

## **UNIVERSAL SERVICE OBLIGATION:** *toward the Indonesia information society* **INNOVATIVE BUSINESS MODEL FOR USO**

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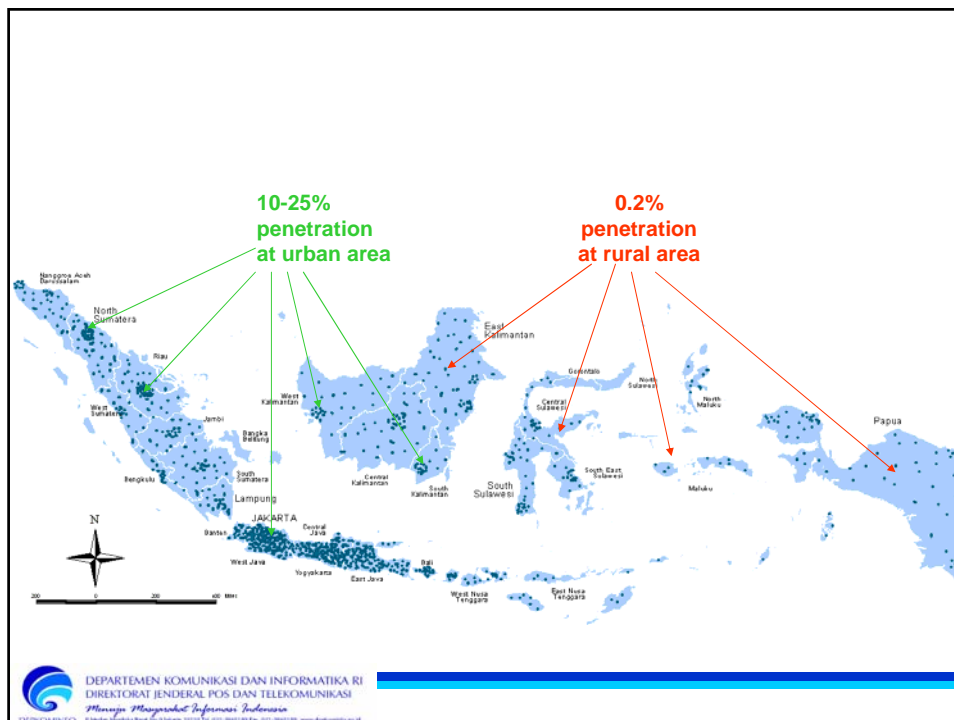
- Telecommunication sector in Indonesia;
- USO policy;
- USO pilot project 2003-2004;
- Challenge;
- Solutions; and
- Masterplan

## Telecommunication in Indonesia

- THE RECENT TELECOMMUNICATIONS ACCESS INFRASTRUCTURE (AS OF 31<sup>ST</sup> DEC 2006) :
  - 14,6 MILLIONS CONSIST OF :
    - 8.7 MILLIONS FIXED LINE
    - 5.9 MILLIONS FIXED WIRELESS ACCESS
  - 63 MILLIONS CELLULAR
- TELEDENSITY:
 

MAJOR CITIES 10-40%, RURAL LESS THAN 0.2% (38,471 VILLAGES WITHOUT TELEPHONE ACCESS)
- THE INVESTMENT IN RURAL AREAS, ISOLATED AREAS, AND BORDER AREAS IS NOT COMMERCIALY VIABLE.
- UNIVERSAL SERVICE OBLIGATION (USO) FUND:
 

OPERATORS HAVE TO CONTRIBUTE 0,75% FROM *THEIR GROSS REVENUE* (GOVERNMENT REGULATION 28 OF 2006)



## POLICY ON UNIVERSAL SERVICE OBLIGATIONS (USO)

- **Telecommunication Law No. 36/1999:**  
Every telecommunication providers have to contribute in universal service obligation, in providing infrastructure and service or other compensation
- **Government Regulation No. 52/2000:**  
USO: providing access to telecommunication network and/or service
- **Government Regulation No. 28/2005:**  
USO contribution = 0.75% from providers gross revenue
- **Ministerial Regulation No. 11/2007:**  
USO service = basic telephony, expanded to information technology



