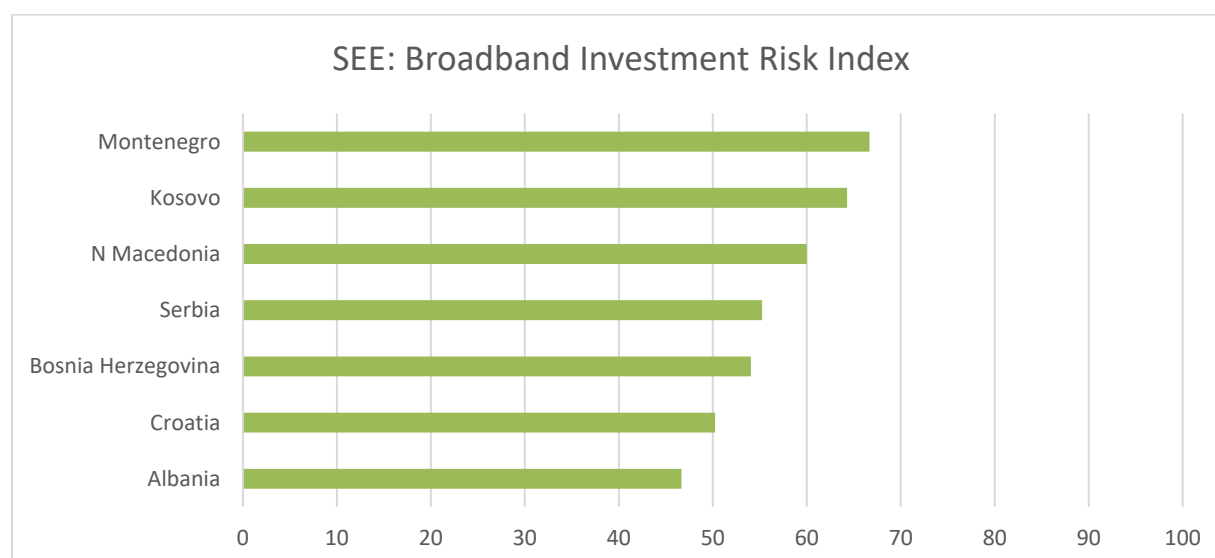
Pure market potential: Average response 57%

Investment-related risk factors: Average response 43%

Taken together, the various investment-related risk factors are therefore a key element (43%) 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 law makers in each market, together with 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 seven SEE 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. Montenegro was perceived by respondents as having the fewest barriers overall. Kosovo and

Survey results – SEE

North Macedonia, like Montenegro have sought to adopt the policy, legal and regulatory frameworks used by the EU, but investment uncertainties remain. Serbia has been slow to implement competitive safeguards for investors. Bosnia remains a disjointed market, with different conditions across its different administrative entities.

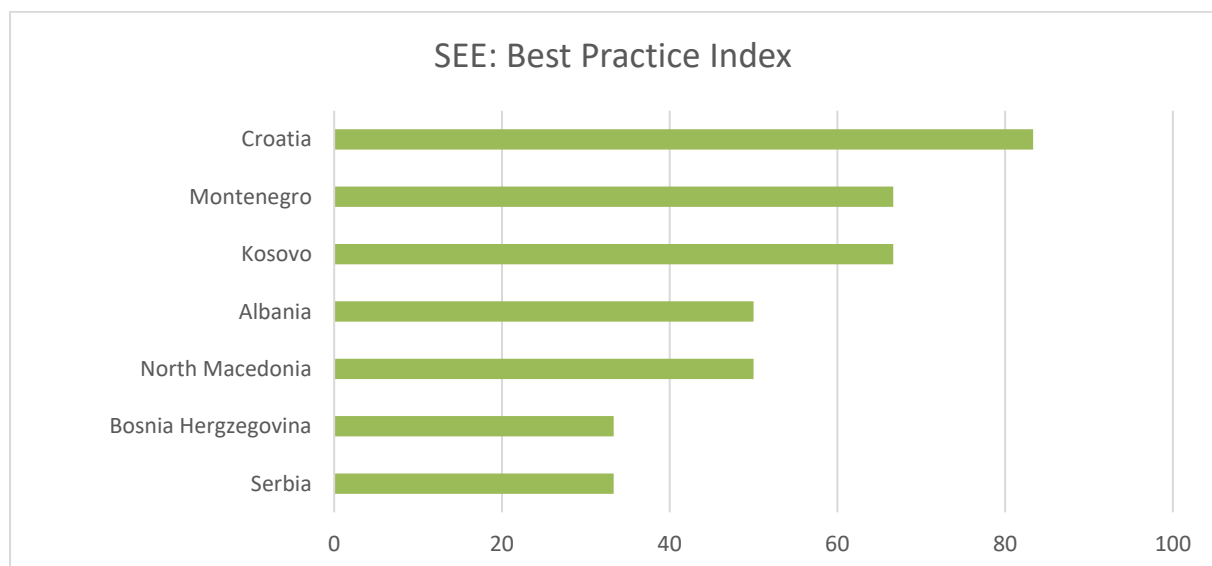
Croatia, as part of the EU, has fully adopted the EU safeguards for market competition, but there remain significant barriers to investments, notably in the uncertainty of the legal process. Albania, although aligning generally to EU regulatory principles has issues with implementation of competitive safeguards, giving rise to significant market uncertainties.

The investment risks present in each market, as perceived by the survey respondents, are analysed in more detail in the market-by-market sections 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 can be reduced significantly given action by policy and law makers together with the sector regulatory agencies.

