



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 11-Oct-2019 | Report No: PIDC26547



BASIC INFORMATION

A. Basic Project Data

Country Georgia	Project ID P169698	Parent Project ID (if any)	Project Name Log-In Georgia (P169698)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Apr 01, 2020	Estimated Board Date Sep 29, 2020	Practice Area (Lead) Digital Development
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Economy and Sustainable Development, Open Net NNLE	

Proposed Development Objective(s)

To expand access to affordable broadband, and to promote its use by households and businesses, with a focus on rural areas.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	70.00
Total Financing	70.00
of which IBRD/IDA	35.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	35.00
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Non-World Bank Group Financing

Counterpart Funding	35.00
Borrower/Recipient	35.00



Environmental and Social Risk Classification

Moderate

Concept Review Decision

Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Investments into Georgia’s digital development will help sustainable and inclusive economic growth. Georgia’s economic growth has been strong over the past decade, supported through improving governance and an improved business environment through far-reaching reforms. Maintaining this will need deeper integration with the global marketplace for its firms, and greater levels of inclusion for all its people to equalize access to economic opportunities. Strategic investments into digital infrastructures—directly or facilitated by the government—will improve rural and international connectivity. These digital infrastructures would also enable a wider range of digital opportunities, and more innovative services, that could position Georgia’s households, firms, and people to integrate more with the national and global economy.

A key development challenge facing Georgia is income inequality and a lack of economic opportunities, especially for young people and in rural areas. Georgia’s economy has grown significantly over the past decade. However, poverty and inequality remain high in rural areas and among ethnic minorities; roughly one in every five Georgians is still poor, and almost half the poor population is vulnerable to falling into poverty. Average household income in Georgia is currently at USD 5,328 (GEL 13,328) per annum, however rural households in Georgia earn 20 percent lesser than urban households on average, and the gap on a per capita basis is 23 percent. And economic opportunities for young people, and rural inhabitants are constrained. Many jobs are low-productivity, requiring low-level skills. While agriculture continues to employ half the population, its contribution to GDP is less than 10 percent. High-productivity economic activity and investments are also concentrated in urban centers—creating fragmented islands of progress, while the rural hinterlands lag; for instance, Tbilisi received 78 percent of total Foreign Direct Investment (FDI) in 2018. Young people with higher levels of education face unemployment due to skills mismatches, and many of them living in rural areas consider moving to the larger cities and especially the capital, Tbilisi as the only way to access educational or work opportunities.

Georgia’s efforts to integrate with the global marketplace—essential for sustainable growth—are hampered due to poor connectivity, posing another challenge to sustainable economic growth. The country’s strategic location and conducive business environment (ranked 6th in ease of doing business globally) are pre-requisites for logistics and international trade to develop. However, Georgia needs improvements in hard and soft connectivity—transport, logistics, and digital—to bring down the costs of trade and promote greater integration. Efforts to boost trade, attract Foreign Direct Investment (FDI), and maximize the potential for tourism, especially outside of the main cities, could be hindered by gaps in digital connectivity within the country or linking it with global markets. Digital development will help Georgia to integrate further with the global economy and boost its citizens’ social and economic inclusion.



Sectoral and Institutional Context

Georgia continues to champion the expansion of its digital economy. Since 2013, the Government has put national digital and related initiatives in its programs: to support innovation and the use of technology across the economy, to expand access to internet services, and build digital skills among students and young people. Alongside, the private sector and citizens have played an important part in the country's digital development. However, strategic public interventions are needed to deepen digital inclusion, and for Georgia to keep in step with and integrate with the rapidly developing global digital economy.

The digital connectivity market is competitive and driven by private investments. Access to and use of broadband internet—a *sine qua non* for full participation in the digital economy—has developed at a steady pace driven by private sector investment, and sector regulation that evolved with international good practices to promote a pro-competition enabling environment. Broadband adoption is on the rise with 67 percent of households subscribing to fixed broadband services, and mobile broadband connections accounting for over 50 percent of total mobile subscriptions. Globally, this positions Georgia relatively well in its income grouping, but with scope to catch up with European Union (EU) members and global leaders.

However, a rural-urban digital divide has emerged—potentially limiting inclusion in the digital economy. While 83 percent of urban households connect to fixed broadband services, in rural areas the figure drops to 52 percent. Part of this is due to limited network coverage; wireless networks cover most of the population but offer limited speeds in rural areas in practice; repeated consultations with individuals and businesses in rural areas has shown that they do not view the quality of mobile internet services as enough for their needs. Wireline broadband networks (using fiber optic or cable networks) are limited in their reach outside of urban areas.