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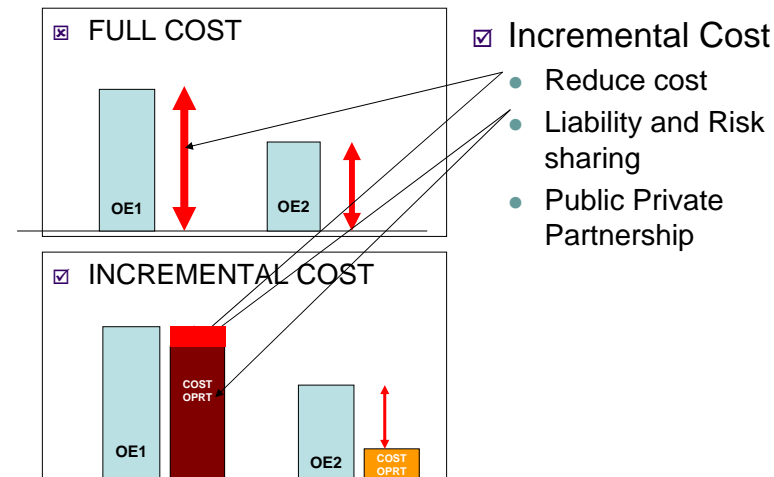
## FINANCING ISSUES ON RURAL ICT DEVELOPMENT

- Investment on fixed line for rural ICT in remote areas needs high-capital with low RoI (Return on Investment)
- Development of ICT in rural areas is much more expensive (not attractive in business point of view)
- Affordable technology and service are required for the poor in rural area



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## FINANCING SCHEME OPTIONS FOR USO INVESTMENT



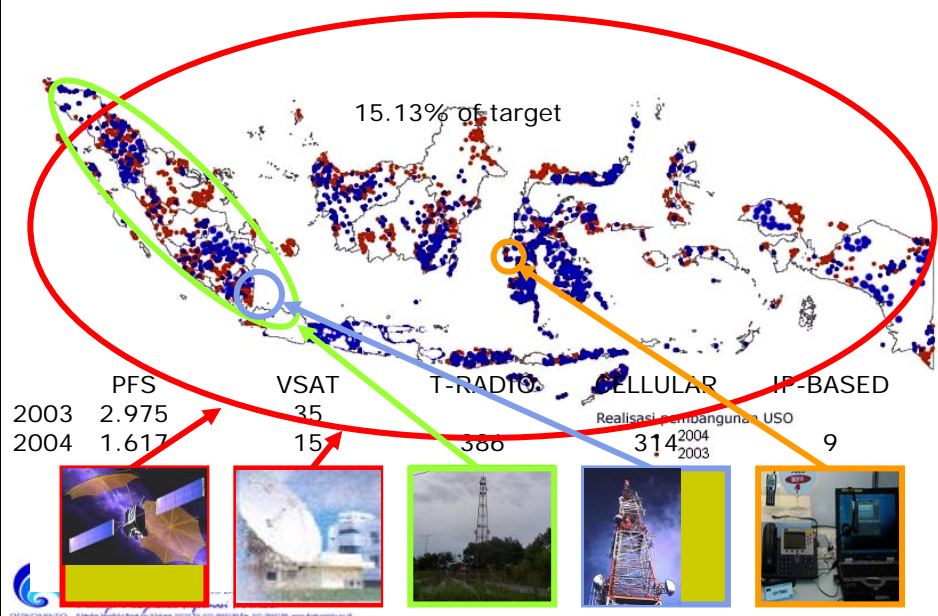
## COST SHARING IN RURAL ICT DEVELOPMENT



## BRIEF HISTORY OF USO PROGRAM

- Till the end of 1990's:
  - Monopoly regime, required: 20% investment for rural and remote area
  - Generated "KSO" (Operational Cooperation) between incumbent and vendor or closed network satellite operator
  - Failed to accomplish the target due to economic crisis
- 2000's:
  - During the transition period from monopoly to full competition the Government took the necessary actions to strengthen the basis for competition eg. USO pilot project (1 village 1 phone)
- 2003 & 2004:
  - State Budget had been allocated for Capex (Capital Expenditure) subsidy in last mile
  - Financing Scheme: Incremental Cost
  - Last mile technologies: Portable Fixed satellite, VSAT, Radio Terrestrial, Cellular, and IP-based

## USO DEPLOYMENT 2003-2004



## CHALLENGES

- Procurement: Open tender for Operator,
  - Capex subsidy attracts Vendor/Contractor instead of Operator. Join cooperation between Vendor and Operator emerged.
  - Vendor Interest: profit gained from equipment procurement
  - Traffic is not main interest for Bidder (Operator with Vendor/Contractor)



