

THE UNIVERSAL SERVICE OBLIGATION FUND (USOF) IN INDIA – AN OVERVIEW

1.0 **BACKGROUND:**

1.1 The New Telecom Policy '99 (NTP'99) envisaged provision of access to basic telecom services to all at affordable and reasonable prices. The resources for meeting the Universal Service Obligation (USO) are to be generated through a Universal Service Levy (USL), which would be a percentage of the revenue earned by the operators under various licenses.

1.2 Keeping in line with NTP'99, the recommendations of Telecom Regulatory Authority of India (TRAI) on the issues relating to the Universal Service Obligation were sought. Based on the decisions taken on the recommendations, the Universal Service Support Policy was framed. The Universal Service Support Policy came into effect from 1.4.2002. The Universal Service Levy presently is 5% of the Adjusted Gross Revenue earned by all the operators except pure value added service providers like internet service providers, voice mail, e-mail etc.

1.3 The **Indian Telegraph (Amendment) Act, 2003** giving statutory status to the Universal Service Obligation Fund (USOF) was passed by both Houses of Parliament in December 2003. Deemed to have come into force from 1st April, 2002, the Fund is to be utilized exclusively for meeting the Universal service Obligation and the balance to the credit of the Fund will not lapse at the end of the financial year. Credits to the Fund shall be through Parliamentary approvals. The **Rules** for administration of the Fund have also been notified on 26.3.2004. *Both the Act and the Rules are available on the Department of Telecom website www.dotindia.com*

2.0 **SCOPE OF SUPPORT FROM UNIVERSAL SERVICE OBLIGATION FUND:**

2.1 The scope of the USOF covers rural and remote areas with Public access telephone and individual rural household telephones in Net High Cost rural and remote areas. It also endeavors to implement universal public access broadband services through installation of High Speed Public Tele-Information Centers (HPTICs)

in villages with population more than 2000 at Block headquarters. Accordingly, it is planned to take up installation of 5000 HPTICs in the first phase. Data applications including internet browsing, fax, email besides voice telephony will be covered through the installation of Public Tele- Information Centres (PTICs) in all 76,000 villages with population more than 2000.

2.2 The Policy also provides for provision of Village Public Telephones (VPTs) in all 6,07,000 revenue villages and provision of additional Rural Community Phones (RCPs) in nearly 46,000 villages with population more than 2000. Replacement of nonfunctional village public telephone on Multi Access Radio Relay (MARR) Technology installed prior to 1.4.2002 is also covered under the scope of the USOF. The total number of such phones to be replaced is 1,84,000.

3.0 EXTENT OF SUPPORT

3.1 The support from USOF is towards the Net Cost of providing the service. The Net cost includes both Capital recovery and Annual Operating expenses minus the Annual Revenue in all cases, except

- a) For VPTs that have already been installed, Capital Recovery is not provided; and
- b) For Rural household Direct Exchange Lines (DELs) installed prior to 1.4.2002, totaling 8.6 million lines, the differential between the rental prescribed by the regulator and the rental applied by the service provider is covered by support from USOF till such time the Access Deficit Charges meet this difference. With the ADC coming into effect from 1.2.2004, the support to such DELs is being given for the period from 1.4.2002 to 31.1.2004.

4.0 BIDDING PROCESS

4.1 Disbursement of funds to the service providers is through a multi-layered reverse bidding process on the basis of least quoted subsidy. The Basic Service

Operators (BSOs) Cellular Mobile Service Operators (CMSPs) and Universal Services Access Licensees (UASLs) of the concerned service Area are eligible to participate in the bidding process. An independent agency has been appointed for arriving at the benchmarks, which serve as the Reserve Price for the bids. The benchmarks are determined on the basis of fully allocated current costs for providing access for the facilities covered. The access cost components as recommended by TRAI include components from the line card in the exchange to the customer premises equipment costs.

4.2 Based on a statistical sampling model, the benchmark exercise primarily involves five steps covering sampling of Secondary Switching Areas (SSAs) for data collection, analysis of telecom data and identifying critical variables that influence cost and revenues, deriving operating expenditure (OPEX) and revenue for all SSAs with reference to the identified variables, validity checks and moderations and projections for 7 year period/ 5 year period and averaging of benchmark figures. While the data for different technologies is analyzed, the benchmark for the purpose of inviting bids is fixed on a technology neutral basis, taking into account the best techno-economic solution, except in the case of facilities that need to be provided using satellite technology or in the case of the bids for OPEX for VPTs already installed as part of the licensing universal services obligation by the Basic Service Operators, where the rates were given for the different technologies already in use.

5.0 ORGANIZATIONAL SET UP IN DOT FOR ADMINISTRATION OF USF:

5.1 An officer of the rank of Secretary to the Government of India has been appointed w.e.f 1.6.2002 as Administrator, Universal Service Fund. The office of the Administrator is an Attached office of the Department of Telecommunications, Ministry of Communications & IT. The powers and functions of the USF Administrator form part of the Indian Telegraph (Amendment) Rules, 2004.

6.0 IMPLEMENTATION STATUS:

- Financial Support provided for meeting OPEX extended to 5,20,000 VPTs in Census 1991 revenue villages to the owner operators, covering 90% of the eligible villages.
- Over 50% of 1,84,000 lakh MARR VPTs already replaced and getting financial support from USOF for meeting capital expenditure (CAPEX) and OPEX. The replacement of the balance is also being supported by USOF.
- More than 8.6 million Rural household DELs installed prior to 1.4.2002 are being given financial support from USOF for the period 1.4.2002 to 31.1.2004. for meeting the rental differential.
- Agreements signed with two operators on 30.9.2004 for providing 46,253 Rural Community Phones (RCPs) in villages with population more than 2000. These are the second public phones in such villages for which CAPEX and OPEX is funded by USFA.
- Two rounds of bidding already completed for provision of 66,822 VPTs in the remaining uncovered villages. Agreements expected to be signed by 25.11.2004. Both CAPEX and OPEX support will be provided.
- Draft Tenders for new Rural household DELs placed on Department of Telecom website on 1.10.2004 inviting comments from interested parties by 9.11.2004. Bids to be invited there after.
- Draft Tenders for Public Tele-information Centres (PTICs) and High Speed PTICs to be released shortly.

7.0 DISBURSEMENTS MADE TOWARDS USO:

During the financial years 2002-03 and 2003-04 approximately US \$ 100 million has been disbursed for the activities for which agreements were signed, including a part payment in respect of rural household DELs installed prior to 1.4.2002 for which no auction was required. In the financial year 2004-05

disbursements of about US \$ 600 million is expected, out of which US \$ 42 million already stands disbursed. Over the 10th Five Year Plan period (Financial Years 2002-03 to 2006-07), it is estimated to make disbursements of more than US \$2 billion from the USOF.

8.0 Electronic submission of claims is being encouraged to facilitate and speed up the submission and settlement process.
