



Funding of Universal Service and the Management of the Fund: the case of India.

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Telecom Network Status (7/2005)

Total subscribers 107 Million	Fixed 47.17 Million 22% growth rate	Mobile 59.83 Million 100% growth rate
Overall tele-density 9.86%	Urban 24.08%	Rural 1.78% 0.49% to 9.67% across regions
Target-250 million lines by 2007 to have a tele-density of 22%		

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The Telecom Sector in India.



- World's largest Democracy
- World's 2nd highest Population (1.08 bn.)
- 7th largest Area (3,287,000 sq Kms).
- 5th largest telecom network in the World
- 6,70,000 Route kms OFC backbone covering almost the whole country.

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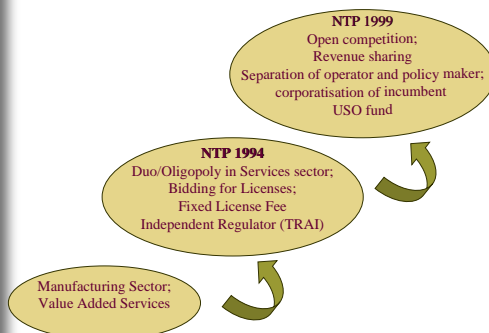
Network Status- Contd.

- 13.5 million rural connections
- 12.5 million to be added to achieve a rural teledensity of 3 by 2007.
- Sharp decline in tariffs for Long distance (5 cent/minute) and Mobile services (2.5 cent/minute) to become the lowest in the world.
- Broadband ≥ 256 Kbps download- 450,000 subscribers.

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Phases of Policy Reforms- at a Glance



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Licenses for various services

- Basic Service Licenses :2/ Unified Access Services Licenses:75
- Cellular Mobile Service Licenses : 62
- Internet Service Licenses: 405 with 5.8 mn. Subscribers
- National Long Distance Licenses :4
- International L. Distance Service Licenses :5
- Infrastructure Providers (IP-I and IP-II): 99
- Radio Paging, Video text etc & Other Service Provider

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Universal Service Obligation

- **Universal Service is**

To provide access to basic telecom services to rural and remote areas at affordable and reasonable prices.

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Mechanisms to support USO in India

- Classical method under Monopoly -the incumbent operator through **Cross-subsidies**.
- Monopoly to duopoly (1994)- Roll-out **obligations through** license conditions. (not successful)
- Full Competition (1999). Tariff rebalancing, cross-subsidies no longer available.
- Need recognized for economic incentives to encourage other players.

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New Telecom Policy (NTP'99) & USO

- **Explicit USO funding to support Telecom facilities in rural areas with below cost tariff**
- **All BSOs to participate. Other Service Providers also to be encouraged.**
- **Funding of USO through contributions by Service Providers. Regulator (TRAI) to be consulted.**

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Universal Service Support Policy- Contd.

- **Transparent consultative process involving all stakeholders.**
- **USO policy effective from 1.4.2002.**
- **Across the board uniform levy of 5% on designated revenue from all operators except value added service providers.**

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Organizational set up

- **Administrator appointed on 1.6.2002.**
- **Attached Office of the DoT (options of Independent Authority/Regulator considered).**
- **Supported by an Inter ministerial Advisory Committee, and**
- **Tender Committee.**

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Establishment of USO Fund

- **Statutory status** with the passing of the Indian Telegraph (Amendment) Act,2003 in both houses of Parliament.
- **Non-lapsable fund.** Transfers to the Fund through Parliamentary approvals.
- **Credits** to the fund would include:
 - a) contribution towards USO by Telecom Service Providers and,
 - b) any Grants and Loans by the Central Govt.
- **Rules** governing the scope and implementation notified in March, 2004.

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Scope of Universal Service

- Support to cover both **Public Access and Individual household lines** in identified Net high cost rural/remote areas.
- **Stream I: Provision of public Telecom & Information services**
- **Stream II :Provision of Household Telephones in Net high cost rural/remote Areas.**

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Scope of Universal Service-contd.

Stream I (Public Access)

- i) Village Public Phones (VPTs) in all 600,000 plus villages.
- ii) Replacement of VPTs on Multi Access Radio Relay (MARR) technology.(186,000)
- iii) Installation of Rural community Phone (2nd public phone) in villages with Population more than 2000).
- iv) Up-gradation of PTs to Public Tele Info Centers (PTICs), and
- v) Installation of High Speed PTICs to cover villages with population more than 2000 (about 90000).