The survey also asked respondents how confident they were about whether best practices will be adopted to reduce investment barriers within a reasonable timescale. For example, there are best practices now defined and being implemented throughout the EU member states regarding broadband cost reduction, including a range of procedures for joint construction, infrastructure sharing, access to multi-occupancy buildings and rights of way over public and private property. These measures have been defined to ensure that the cost efficiency and investment climate is as good as possible for putting in place the infrastructure for achieving universal high-speed broadband across the EU.



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 SEE 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 example across the region is the problem experienced by investors in obtaining permissions for constructing civil infrastructures. This includes building mobile transmission towers, laying cables and ducts, getting access to public and private properties and for installing specialist equipment. In many of the markets 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. Even in Albania, Croatia, North Macedonia and Serbia, where the introduction of new procedures for permission granting has begun, there are still significant problems experienced by network operators.

Survey results – SEE

Croatia is the market where there is most confidence that best practice policies, legislation and regulatory practices will be applied to the sector. This arises from its membership of the EU. In the other markets, confidence varies, especially in the way that geographical municipalities apply the various legally defined procedures. The lowest confidence is in Serbia, where private investors feel particularly disadvantaged in competing against the state-owned incumbent operator.

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

SERBIA

At a glance

Headline market statistics – Serbia	2016	current
Population (millions)	7.6	7.0
Fixed broadband penetration per 100 population	17	26
Mobile broadband penetration per 100 population	72	91
ICT development Index (world ranking)	51 st	55 th
Internet usage (% of population)	65%	73%
Overall broadband market growth rate 2018 to 2023 (average % p.a.)	0.8%	

[Sources: UN, ITU, Fitch Solutions]

Serbia is the largest market amongst the seven SEE markets surveyed, with the highest overall broadband penetration. It has the lowest forecast broadband growth rate.

Survey results

Serbia	Score	SEE average	SEE Ranking
Broadband Market Attractiveness Index/100	67	62	4 th
Broadband Investment Risk Index/100	55	57	4 th
Best Practice Index/100	33	55	7 th
Overall Broadband Investment Index/100	52	58	6 th

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

The survey results show that overall, Montenegro is perceived to be in 6th place for broadband investments out of the seven SEE markets surveyed.

Montenegro scores only average for market attractiveness, given its low broadband growth forecast, where fixed broadband is expected to grow by 3.1% per annum while mobile broadband penetration remains largely static.

What respondents are saying about the market in Serbia

“The overall market potential and investment climate currently is a question mark.”

“State agencies and public companies such as the incumbent operator, create an uncertain market climate in an effort to suppress competition.”

“Several efficiency parameters are within or close to the range currently found among EU Member States.”

“We had expectations that the business environment would stabilise and become more predictable. This has not happened.”

“We need more transparency in the decision-making process by the relevant state and regulatory bodies in the telecommunications sector.”

Survey results – Serbia

“The incumbent has made numerous acquisitions of smaller cable operators.”

“5G spectrum awards are envisaged in 2020 and 2021.”

“One of the pillars of the Digital Serbia initiative is broadband connectivity, including some facilitating regulatory measures.”

“Although the regulator says that spectrum for 5G will give priority to coverage and investment, rather than purely financial auctions, it will ultimately it will be the Ministry of Finance that will have the final say.”

“It is unlikely that there will be possibilities for smaller operators or new entrants to participate in 5G spectrum auctions.”

“Smaller operators might not be able to bid for the 3.5 GHz spectrum and ultimately would have to be limited only to the use of unlicensed spectrum bands.”

“The public sector market for broadband infrastructure is very large. The new Law on Public Procurement is an opportunity to eliminate all the anomalies so that it is transparent and does not favour one side.”



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.

The perception of investment risk in Serbia is around average for the SEE markets surveyed but confidence in the implementation of best practice is the lowest amongst the seven markets.

The concerns related to investment risks are explored in more detail below. These concerns are explored in more detail below.

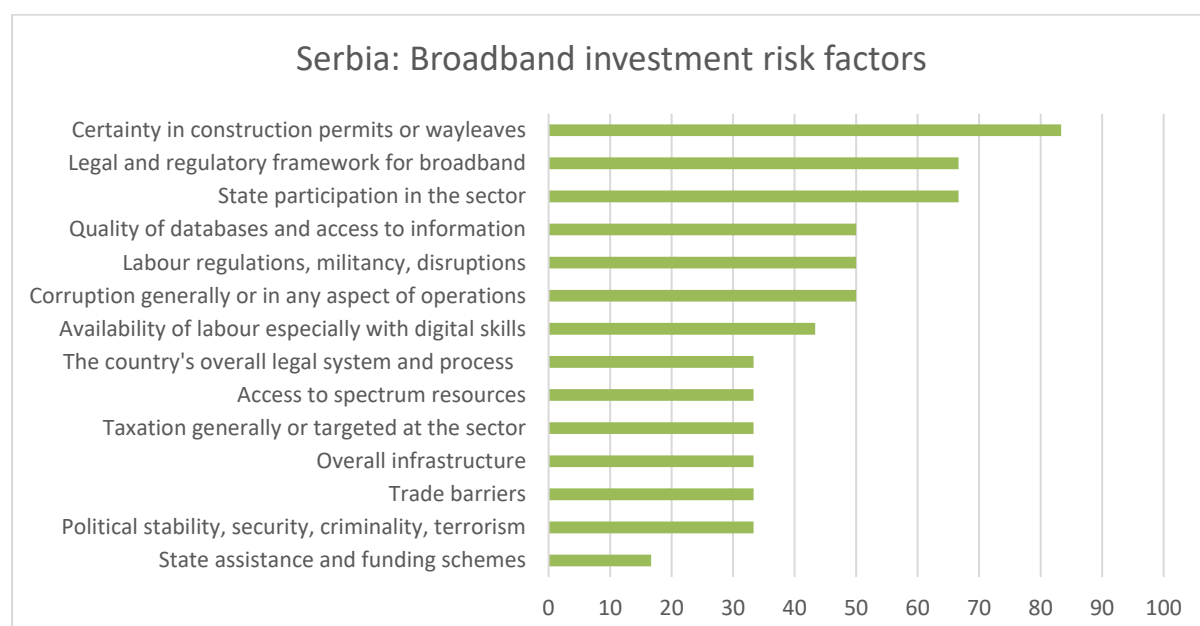
Investor concerns

The survey considered 14 factors related to investment in ICT infrastructure. A description of these factors is given in section 2 of this report. Investors 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

Survey results – Serbia

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.

