

Owing to a huge population base, low teledensity, saturated urban markets and a strong case for socio-economic development, rural India has emerged as a major growth opportunity for the telecom industry. Since urban markets have already been exploited and have reached a teledensity of 100 per cent, steps have been taken by the industry as well as the government to increase rural telecom penetration.

Rural teledensity has grown at a rapid clip over the past three-four years, from 2 per cent in 2006 to 32.66 per cent in December 2010. The upturn can be attributed to efforts from both operators and the government in the areas of service and product innovation, operational excellence, partnerships with non-government organisations, employment of local entrepreneurs and innovations in energy management.

### **Key initiatives**

In the past few years, the Universal Service Obligation (USO) Fund has played a major role in the development of rural telecom infrastructure, especially in encouraging infrastructure sharing.

On the wireline front, the fund has provided village public telephones (VPTs) in remote and unconnected areas. As per the Census 2001, 62,443 villages were yet to be provided with VPTs. As of September 2010, over 40,100 villages were covered by VPTs using subsidy support from the USO Fund.

The fund has launched a subsidy programme to encourage wireless growth in areas with no fixed or wireless coverage. The first phase of the scheme provides subsidy support for setting up and managing 7,436 telecom towers in 500 districts across 27 states. The infrastructure would be shared by three operators for providing mobile services. Agreements for setting up these sites were signed with infrastructure providers and operators in May 2007. Of the planned 7,436 towers, 7,208 had been set up as of June 2010. The gap between the targeted and achieved numbers exists primarily in insurgency-affected areas like Manipur and Nagaland. Under the second phase, 10,128 towers will be set up in villages or village clusters with a population of 500 or more.

To increase rural broadband penetration, the USO Fund signed an agreement with Bharat Sanchar Nigam Limited in January 2009 to provide 861,459 wireline broadband connections to individual users and government institutions from 27,789 digital subscriber line access multiplexers installed at rural and remote exchanges over a period of five years. As of September 2010, 210,902 broadband connections had been provided under the scheme.

Going forward, the USO Fund intends to cover areas where a single tower would serve two to three villages with a total population of less than 1,000. In these areas, the subscriber base is unlikely to cross 200 or 300 and the difficulties in setting up infrastructure are expected to escalate. To address these issues, the USO Fund intends to promote the development of more efficient shared infrastructure models and reduce capex and energy costs.

A major concern for private operators in rural areas is unreliable power supply. To address this issue, the fund is promoting the use of renewable energy sources. It has already supported a few pilot renewable energy-based projects, especially solar-based projects. A similar initiative has been taken by the Ministry of New and Renewable Energy, which has launched the Jawaharlal Nehru National Solar Mission. The programme proposes to offer 30 per cent subsidy for setting up solar photovoltaic (PV) panels at telecom sites.

The government is also focusing on broadband growth in rural areas. The National Broadband Plan envisages providing broadband coverage to all village panchayats by 2012 while villages with a population of over 500 would be covered by 2013. The Telecom Regulatory Authority of India has recommended an investment of \$6 billion in building a national broadband network. The network will be established in two phases by 2013, starting with cities, urban areas and village panchayats, and then moving on to cover habitations with a population of over 500.

In 2010, the Ministry of Communications and IT launched a \$3.5 billion programme to provide telecom and broadband services to all 626,000 villages in the country. It envisages the setting up of 11,000 towers in rural areas including villages bordering Bangladesh and Pakistan.

### Challenges

Despite these initiatives, the business case for telecom in much of rural India continues to be weak. The per capita income of the rural population is so low that the ARPUs do not make

business sense for private operators. The cost of setting up rural infrastructure is very high and, more often than not, financially unviable.

These problems are evident in a recent move by Reliance Communications (RCOM) and Bharti airtel, seeking to exit the rural telephony scheme under the USO Fund subsidy. These operators have approached the government requesting a premature exit without fulfilling their commitment to provide telecom services in villages. RCOM has less than 500 active base stations of the 8,000 committed by it, while Bharti is operating 900 of the total 1,174 sites assigned to it.

“We have been facing issues in many areas as passive infrastructure providers have failed to provide the required infrastructure on time. We have informed the USO Fund administrator about these issues and are seeking an exit option,” Bharti airtel said in a statement.

### The way forward

Nevertheless, the rural segment offers the highest growth potential for the Indian telecom sector. Moreover, providing connectivity and communication facilities to the rural sector is a key agenda of the government. In spite of the hindrances, the country is slowly but steadily moving towards a connected India

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