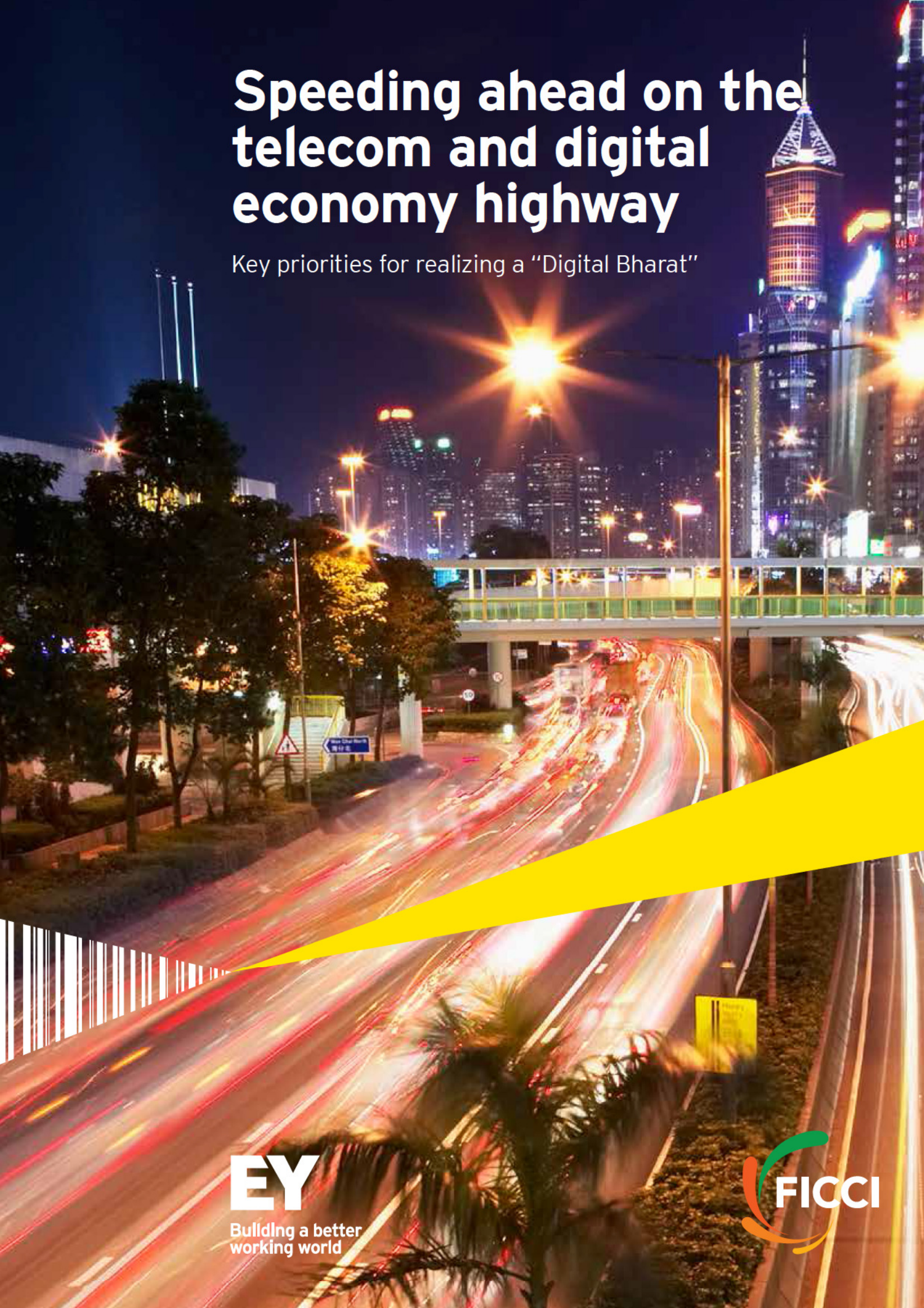


Speeding ahead on the telecom and digital economy highway

Key priorities for realizing a "Digital Bharat"

EY
Building a better working world

FICCI

Executive summary

After the landmark elections of 2014, the incoming Government had brought with it expectations of a new development trajectory. Following that path, the country is treading toward a blend of favorable macroeconomic fundamentals along with strong demographics. With a new regime at the center, the macroeconomic environment is expected to improve further as government policies and agendas come up to speed.