The results show that in Serbia, respondents perceive that the uncertainty in the granting of construction permits, alongside several other concerns, contribute most to broadband investment risk. The parallel concerns are the legal and regulatory framework for broadband and state participation in the sector.

Of relatively low concern to investors are state assistance schemes.

Granting of permissions

How respondents expressed their views on granting of permissions in Serbia

"There are very complicated procedures, it takes a long time to get permission for construction."

"The process always has an unpredictable outcome, making the investment climate uncertain."

"An agreement to use utility poles was suddenly terminated very soon after it was signed."

"There is no legal certainty, we invest in launching our services based on an agreement, then the permission is withdrawn."

"There are delays to the issuing of permits, then you have to complain at municipal and state level before approvals are given."

"A building permit was obtained, but when it came to carry out the work, the details were disputed and the matter remains unresolved, so we have not been able to serve customers."

"Municipalities interpret the procedural requirements in unhelpful ways, for example where the law says that a permit is optional, they insist on issuing one."

"Municipalities respond to requests from some fibre operators very quickly, others not at all."

“Investments are delayed by outright obstruction by Municipalities, or by misinterpretation of the Planning & Construction Act.”

A “Planning and Construction Law” introduced from 2009 the so-called “integrated procedure” for obtaining a construction permit through a “one-stop-shop”. The survey respondents expressed the view that these procedures need to be made simpler and their effectiveness reinforced to avoid delays and uncertainties. There is also the view that requests from the state-owned operator are given preference over those from private operators, leaving them at a competitive disadvantage.

The legal and regulatory framework

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

“Overall, Serbia’s legal system struggles with a legacy of bureaucracy and red tape.”

“The changes to the telecommunications law to bring Serbia into line even with the 2009 EU regulatory framework are still nowhere near final adoption.”

“Legislative proposals prepared some time ago got stuck in the legislative pipeline.”

“The courts are clogged with old cases that go unattended. Arcane processes cause delays, and procedural abuses by parties go largely unchecked.”

“The quality of legal services is affected by thinly drafted legislation, inconsistent jurisprudence and high appeal rates.”

“The regulator has made decisions contrary to EU practices. This has been pointed out by the EU.”

“Access to the regulated wholesale products of the incumbent operator is not effectively enforced.”

“The regulation very often disproportionately favours the incumbent Telekom Serbia.”

“The incumbent operator unjustifiably refuses access to their ducts.”

“There is a margin squeeze applied by the incumbent on wholesale leased lines, because the wholesale price is significantly higher than their own retail tariff.”

“The Competition Commission approves the acquisition of smaller operators by the incumbent without any conditions.”

“The regulator’s decisions carry significant financial risks for competitors, it seems that the advantages given to the incumbent are deliberate.”

“There is a draft law on a range of measures to facilitate broadband deployment. But it is unlikely to make much progress.”

“At the moment, competitors can use the incumbent’s network to provide broadband, but the customer has to keep using the incumbent for telephony. This just tries to preserve their monopoly instead of giving consumers real choices.”

“The number portability process is inefficient; it can take up to seven days and the porting fees are too high. This results in major competition problems.”

“Telekom Srbija has been disabling portability for several years.

“The incumbent’s wholesale duct charges are set at a very low level but every time anyone requests access they have to pay high one-off fees for ‘a feasibility study’. Then the request is rejected due to ‘technical reasons.’”

Survey results – Serbia

“It is just crazy - the only way to serve customers is to put our cables into Telecom Srbija’s ducts without permission, or just throw our cables over the roofs.”

“Market regulation should follow market development and also include the implementation of EU best practices.”

“A new law, incorporating the EU practices on broadband has been announced, but there is no indication of when this could happen.”

“The obligations imposed on the state-owned incumbent operator Telecom Srbija do not allow for the establishment of effective competition and network access on fair, reasonable and transparent terms.”

“The state-owned incumbent remains privileged in comparison to alternative service providers.”

“There is no access to the fibre-optic infrastructure that the incumbent operator is currently deploying across the country. This restricts alternative operators to provide a competitive offer in the market.”

“The market reviews carried out by the sector regulator have not been transparent.”

“Market reviews contain no detailed economic analysis or modelling.” They lack a comprehensive and realistic forward-looking analysis of expected market developments.”

Respondents to the survey clearly expressed the view that Serbia is late in adopting the EU legal and regulatory framework for the sector. Where the EU practices have been adopted, for example in market analysis, these have not been implemented properly such that the market power abuses by the incumbent operator (for example refusal to allow competitive access to ducts or fibres, margin squeeze on the use of wholesale services) are allowed to continue unchecked.

Serbia has not yet fully adopted the 2009 EU legal and regulatory framework for the sector and most other markets in the region are now adopting the 2018 telecommunications code¹⁷.

State participation

How respondents expressed their views on state participation in the sector in Serbia

“State bodies and agencies make decisions which favour the incumbent operator under political pressure.”

“The most controversial issue is the financing of the regulator and the split of the annual fees paid by operators between the regulator and the government.”

“Telekom Srbija is 100% owned by the state and private companies do not get a fair treatment by the regulatory bodies.”

“The only legal certainty is that nothing would happen that could potentially harm Telekom Srbija.”