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## CHALLENGES (1)

- Assets:
  - State Budget requires status of “Government Asset” for the procured equipment
  - It limits access for maintenance
- Maintenance:
  - Lack of human resources at local level to maintenance
  - Certain level of damaged equipment should be repaired in the capital of the country (Jakarta)
  - For Radio Point to Point technology, repaired equipment should be removed from both side (central unit and remote unit)



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## CHALLENGES (2)

- Financing:
  - Generated revenues insufficient to cover maintenance
  - Maintenance Contract from Government covers 1st year of deployment
  - New maintenance contract should be provided every year
  - Schedule of government yearly budget allocation for maintenance lead to time lags between the date of fund availability and required time for repairing the equipment.



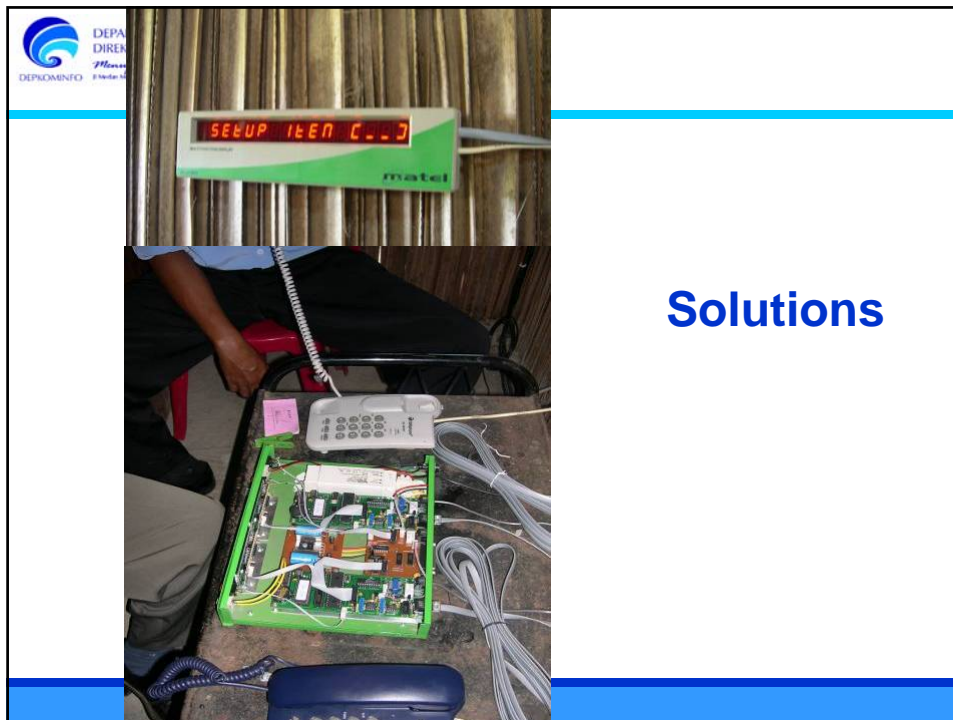
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## CHALLENGES (3)

- Operational:
  - Limited access to Pre-Paid Account Outlet
  - Bad Debt at Post-Paid unit due to revenue collection problems in remote area
  - Decreasing traffic
  - With low volume traffic and high cost for operation and maintenance, there is no incentive for operator to sustain the service
  - Out of service status increase due to maintenance problem



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## Solutions

### INDONESIAN SOLUTIONS

- Set the scheme for operator interest instead of vendor!
- Multiple year fund allocation for continuous maintenance schedule.
- Fixed amount of Opex (Operational Expenses) subsidy instead of Capex.
- Performance based contract instead of one-off subsidy.
- Revenue collection

## NEW SCHEME FOR USO (1)

- USO Fund has been established: 0.75% of operator gross revenue.
- Subsidy from USO Fund for providing access and services
- Infrastructures is owned by Operator
- Technology neutral
- Performance Based Contract
- Multiyear budget allocation



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## NEW SCHEME FOR USO (2)

- Who should manage USO Fund?
- To whom subsidy should go?
- Where does the revenue goes?
- What is the SLA (Service Level Agreement) for Performance Based Contract?