Low affordability also contributes to the urban-rural digital divide, and limits adoption of services even where available. An analysis of consumption deciles—which splits households into ten equally-sized groups based on consumption levels—provides a view as to the extent of affordability of fixed broadband connectivity. If an affordable fixed broadband connection should cost less than 2 percent of monthly consumption, at current prices (about GEL 30 for 25 Mbps) and consumption levels, less than 20 percent of households can afford such a connection.

The digital divide in access to broadband services between urban and rural areas exists extends to internet use by individuals and businesses as well. A digital divide threatens to widen the existing spatial inequalities, and risks widening divides along demographic lines such as gender, language, and age while limiting access to economic opportunities (through markets, information, services) for rural businesses and individuals. Promoting digital inclusion could help increasing rural and marginalized populations' access to economic opportunities, employment, and markets.

Planned policies and regulations will open markets, but public support may be necessary to close remaining access gaps. The retail market has over 150 Internet Service Providers (ISPs) and 3 Mobile Network Operators (MNO). While entry barriers to the ISP market are low, the market is concentrated: the top 2 ISPs have 76 percent market share by subscribers, with potential implications for prices, and the quality and coverage of service. Private investment to deepen rural connectivity has been growing but the pace is unclear, and the quality of services to be delivered is limited. The industry regulator, the Georgian National Communications Commission (GNCC), has been taking measures to boost competitive pressure, attract investment, and improve affordability. However, there is consensus among sector stakeholders (government agencies and service providers) that public support is needed to boost investment in rural areas. Such support is needed especially in high-cost and low-revenue areas, and



where infrastructure improvements will need to be complemented by programs that improve digital literacy, the skills of individuals and businesses, and the promotion of valued use-cases of that connectivity.

Availability of digital infrastructure—connectivity networks and IT platforms—of international standards is essential for Georgia to be competitive in the global digital economy. Georgia is in an acceleration phase for digital economy development and is reflected in various global indices and rankings. Georgia's digital economy can grow as priority sectors logistics, international trade, tourism, education, and health become increasingly digital. Georgia also has an ambition to become a more attractive transit point and digital hub on the internet, building on its connections to Europe, eastwards to Asia as connections are made in the future (through other unrelated private and public projects) via the Caspian Sea to Central Asia and China, and via Armenia to the Middle East and South Asia. Georgian businesses will then benefit by taking a share of the significant data transit business connecting Europe to Asia. As a digital hub, Georgia will need a data center of international standards to attract top tier international carriers and content providers to locate there. Improved (international) digital connectivity to Europe will also make Georgia a more attractive transit point.

Sector institutional context and development strategy

The sector institutional context is in line with international good practices, but with scope for improved institutional coordination. Georgia has an association agreement with the EU and is a member of the World Trade Organization (WTO). The line ministry, the Ministry of Economy and Sustainable Development (MOESD), oversees the information and communication technology sector through a dedicated department. The industry regulator, the GNCC is organizationally, financially, and structurally independent from the Government. The legal framework broadly aligns with global best practices and is slowly transposing EU practices in line with Association Agreement commitments. In 2015, the Government set up a National Program on Broadband Infrastructure Development and created a dedicated organization, Open Net, for its implementation. Many other agencies and ministries implement programs related to the broader even if undefined digital agenda. This includes the ministries for education, justice, finance, regional development, health, among others. But the absence of an overarching digital strategy or oversight agent diminishes coordination among these organizations. This leads to suboptimal resources utilization, information gaps, and may also increase transaction costs for (especially foreign) investors.

Global experiences have highlighted certain common themes underpinning well-functioning broadband and digital ecosystems, and policy responses to stimulate market development along those themes. The World Bank's recommendations on a national broadband development strategy identify the following themes to develop Georgia's broadband market, to achieve digital inclusion and global integration objectives –

- **Increase competitive pressure** in different segments of the broadband value chain to improve market efficiency, and in turn affordability
- **Attract investment** to expand networks to rural areas, densify in urban areas, develop IT infrastructure, and improve quality of service
- **Build digital skills and demand** among users, to improve the business case for investors, and increase more specific uses of broadband that maximize economic impact.