“The regulatory body is under pressure from the government, to protect the state-owned incumbent operator.”

“The regulator’s decisions are politically motivated and half of the regulator’s managing board is composed of the former directors of Telekom Srbija.”

¹⁷ <https://ec.europa.eu/digital-single-market/en/news/european-electronic-communications-code-updating-eu-telecom-rules>

Survey results – Serbia

“Certain state bodies and agencies make decisions under political pressure.”

“The amount charged for placing fibres in government-owned ducts bears no relationship to the needs of the market. The government uses the charge to put pressure on competing operators.”

“The state-run Serbian national broadcaster, appointed Telekom Srbija as its “general representative”, with the exclusive right to sublicense RTS channels.”

“RTS is allowed to refuse broadcasting of advertising material containing elements of competitor television and in this way broadband competitors cannot advertise on the largest TV network.”

The role of the state in the sector was commented on by the European Commission in its progress report, following a 2019 review of competition policy in Serbia. This report explicitly noted that: *“Generally, a preferential treatment favourable to the incumbent operator on the market is not contributing to the achievement of competition policy objectives and to the alignment with the acquis”.*

Under its commitment to the EU accession process, 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. Telekom Srbija, the incumbent fixed and mobile broadband provider remains majority state-owned.

The survey respondents generally agreed with a key principle for the sector that, regardless of the state role in ownership of key assets, governments should create an environment that maximises private investment. Other markets have demonstrated 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.

In Serbia, the survey respondents expressed the strong view that the market for broadband investments is distorted by the state protection of the incumbent operator. The means of this protection continues through lack of regulatory action and through procedural bias, for example in the granting of permissions to install broadband infrastructure.

Other issues

How respondents expressed their views on other aspects in Serbia

“There is legal uncertainty when it comes to investing capital in Serbia with respect to capital gains tax and other tax regulations, as well as certain influences.”

“The electricity company doubled its charges for using their poles. The regulator and competition agency have not been able to resolve this since early 2019.”

“Restrictions on registering foreign loans leads to significant obstacles in managing cash flow and financing regular business operations.”

“Protests can also lead to significant disruption, including to public transport.”

“With the Law on the Protection of Whistle-blowers in 2015, Serbia took the first significant steps to reduce corruption. But some of its provisions are contradictory, and also the criminal code has not been amended.”

“Corruption remains prevalent in many areas and continues to be a serious problem.”

“The Anti-Corruption Agency needs to be strengthened.”

“The process of corruption cases needs to be improved, from investigation to final convictions.”

Survey results – Serbia

“Implementation of existing laws needs to be improved.”

“There is little confidence in the country's policy makers/ regulators to implement best practice conditions for investors.”

“Starting a business in Serbia may seem simple at the first glance, attention should be paid to all of the employment law.”

“Finding candidates who meet the requirements of high-level, expert and strategic positions is challenging.”

“Companies have to invest significant resources in training new employees.”

These range of views express frustration by the survey respondents that conditions in Serbia are not generally favourable towards private investment in broadband infrastructures. There is also a lack of confidence that Serbia will move towards adopting best practices (for example the 2019 EU telecommunications code) within any reasonable timescale.

Recommendations

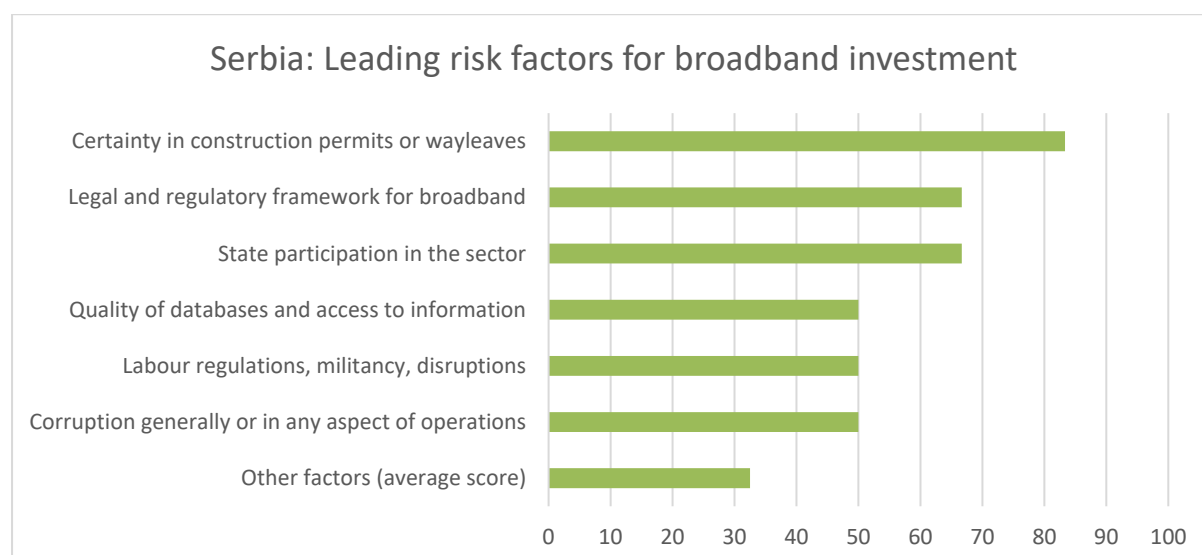
The detailed recommendations in this report are given in section 4. There are two types of recommendations, the first type to improve the overall attractiveness of markets and the second type to reduce investment risks.