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## USO FUND MANAGEMENT

- BTIP (*Balai Telekomunikasi dan Informatika Perdesaan*) – (Authority for Rural Telecommunication and Information Technology), a non profit public service institution has been established to manage USO Fund.
- 0.75% Operator Gross Revenue contributed to State Treasury through Non-Tax State Revenue collection mechanism
- USO Fund is distributed through BTIP under State Budget Mechanism
- Subsidy goes to villages through Operator to provide Access and Services (usage excluded)

## REVENUE MANAGEMENT

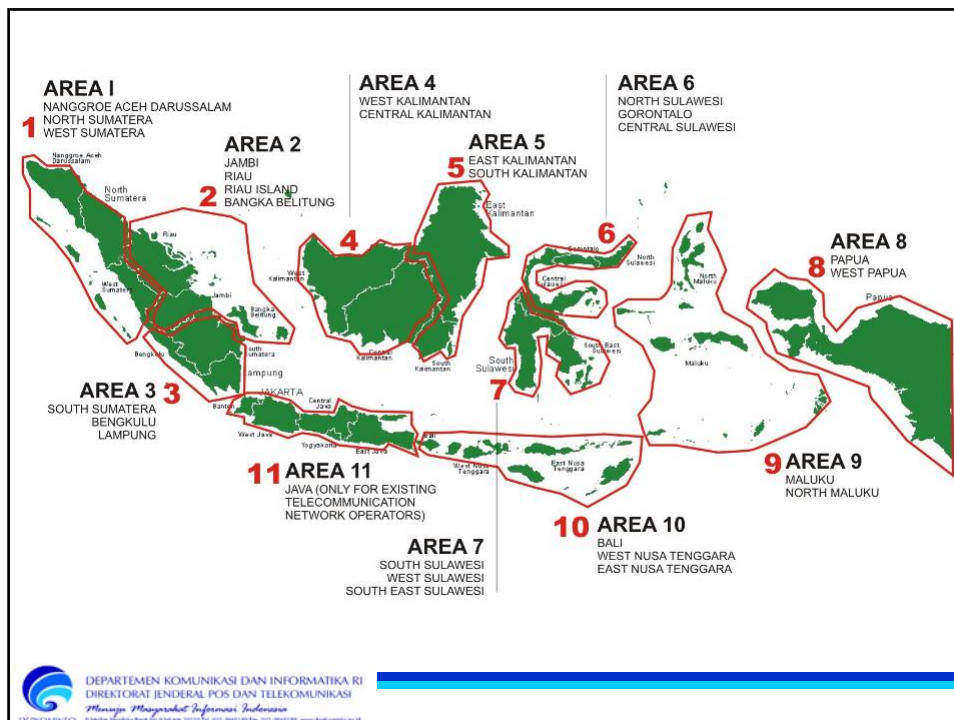
- Options for contract scheme:
  - Gross Cost/Contract:
    - 100% cost shouldered to the Authority
    - revenue (and risk) goes to Authority
  - Net Cost/Contract:
    - (100%-x) cost shouldered to the Authority
    - revenue (and risk) goes to Operator
- Gross Cost provide more information on USO financial performance, which is important for 'exit strategy', however
- Net Cost has been selected due to limited capacity of the Authority to collect revenue

## CONTRACT SCHEME

- Main Contract of 5 years period, consist of:
  - SLA: technical, operational services, administration
  - Total volume: number of lines (master plan)
  - Cost/line/day: lowest subsidy
  - Time frame: pre-operation, regular service, exit
  - Payment: 3 monthly payment with fine, based on SLA
- Annual Contract
  - Volume on the year to come
  - Adjusted SLA if necessary
  - Annual evaluation, subject to review main contract

## Masterplan





## INCENTIVE FOR OPERATOR

- License for local fixed network operator
- License for BWA 2,3 GHz

## STAGES

### SERVICE PROVISION PHASE 2007-2013

PHASE	YEAR						
	2007	2008	2009	2010	2011	2012	2013
DEPLOYMENT	18,000	20,471					
SERVICE		38,471	38,471	38,471	38,471	38,471	38,471

**Note:**

- 2007: procurement process and formulation of quality service program
- 2008: all deployment process finished at October

## FUTURE

- Project Management Unit for Monitoring SLA:
  - USO lines in more than 42.000 villages should be monitored on daily basis as a bases for payment
  - SLA should be scrutinized to evaluate the performance of the service
  - FINE should be enforced to ensure quality of service
- Social and community development
  - With the new scheme, a reliable rural telecommunication services will be provided
  - Integrated rural community development should be conducted to increase social acceptance of NEW technology in rural area.



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## THANK YOU

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