Relationship to CPF

The proposed Project supports the World Bank Group’s (WBG) Country Partnership Framework (CPF) through its focus on including more households and businesses across Georgia in the digital economy, and through its activities to deepen Georgia’s integration in the global digital economy. By expanding access to affordable broadband services in rural areas and mobilizing private financing for digital infrastructures, the proposed Project directly supports Focus Area 1 of the CPF (Enhance Inclusive Growth and Competitiveness), specifically Objective 1.2 (improve connectivity and integration) and Objective 1.4 (increase economic participation in the regions).

The Project will also aim to promote the diffusion of specific use cases that would arise from Georgia and its villages being better connected. Through these efforts, it could support a secondary set of CPF objectives including improve access to markets (Objective 1.1) and to financial services (Objective 1.3) via activities that seek to increase people’s use of related digital tools (e.g. e-trade, digital financial services). The Project could also support human capital development (CPF Focus Area 2), for example, by connecting schools and hence supporting the education system for improved quality and relevance (Objective 2.1) or delivering information services to complement the health care delivery system (Objective 2.2).

C. Proposed Development Objective(s)

To expand access to affordable broadband, and to promote its use by households and businesses, with a focus on rural areas.

Key Results (From PCN)

Outcome	Indicator (PDO-level)
Increased broadband internet adoption	<i>Number of new broadband subscriptions in Project areas; Private sector investment mobilized (USD), for digital inclusion (Component 1)</i>
Improved affordability of internet	<i>Average price of entry-level broadband plan (30 Mbps) as percentage of monthly household income¹</i>
Promoting Internet use by individuals and businesses	<i>Share of individuals in project areas using Internet for specific purposes;² Share of businesses using internet for specific purposes³ Private sector investment mobilized (USD), for digital integration (Component 2)</i>

D. Concept Description

Using IBRD and the Government’s budget resources, this Project will finance activities that support digital inclusion of individuals and businesses and that enable the deeper integration of Georgia in the global digital economy.

Component 1: Digital Inclusion

This component will finance activities that will increase access to affordable, high-quality broadband services for all

¹ Plan prices would be sourced from periodic data collected by GNCC

² These could include (per existing GeoStat surveys) the following purposes: Seeking health-related information; Finding information about goods or services; Looking for a job or sending a job application; Internet Banking

³ These could include (per existing GeoStat surveys) the following purposes: having their own website; Using e-commerce in any part of their business; Receiving orders over the internet; etc.



individuals and institutions across Georgia, with a focus on rural areas. It will support the Government’s National Program for Broadband Development (known as Open Net). The Program aims to connect villages to very high capacity broadband networks, where those villages will not be connected to such networks in a reasonable timeframe via private initiative alone. The component will finance works for laying of the optical fiber cable (OFC) as well as training, technical assistance, and capacity building for legal and regulatory reforms necessary for market development. This will help make services more affordable by reducing cost of investments and increasing competitive pressure in the market. And the component will advance digital inclusion of households, individuals, and businesses in the included villages, and promote productive use-cases of their internet connectivity. These activities will identify and address the risk of digital exclusion, including due to social, demographic, gender, or accessibility barriers.

Component 2: Digital Integration

Georgia seeks to position itself as a digital hub. For this, it can leverage its strategic location and positive business climate to attract private investment to create the needed digital infrastructure and services required. An initial assessment at Project identification and related analytical work suggest that high-priority needs include: (1) a data center facility of international standard that can support priority sectors and Government and (2) a redundancy data route to Europe via a direct international submarine fiber optic cable. Given the strong possibility of private participation in the financing and operation of these facilities, this component (in potential coordination with the IFC) will help to mobilize finance for development in the creation of these facilities. At this time, the Project support is foreseen for upstream feasibility studies of these infrastructures (the data center, and the submarine cable) to determine if and how much public support (in-kind or financial; for construction or use) may be needed to make these bankable. At this time, based on preliminary assessments, it is likely that provision of premises for the data center will be financed, with the possibility of concurrent private investments, while the construction of the submarine cable will not be covered by the Project. There is also a need for coordination within the Government to maximize the use of these facilities while supporting Georgia’s digital agenda and the Project aims to facilitate it.

Component 3: Project Implementation Support

This component will support the management and implementation of the Project and associated activities, including capacity building. This could include hiring of expert consultants needed for key areas such as project management, technical expertise, procurement, financial management, environment and social protection, monitoring and evaluation, communications, citizen and stakeholder engagement, to enable Project implementation.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts



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APPROVAL

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