For Serbia, 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	Serbia	Recommendations for improving the overall attractiveness of the market (See section 4)
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		Recommendation 1
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 Serbia 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	Serbia	Recommendations for reducing broadband investment risks (See section 4)
Certainty in construction permits or wayleaves	⚠	Recommendation 3
Legal and regulatory framework for broadband	⚠	Recommendation 9
State participation in the sector	⚠	Recommendation 5
Quality of databases and access to information	⚠	
Labour regulations, militancy, disruptions	⚠	
Corruption generally or applied to the sector	⚠	
Availability of labour especially with digital skills	⚠	Recommendation 4

⚠ - Medium priority/ ⚠ - High priority

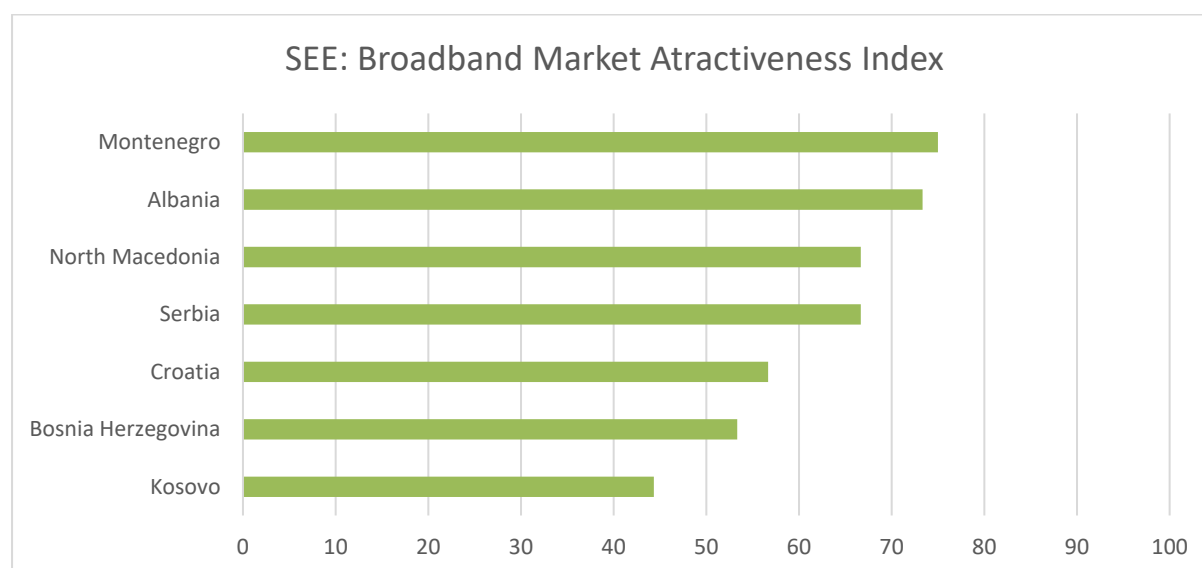
4. DETAILED RECOMMENDATIONS

The comments made by respondents regarding the attractiveness of each of the seven SEE markets surveyed, and their concerns about the investment risks involved are given in section 3 of this report. Some general recommendations are also given in section 0 “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 seven SEE markets. The priorities for action in each country are also given.

Recommendations on improving the overall attractiveness of the market

The market attractiveness, in terms of the pure market potential (i.e. 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.

There are clearly differences between the seven SEE markets regarding the pure attractiveness of their markets, as perceived by respondents. These differences relate to the relative uncertainties faced in broadband markets, including market size, competition and perceived growth potential.

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:

SEE markets: Market attractiveness factors

Market attractiveness factors	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	North Macedonia	Serbia
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

In terms of market size, Serbia has the highest market potential, with a population of 7m. Croatia is the second largest with a population of 4.1m, although this has declined from 4.3m since 2012.

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, although the respondents recognise that in the future, significantly more investments in fixed (mainly fibre-based) broadband infrastructure will be necessary, as business and consumer demands develop. The market growth potential for fixed broadband is greater than for mobile broadband in all seven markets .

The respondents' views are tempered by the competitive uncertainties of the market and the need for more costly investments, particularly in fibre infrastructures. There are also the added risks in the mobile broadband market, especially with the lack of clear business models for 5G and the potential for more players to enter these new markets.

Another factor – the efficiency of markets in terms of fair competitive conditions – arises from the uncertainties not only from the market size and growth factors discussed above, but also from a lack of confidence by respondents regarding the progress of the legal and regulatory regime towards best practices.

Respondents have the best level of confidence in best practice adoption in Croatia, Montenegro and Kosovo, where the adoption the EU legal and regulatory frameworks has been most rapid. There is also reasonable confidence in North Macedonia and Albania. Survey respondents in Bosnia and Herzegovina and Serbia have expressed the least confidence that best practices will be adopted within reasonable timescales. Respondents' views largely reflect the level of state participation in the sector and the perceived bias of policy and regulation towards the protection of the state-owned players. Greater market competitiveness naturally encourages more market efficiency and adoption of best practices.

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 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.

Recommendation 1: Demonstrating a clear commitment to the effective implementation of an investor-friendly legal and regulatory framework for the broadband market

All the markets surveyed have moved to more competitive markets, but in each, the transition to a liberalised, investor-friendly legal and regulatory framework has not yet been fully achieved. In Bosnia and Herzegovina and Serbia, respondents believe that the level of state ownership of network operators still has a major influence on market conditions. The nature of this distortion is examined more closely in section 2 of this report.

In all seven markets, a regulatory body for the sector has been established, but respondents still perceive some bias in the application of the regulatory framework in favour of the incumbent operators. For example, in all seven markets, the published regulations promote the use of wholesale markets for local access, whereby the incumbents' copper and fibre access networks should be available to be rented by other operators to provide competitive retail offerings. Respondents claim that these wholesale markets are not operating adequately. Typically, the incumbent does not cooperate fully with the other operators and the regulator does not move sufficiently to enforce the regulations.

It is recommended that the SEE markets continue on a path to full ICT market liberalisation, by ensuring that the sector regulatory body is fully effective with the powers to enforce the relevant competitive market safeguards.

