USOF

AAO EXAM PAPER -IV

Topic

1. Introduction of USOF
2. Scheme Sponsored by USOF.
3. Financial condition in various agreements.
4. Important Abbreviation.
5. Numerical Question.

Exam Notes: Schemes Sponsored by Universal Service Obligation Fund (USOF)

Introduction to USOF

The Universal Service Obligation Fund (USOF) was established in 2002 under the Indian Telegraph (Amendment) Act, 2003 .

Objective : To ensure universal, affordable, and equitable access to telecommunications services across rural and remote areas in India.

The USOF is administered by the Department of Telecommunications (DoT) under the Ministry of Communications .

The fund is primarily financed through a Universal Service Levy (USL) , which is a percentage (currently 5%) of the adjusted gross revenue of telecom service providers.

Key Objectives of USOF Schemes

1. **Promoting Rural Telecom Access** : Provide equitable access to basic telecom services in underserved and rural areas.

2. **Enhancing Digital Connectivity** : Strengthen broadband penetration through BharatNet, public Wi Fi, and satellite technologies.

3. **Security and Connectivity in Remote Ar**eas : Strengthen communication infrastructure in LWE affected areas and border regions for security and development.

4. **Bridging the Digital Divide** : Address the gap between urban and rural digital access, ensuring affordable telecom services for all citizens.

5. **Supporting Women and Social Development** : Leverage telecom and digital technologies to empower rural women and marginalized communities.

Funding and Financials of USOF

The fund is primarily generated from the Universal Service Levy (USL), set at 5% of the Adjusted Gross Revenue (AGR) from all telecom licensees.

Budget Allocation

Since its inception, over ₹55,000 crore has been allocated for various schemes under the USOF.

Disbursement

Funds are distributed to telecom operators for the deployment and maintenance of infrastructure in rural and remote areas.

Functions of USOF Administration

- Development of schemes across various USOF streams
- Establishing implementation agreements with ISPs, TSPs, and other organizations
- Overseeing the execution of USOF schemes
- Disbursing subsidies
- Conducting post-implementation reviews of USOF schemes
- Managing budgeting and auditing for USOF activities
- Engaging with international organization

Streams of USOF Activities

The streams of USOF activities, updated periodically, include:

- **Stream 1:** Provision of Public Access Service (Schemes for VPTs and FRCPs)
- **Stream II:** Provision of Household Telephones in Rural and Remote Areas (RDELs)
- **Stream III:** Creation of Infrastructure for Mobile Services in Rural and Remote Areas (Mobile Infrastructure Phase I)
- **Stream IV:** Provision of Broadband Connectivity to rural and remote areas in a phased manner (Wire Line Broadband and Rural Public Service Terminals)

- **Stream V:** Creation of General Infrastructure in Rural and Remote Areas for the Development of Telecommunication Facilities (Optical Fiber Cable for Assum)
- **Stream VI:** Induction of New Technological Developments in the Telecom Sector in Rural and Remote Areas (Pilot projects for new technologies, such as Solar Mobile Charging Facilities)

Schemes Sponsored by USOF (Ongoing Scheme)

1. BharatNet (Previously known NOFN)
2. Left Wing Extremist Area (LWE) Phase II
3. 25000 WiFi Hotspots
4. 354 Uncovered Villages Project
5. 502 Uncovered Villages Project
6. Submarine OFC Connectivity between Mainland India and A & N Islands:
7. CSC Wi-Fi Choupal
8. Pilot Wi-Fi Hotspots RailTe
9. Pilot Wi-Fi Hotspots BSNLl
10. Hiring/Restoring of 10 Gbps International Bandwidth for Internet connectivity to Agartala from BSCCL (Bangladesh Submarine Cable Company Limited), Bangladesh
11. Augmentation of Bandwidth in ANI
12. Provision of Mobile Services based on 4G technology in AN
13. Augmentation of 10 2G BTS with EDGE in Lakshadweep Island

Exam Notes on-Financial Conditions in Various Agreements of USOF

Purpose of Financial Conditions in USOF Agreements

1. Financial conditions in USOF agreements are aimed at:
2. Ensuring financial discipline.
3. Regulating disbursements for telecom infrastructure projects.
4. Promoting transparency and accountability in the allocation of funds.
5. Ensuring timely completion of projects with clear financial guidelines.