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Stream-II-Contd.

Rural Direct Exchange Lines (RDELs)

- Provided prior to 1.4.2002-Differential in TRAI prescribed rental and rental charged by the Universal Service Provider (USP) (9 million) and
- Provided after 1.4.2002 in identified Net cost positive SDCAs.(1685 out of 2647)

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EXTENT OF SUPPORT

- **Net Cost Approach**
- **Determination of Net Cost (NC) for new facilities**
Net Cost = [{Annualized Capital Recovery+ Annual Operating Cost} - {Annual Revenue}]
Where Annualized Capital Recovery = Aggregate of depreciation + return on equity plus interest on debt.
- Unit for Net Cost determination being SSA (roughly equivalent to a district) for Public Access, and SDCA roughly equivalent to a Tehsil) for Rural household DELs.

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Extent of Support- Contd.

- Existing VPTs- only Annual operating cost and Annual Revenue taken into account for NC determination, and
- For RDELs installed prior to 1.4.2002 only rental differential. Support restricted for the period 1.4.2002 to 31.1.2004.
- Largely technology neutral approach.

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Selection of Service Providers

- A transparent competitive multilayered reverse auction process. (Proxy cost model option considered but not adopted).
- Three rounds of bidding. Lowest price at each round forming the reserve price for the next round.
- Benchmark Cost serves as initial Reserve Price & revealed in tender document.
- Benchmark evolved by an independent Expert Agency.

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Selection of Service Providers- Contd.

- Eligible bidders-All BSOS, CMSPs, and UASL. Rules provide for inclusion of *any other entities as the Central Govt. may decide from time to time.*
- Unit of bidding to be Service Area or part thereof. (Generally contiguous to a State)

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Results of Auction

- Increased participation from Private Service Providers, besides Incumbent.
- Steep fall in rates from benchmark values. 60-75% in case of RDELs.
- Change in strategy in respect of Subsidy installments and in evaluation of bids.

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Implementation status

- Agreements signed for all activities except Tele-Centers.
- 90% villages covered with VPTs.
- Pilot project for Tele-Centers under design.

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Delivery Mechanism

- Decentralized disbursement mechanism.
- Monitoring
 - (a) Through self certification by USP
 - (b) Sample basis
 - (c) On periodic basis
 - (d) 100% verification through billing data.
 - (e) Display of facilities supported from USOF on Net.
- Special Audit through C&AG to suggest system improvement where necessary.
- E- submission of claims in progress.

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Salient features of the Agreements with USPs.

- Agreement period (5 years/ 9- initial 2 agreements).
- Review during 3rd year in the first two Agreements.
- Disbursement of subsidy quarterly in arrears.
- Deduction on account of non functioning.
- Penalty for amounts drawn in excess of 10% due to USP for the year.
- Liquidated damage charges for delays in roll-out.
- Performance Bank Guarantee.
- Display Boards/Toll free numbers for Public access facilities.

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Status of US Fund

- US\$100 million (Rs.500 crores) disbursed during FY 2002-04.
- Disbursement during 2004-05 is US\$263 million (Rs.1315 crores).
- Projected demand for FY2005-06 as US\$ 1 billion (Rs.5000 crores).
- Anticipated disbursements- US\$ 2.5 billion plus over five years, from 2002-03 to 31.3.2007.

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Uniqueness of the Indian Model.

- One of the few Operational funds.
- One of the **largest** Operational funds.
- Has one of the more complex mandates
- Addresses digital divide through public tele-info centers.
- Multi-layered contestable auctions.
- Provision for expanding eligible bidders.
- Built in **"exit-strategy"** in agreements.

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Lessons and Challenges

- Flexibility in approach-feedback & feed forward.
- Sustainability.
- Infrastructure building, facilitating cellular mobile services in rural/remote areas.
- Monitoring/verification/Settlement of claims.
- Technology issues.
- Transform Obligation to Opportunity.

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Road Map for the Future

- **Broadband Public Access.**
- Application and Content development that address local needs/languages/applications, and synergize public private initiatives.
- Support to passive Infrastructure for enabling Cellular Mobile Services in the net cost positive rural/remote areas.

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THANK YOU

Your comments are most welcome
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