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, policy makers need to demonstrate a strong commitment to the sector and in particular to emphasise the link between new technologies, economic growth and living standards. In order to promote the role of broadband infrastructure, 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. Croatia has adopted the broadband targets from its membership of the EU. The other six markets have based their broadband strategies largely on the EU targets, but the implementation mechanisms, including state-aid funding mechanisms, have not yet been put in place.

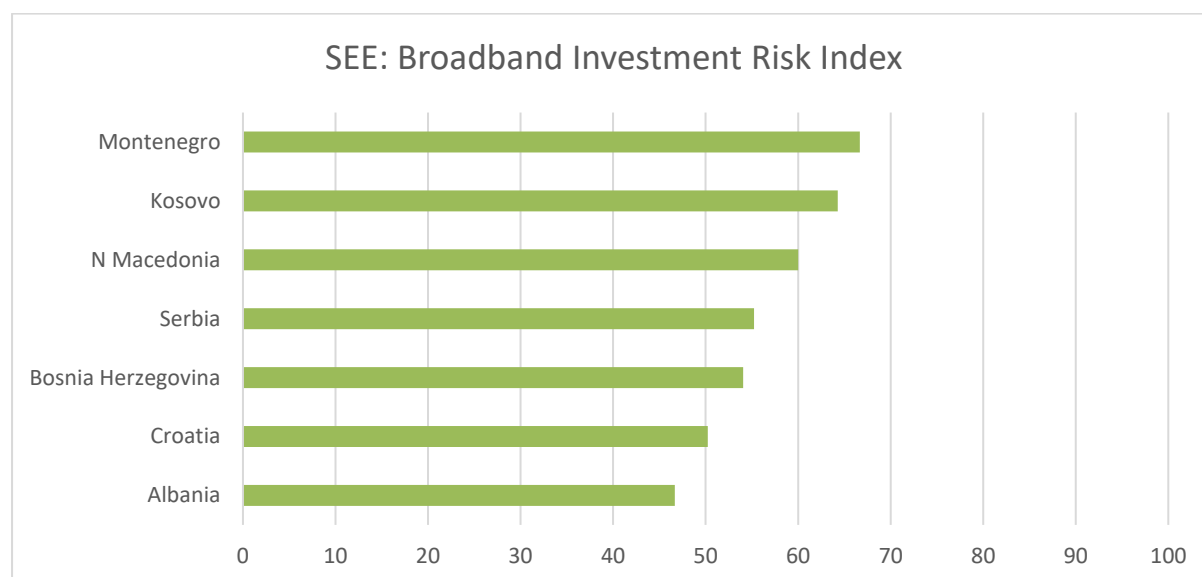
The recommendations from a 2014 report "Benchmarking 15 National Broadband Plans"¹⁸, seek to give investors in broadband infrastructure the confidence that they seek. It was noted that national broadband strategies showed the following characteristics:

- National broadband plans 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.

¹⁸ <https://www.cullen-international.com/studies/2014/Benchmarking-15-national-broadband-plans.html>

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, Montenegro has the least investment risk for broadband infrastructure and Albania the most risk. 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:

- Certainty in construction permits or wayleaves.
- Availability of labour especially with digital skills.
- Taxation generally or targeted at the sector.
- State participation in the sector.
- Political stability, security, criminality, terrorism.
- Corruption generally or in any aspect of operations.
- State assistance and funding schemes.
- The country's overall legal system, predictability and process.
- Access to state-controlled resources, particularly spectrum.
- Quality of databases and access to information.
- The legal and regulatory framework specific to electronic communications and broadband investments.
- Labour regulations, employment agreements, militancy, disruptions.

Of the remaining potential risks, the following two factors had only medium to low risk in all markets :

- Overall infrastructure.
- Trade barriers.

SEE markets: Priorities for action

Investment risk factors	Albania	Bosnia and Herzegovina	Croatia	Kosovo	Montenegro	North Macedonia	Serbia
Certainty in construction permits or wayleaves	⚠	⚠	⚠	✅	⚠	⚠	⚠
Availability of labour especially with digital skills	⚠	⚠	⚠	⚠	⚠	⚠	⚠
State participation in the sector	⚠	⚠	⚠	⚠	✅	⚠	⚠
Taxation generally or targeted at the sector	⚠	⚠	⚠	✅	⚠	⚠	✅
Political stability, security, criminality, terrorism	⚠	⚠	✅	⚠	✅	✅	✅
Corruption generally or applied to the sector	⚠	⚠	⚠	⚠	✅	✅	⚠
State assistance and funding schemes	⚠	⚠	⚠	✅	✅	⚠	✅
The country's overall legal system, predictability and process	⚠	⚠	⚠	⚠	✅	✅	✅
Access to spectrum resources	✅	⚠	✅	⚠	✅	⚠	✅
Legal and regulatory framework for broadband	⚠	⚠	✅	✅	✅	✅	⚠
Quality of databases and access to information	⚠	⚠	⚠	⚠	✅	⚠	⚠
Labour regulations, militancy, disruptions	⚠	✅	✅	✅	⚠	✅	⚠

✅ - Low priority/ ⚠ - Medium priority/ ⚠ - High priority

The following recommendations aim to reduce overall investment risks for broadband markets across the SEE markets, with the priorities for each country taken from the above table.

Recommendation 3: Construction permits and rights of way

For the civil works typically associated with broadband infrastructure investments (including buildings, 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 although in Kosovo, under the state-aided broadband scheme for rural areas, operators are granted permissions for their infrastructure alongside the funding, as part of the contract award.

Survey recommendations

Generally, alternative operators 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 Albania, Croatia, North Macedonia and Serbia, some changes to the legal and procedural basis for permission granting have begun but implementation problems are noted by the survey respondents.