1. Structure of Financial Agreements in USOF

USOF projects are governed by agreements between the Government of India and telecom service providers. These agreements specify the financial terms, responsibilities, and conditions to which the parties must adhere.

Key Financial Components:

The financial conditions within USOF agreements dictate the terms of subsidy distribution, financial obligations of service providers, and the criteria for fund allocation. Here are the key financial aspects:

1. Funding and Contributions

Telecom License Fees : Telecom service providers are required to contribute a percentage of their adjusted gross revenue (AGR) towards the USOF. Currently, this is around 5% of AGR .

Fund Usage : USOF subsidies are aimed at enhancing rural telecommunications infrastructure, particularly in areas lacking commercial viability.

2. Subsidy Disbursement Conditions

Milestone Based Payments : Service providers receive subsidies based on achieving predefined infrastructure milestones. This ensures funds are utilized effectively.

Phased Payment Structure : Payments are usually disbursed in phases, for example:

Initial disbursement upon project initiation.

Intermediate payments tied to mid project milestones.

Final payments released after verification of successful project completion.

3. Eligibility and Selection Criteria

Competitive Bidding : The selection of service providers is generally based on competitive bidding processes, wherein the lowest bidder for providing services to a specific area receives the subsidy.

Compliance with Obligations : Service providers must comply with technical and operational benchmarks laid out in the agreements. Non compliance can lead to a reduction or cancellation of subsidies

4. Performance Based Incentives

Quality of Service (QoS) Standards : Service providers are often incentivized to meet or exceed QoS standards, as these can be linked to higher subsidies or performance bonuses.

Timely Completion : Early completion of projects may lead to bonus payments, while delays may result in penalties.

5. Penalty Clauses

Financial Penalties for Delays : Projects delayed beyond the agreed timeframe are often subject to financial penalties, which are either deducted from future subsidy payments or reclaimed.

Revocation of Contracts : In cases of severe non compliance with contractual terms, USOF agreements may allow the government to revoke contracts and reclaim previously disbursed subsidies.

BHARATNET (Previously NATIONAL OPTICAL FIBRE NETWORK -NOFN)

Introduction.

- ✓ BharatNet aims to connect all 250,000 Gram Panchayats across the country to provide broadband connectivity in these areas.
- ✓ The Union Cabinet approved the project on October 25, 2011. It is being implemented by a Special Purpose Vehicle (SPV) called Bharat Broadband Network Limited (BBNL), which was incorporated on February 25, 2012, under the Indian Companies Act of 1956.
- ✓ The network will offer non-discriminatory access to all telecom service providers. This will enable access providers such as mobile operators, Internet Service Providers (ISPs), cable TV operators, and content providers to launch various services in rural regions.
- ✓ Additionally, the project will support a range of applications, including e-health, e-education, and e-governance.

Telecom Commission approved to implement the project in three phases:

- **Phase I:** Implementation of connectivity for 100,000 Gram Panchayats (GPs) is currently underway, executed by three Central Public Sector Undertakings (CPSUs): BSNL, RailTel, and PGCIL. This phase is targeted for completion by March 2017.

- **Phase II:** The remaining GPs will be connected using a combination of underground and aerial optical fiber cables (OFC), radio, and satellite technologies. This phase will be carried out by the same three CPSUs and state governments through their distribution companies (Discoms) or other agencies, with a target completion date of December 2018.

- **Phase III:** A futuristic network employing a ring topology will be established for connectivity between districts, blocks, and GPs. This phase is targeted for completion by 2023.

Financial Agreement

Between Administrator USOF & M/s Bharat Broadband Network Limited

The Universal Service Obligation Fund (USOF) will cover the full Capital Expenditure (Capex) and the Net Operating Expenditure (Opex), excluding revenue streams, for **a duration of five years starting** from February 25, 2012.

The total amount for both the Capital Expenditure and the Net Operating Expenditure, including administrative expenses, must receive approval from the Telecom Commission.

Note: Net Cost refers to Capex and Opex minus revenue.

Net Cost = Capex + (Opex - Revenue).

The total funding provided by the Universal Service Obligation Fund (USOF) to Bharat Broadband Network Limited (BBNL) under this Agreement will be capped at Rs. 20,100 crore (Rupees twenty thousand one hundred crore). This amount may be revised based on the determination and approval of the absolute Net Cost by the Telecom Commission.