The recommended best practices, in the form of relevant powers, obligations, procedures and coordination are described below.

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 telecoms 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)¹⁹, 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:

¹⁹ <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

Survey recommendations

*-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>]*

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 4: The availability of digital skills

Respondents in all seven SEE markets surveyed reported problems in hiring and retaining staff with skills relevant to modern digital networks and services. Typically, there was a reasonable supply of people with these skills from the educational system in the seven markets, but the graduates tended to take vacancies in large multi-national IT companies where these had offices in the W. Balkans, or have moved abroad to find better opportunities. The problem of finding sufficient digital skills in the future is not just a W Balkan problem, EU countries are already experiencing digital skills shortages and the demand for well qualified staff with good digital skills is expected to grow further.

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 plans²⁰ 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 W Balkan co-operation in the telecommunications sector, that the issue of digital skills shortages is raised and plans developed for regional initiatives for the telecommunications sector.

Recommendation 5: The role of the state

Respondents in the seven SEE 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 5 and 9).
- 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 recommendation 1).
- Effective state-aid mechanisms need to be in place, for example universal service funding or other support measures offered by the state to private investors in order to achieve policy

²⁰ <https://ec.europa.eu/digital-single-market/en/policies/digital-skills>

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objectives where these objectives cannot be met by commercial investments alone. (See also Recommendation 7).

- 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 proposed national broadband network in North Macedonia), 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: Aligning the taxation regime with the national objectives for ICT development

Respondents viewed the overall taxation levels in Albania, Croatia, Montenegro and North Macedonia to be a significant barrier to their investment plans. This issue is also of medium concern in Bosnia and Herzegovina.

In some cases, the revenues from sector-specific taxes are returned to the sector itself, for example the contributions paid by operators into universal service funds. In other cases, additional taxes are paid by the sector are for funding other sectors, notably the film industry in Montenegro and North Macedonia.

Overall taxation levels, coupled with other sector specific charges such as high spectrum fees (see also recommendation 9), 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 sector.

In its 2013 report “Taxing Telecommunications/ICT services”²¹, 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 weighed against the potentially adverse effects that taxation can bring to the growth of the telecommunication/ICT sector, broadband penetration, and national economic growth.”

The indirect impact of telecommunications/ICT taxation: macro effects

²¹ <https://www.itu.int/en/ITU-D/Regulatory-Market/Documents/Publications/Taxation2%20E-BAT3.pdf>

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“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>]

Simplifying a complex set of issues, the ITU paper concludes that “....the choice of a level of taxes on telecommunication/ICT services is likely to depend on three factors in particular:

1. *“Whether the apparently low cost of collection of telecommunication taxes is a strong enough consideration to justify a special tax.*
2. *“How much weight is placed on the exceptional macro-economic benefits of the spread of telecommunication/ICT services, as a ground for not taxing them.*
3. *“Whether there is any other factor which argues for the application of an especially low or an especially high tax rate on telecommunication/ICT services, as against the standard ‘default rate.’”*

Survey respondents, particularly in Albania, Croatia, Montenegro and North Macedonia, placed emphasis on the second point – that more weight should be given to the macro-economic benefits of investment in broadband as an argument for reducing ICT sector-specific taxes.

Recommendation 7: State assistance and funding schemes

Regarding the state’s role in state aid or universal service mechanisms, respondents welcome such support provided that the funding is administered in a fair and transparent manner. There are various options for state support for broadband investments:

- The use of universal service funding. This mechanism is not used in any of the seven SEE markets specifically for broadband infrastructure investments. Universal service mechanisms exist in Montenegro and North Macedonia, but these are only used for basic services. They could, with suitable competitive safeguards, be adapted to include high-speed broadband services.
- State funding to “top up” private investments in order to 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, has so far been used only in Kosovo for accelerating broadband investments into “white areas”. This state initiative was judged by the survey respondents to be a success and operators have participated freely in the subsidy auctions and proceeded with relevant investments.
- 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 discussed in North Macedonia, but survey respondents 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 sponsored network includes providing wholesale capacity to any 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 unprofitable locations. The PPP options cover a range of different ownership, funding and governance options. There are no such examples being used in the seven SEE markets surveyed.

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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 Kosovo scheme, the necessary permits are granted along with the funding as part of the contracts between the government and the operators awarded each project.

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”²².

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. Kosovo has already considered and tested the options in sector consultation and has implemented a state-funded scheme to “top-up” private investments²³. It is also recommended that the legal and regulatory framework adopts a specific set of rules regarding state aid for broadband, following the example already implemented within the EU.

Recommendation 8: Ensuring that spectrum resources are used effectively

Respondents view high spectrum charges to be against the future interests of the ICT sector generally. This is especially true in North Macedonia, where mobile operators pay relatively high sums in comparison to other markets in the region. Similar concerns have been expressed in Albania and Kosovo. In all the markets surveyed, the respondents’ views reflect the views held in the sector generally, that the investment case for 5G spectrum-based services is difficult to make, unless levels of spectrum charges are reduced.

There is a widespread view that the spectrum management strategies adopted by governments and regulatory agencies should be better harmonised within the overall context of a wider ICT strategy. Specifically, spectrum management strategies should promote investments in broadband infrastructure in order to promote geographical universality, to meet the growth of existing services and to support new 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, recognising that service quality and coverage 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.

There is little doubt that 5G markets are being considered not only by the existing network operators, but also by a potentially large number of application-driven interests.

In its report “5G Spectrum: GSMA Public Policy Position” (July 2019)²⁴, the representative body of the mobile communications sector concluded:

“...the success of the services is heavily reliant on national governments and regulators. Most notably, the speed, reach and quality of 5G services depends on governments and regulators supporting timely access to the right amount and type of affordable spectrum, and under the right conditions.

²² https://ec.europa.eu/regional_policy/sources/conferences/state-aid/broadband_rulesexplained.pdf

²³ <https://www.worldbank.org/en/news/feature/2018/11/26/kosovo-villages-start-enjoying-high-speed-internet-with-world-bank-support>

²⁴ <https://www.gsma.com/spectrum/wp-content/uploads/2019/09/5G-Spectrum-Positions.pdf>

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“5G spectrum awards have already begun and the variation in the amount of spectrum assigned, and the prices paid, means the potential of 5G services will vary between countries. This, in turn, directly impacts the competitiveness of national digital economies.”

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 and fibre-over-the-air, 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>

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 investors are fully represented in the GSMA report, which recommends:

- *“Governments and regulators should avoid inflating 5G spectrum prices as this risks limiting network investment and driving up the cost of services. This includes excessive reserve prices or annual fees, limiting spectrum supply (e.g. set-asides), excessive obligations and poor auction design.*
- *“Regulators must consult 5G stakeholders to ensure spectrum awards and licensing approaches consider technical and commercial deployment plans.*

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- *“Governments and regulators need to adopt national spectrum policy measures to encourage long-term heavy investments in 5G networks (e.g. long-term licences, clear renewal process, spectrum roadmap etc).”*

Additionally, there is a 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.

Recommendation 9: Ensuring that the legal and regulatory framework fully supports broadband infrastructure investments

1) The importance of effective wholesale markets

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 changes 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 the incumbent operator to open up their network for capacity and rented out to other operators on fair terms. This means that in going for market growth, a more recent 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 cost-effective, retail competition can grow to meet market demands quicker, because the infrastructure to provide service is already in place.

All 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. Respondents in each country expressed the view that 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 seven SEE markets of 25 per 100 population, is only two-thirds of the average country penetration rate for fixed broadband reached in the EU.

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 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.)

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It is therefore recommended that the conditions for effective wholesale markets are fully implemented by the incumbents and if necessary, backed up by enforcement measures by regulators. Unless this best practice is implemented fully in the seven SEE markets surveyed, the wholesale markets will remain underdeveloped. Without this enforcement of existing regulations, fixed broadband markets will develop more slowly than would normally be expected.

2) Cost reduction measures for broadband investments

The recent technological developments in fixed and mobile communications have made possible a range of internet-based services to be delivered over high-speed broadband infrastructures. The roll-out of these new digital networks 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, account for up to 80% of the overall cost of deploying high-speed networks²⁵.

EU rules on broadband cost-reduction

"To help achieve its "Connectivity for a Gigabit European Society"²⁶ 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)²⁷, 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 seven markets surveyed expressed views that the existing conditions for all the above cost-related areas (access to ducts, poles and masts, coordination of civil works, the granting of permits and for equipping buildings for broadband) were unnecessarily slow and inefficient.

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. If these best-practice

²⁵ <https://www.nic.org.uk/wp-content/uploads/Cost-analysis.pdf>

²⁶ <https://ec.europa.eu/digital-single-market/en/policies/improving-connectivity-and-access>

²⁷ <https://ec.europa.eu/digital-single-market/en/cost-reduction-measures>

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measures are implemented in the SEE markets and properly enforced by the regulator, then the investment conditions for broadband infrastructures would improve significantly.

Further consideration is given in Recommendation 1 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 the trend is accelerating as decisions on investing in 5G networks approach.

Network sharing and 5G: A turning point for lone riders

“Operators 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 also a means to accelerate 5G deployment, and to minimise disturbances from construction work and visual pollution. Given that 5G is still in its infancy in the SEE markets, 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 markets 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 densification in urban areas by securing access to lampposts and rights of way for investing in fibre infrastructures.²⁸

²⁸ 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>

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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.

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 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 plus a further range of high-speed services and applications, in particular to support 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. 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 FTTH (Fibre to the home) technology.
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).
Broadband services	Telecommunications, media and internet services that are delivered individually or together to consumers and businesses over high-speed access links. The average speed of broadband services links has been steadily increasing and are available from around 2Mbps (2 million megabits per second) up to Gbps speeds (Gigabits per second) using different technologies.
Broadband infrastructure	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 ”.

Best Practice Index	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.
Broadband Market Attractiveness Index:	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.
Broadband Investment Index	See Overall Broadband Investment Index
Broadband Investment Risk Index	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.
Cable networks	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.
Capex	Capital expenditures, most relevantly (in the context of this report) investments to install and upgrade broadband infrastructures .
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 net income.
eCommerce	Electronic commerce is the buying and selling of goods and services, or the transmitting of funds or, 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.
eGovernment	Electronic government refers to the exploitation of web-based information technologies to improve and enhance the scope, efficiency and effectiveness of service delivery in the public sector.

Glossary of terms used in this report

FDIs	Foreign direct investments.
Fibre access, Fibre to the home (FTTH)	Optical fibre cables provide 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.
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 .
GSM	The General System of Mobile was the previous standard (i.e. before 3G , 4G and 5G) used in Europe and adopted widely elsewhere for mobile voice communications and with some very limited data capability.
Internet of Things (IoT)	IoT is a concept that predicts pervasive presence in the environment of a variety of things/objects that through wireless and wired connections. Unique addressing schemes are able to interact with each other and cooperate with other things/objects to create new applications/services and reach common goals. Applications and 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 streamed 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.
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 switching 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 .
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 uses cases – whether that use case is the smart home, the Internet of Things factory, 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 retail market.
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 combined 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.

Glossary of terms used in this report

Satellite networks	Satellites in stationary orbit around the earth provide 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 this report.
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.
Terrestrial TV networks	These networks broadcast the main national and local TV and radio broadcasting channels 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 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.
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	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 .

Glossary of terms used in this report

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.

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