Funding from USOF will depend on the following three factors

a) Requirement of Fund
b) Physical Progress of the project
c) Approval of Telecom Commission/DoT

BBNL must submit monthly reports detailing the physical progress of work and relevant financial information in the prescribed format.

The release of funds for Capital Expenditure (Capex) will depend on the physical progress of the work related to the National Optical Fiber Network (NOFN) Project.

BBNL is required to provide monthly physical and financial progress reports to the respective Chief Controller of Accounts (CCAs).

An initial 10% of the total funding may be paid as a mobilization advance upon BBNL's request.

Subsequently, up to 25% of the total funding will be released based on demand and a utilization certificate provided by BBNL. After that, further fund releases will correspond to the physical progress of the project.

BBNL must achieve at least 55% of the physical targets before any funds exceeding 75% of the approved amount can be released. Reports on physical and financial progress must be submitted on a District/State/Circle-wise basis. For every 5% increase in physical progress, an equivalent 5% of the funds will be released upon request, up to a maximum of 95% of the approved amount.

Within two months of the last fund installment release (which brings the cumulative release to 95%), BBNL must provide a certificate confirming 100% physical completion of the project's targets. The remaining 5% will be released one year after commissioning.

Upon BBNL's request, funds for material procurement will be released up to 95% of the material costs. The final 5% will be disbursed by USOF upon request, after the specified period according to BBNL's contractual obligations with vendors/suppliers, and once the materials have been utilized/ commissioned by BBNL. BBNL must ensure efficient inventory management to minimize excess stock and must report on inventory utilization on a District/State/Circle-wise basis within a reasonable timeframe, prior to any new fund requisition for materials.

The schedule for the release of funds for Operating Expenditure (Opex) will be established separately.

Summary of Schedule of Disbursement of Subsidy

Initial 10% of the total funding	Mobilisation advance on requisition
25% of the total funding	Depend on demand and utilisation certificate

Release of fund beyond 75% of the approved amount	55% of the physical progress with respect to physical targets of the project
5% of the fund	5% increase in physical progress (95% of the approved amount)
Balance 5% shall be released	After one year of commissioning

Release of Fund

The Sanction Order for the payment of the subsidy will be issued with the Administrator's approval. Payments to BBNL may be processed either centrally or on a Circle-wise basis, depending on the project's requirements and stage of completion.

Mode of Payment

The disbursement of the subsidy will be made via cheque or electronic transfer through the Cash Section at DoT HQ, Sanchar Bhawan, based on the Sanction Order, until payment to BBNL is processed centrally by the USOF.

No interest will be paid for any short or late payments made to BBNL by the USOF Administrator.

Annual Audit

BBNL's requisition for funds for each financial year must be audited by auditors appointed under Section 225/Section 619 of the Companies Act, 1956. The audit report must be submitted to the USOF Administrator within seven calendar days of signing the report, but no later than September 30 of the following year.

All relevant records of BBNL will be subject to scrutiny as prescribed by the Administrator to facilitate independent verification of the funds released for the project.

The USOF Administrator reserves the right to establish procedures, formats, and certificates related to the physical and financial progress of the project, as

Numerical Question

Que1. Evaluation of Financial Bank Guarantee Requirement

Current Financial Bank Guarantee (FBG): ₹116,000

Financial Data

- **Financial Year 2019-20:**
  - **Q1 (April to June):** Adjusted Gross Revenue (AGR): ₹1,571,875; License Fees Payable: ₹125,750
  - **Q2 (July to September):** AGR: ₹1,194,500; License Fees Payable: ₹95,560
  - **Q3 (October to December):** AGR: ₹1,212,300; License Fees Payable: ₹96,984
  - **Q4 (January to March):** AGR: ₹3,029,200; License Fees Payable: ₹242,336

Solution.

1. **Average License Fees Payable:**

   Average License Fees = 1/4(125750+95560+96984+242336 = 141657.50

2. **Double the Average License Fees:**

   2×Average License Fees = 2×141657.50 = 283315

3. **10% Buffer Above the Average:**

   10% Above = 283315 + (283315 *10/100) = 283315 + 28331.50 =311646.50

4. **Rounded Off Requirement:**

   FBG Required = 312000 (Rounded off to the nearest higher thousand)

Conclusion

- **Existing FBG:** ₹116,000
- **Required FBG:** ₹312,000