As the country embarks on this new chapter of growth, the telecom sector is also moving toward a phase of evolution and development. Operators are transforming their networks into absorbent digital platforms with the confluence of internet, IT, social media, and mobile computing and cloud services. The telecom industry is heading toward agile business models, fast-paced and disruptive innovation, and a dynamically changing industry landscape.

There has been a renewed and focused direction to the Indian telecom sector in the last twelve months. The country has embarked on one of the world's most ambitious broadband project with the "Digital India" program, which seeks to transform India into a digitally empowered society and knowledge economy. The vision is to provide digital access to all by expanding rural internet coverage to 250,000 villages and leveraging this ICT infrastructure as a foundation to deliver e-governance services on demand.

Another significant initiative is the 100 smart cities project, which aims to improve quality of life by leveraging technology. This gargantuan project has drawn considerable interest from all stakeholders as well as foreign collaborations for funding and technical expertise.

With these initiatives, the Government aims to harvest the power of internet and drive in socio-economic development of the country. These seek to capitalize on ICT to drive financial inclusion and facilitate growth in some critical sectors including infrastructure, health care and education.

Currently, creation of an investor friendly environment is one of the principal requirements for progress of the ICT sector. Retrospective aspects of policy changes and high regulatory payouts need to be reviewed to gain investor confidence. Rationalization of taxes and levies and provision of adequate financial aids and incentives are also essential to stimulate development in the sector. Moreover, a clear road-map of spectrum availability with a rational pricing structure needs to be developed and additional spectrum should be made available to support the growth of mobile broadband.

The infrastructure segment, which feeds as a backbone to the telecom industry, is another area of significance to foster development of the ICT sector. In this regard, inclusion of telecom towers in the harmonized infrastructure list and measures to ensure timely right of way (RoW) have been steps in a positive direction. However, it is imperative that the benefits of these decisions trickle down to the industry at implementation levels.

Another ambit of the ICT sector is the handset segment. In this segment also, India has long sought to provide an impetus to the sector through the release of National Policy on Electronics 2012 and launch of various schemes. There is a need to strengthen the handset manufacturing ecosystem in India via incentives, and rationalization of taxes and levies.

The proliferation of the internet and social media has thrown up new challenges in the areas of security, privacy and governance. The dynamic nature of these media demands a strategic shift in formulation of regulations that are mindful of the global context of such media, and also protect the interests of industry and consumers.

In addition to legacy services, technologies such as cloud and machine-to-machine, are bringing a plethora of new opportunities in the ICT space in the country. Uptake of these services is expected to rise with advances in technologies, particularly with increasing availability of high-speed internet connectivity. Given the nascent stage of these domains, it is important to put in place clear regulatory frameworks to set up a solid foundation for these services to prosper.

Looking ahead, a collaborative effort and focus on affordability are musts to run the digital kranti campaign. In a country with low per capita income, it is essential to focus on increasing the reach of affordable data services to the masses. To achieve this, all stakeholders need to work in tandem and drive service adoption. It is only then that India will be able to bring the much needed digital kranti and ensure digital transformation in the lifestyles of every Indian.

This report has been produced with inputs from the FICCI Communications and Digital Economy Committee, which included stakeholders from across the sector's value chain. It aims to highlight the key challenges faced by industry players and provide actionable recommendations to foster growth in the sector.



Summary of recommendations:

- **Provide adequate spectrum at reasonable prices:** A clear road-map of spectrum availability with a rational pricing structure needs to be developed. Additional spectrum should be made available to support the growth of mobile broadband. Sufficient access and microwave spectrum for backhaul should be made available.
- **Rationalize taxes and levies:** Taxes and levies on telecom services should be rationalized to ensure overall growth and financial viability of the sector. Retrospective amendments in laws need to be discouraged, and all changes should be forward- looking as a principle. Additionally, the funds collected under USOF should be efficiently utilized.
- **Provide uniform policies for deploying telecom infrastructure:** There should be uniform RoW policy across all states with a uniform and reasonable cost structure. Moreover, a single window mechanism should be provided for granting RoW permissions. Also, the private sector needs to be incentivized to provide last mile connectivity in rural areas.
- **Provide a fillip to manufacturing ecosystem:** There is a need to strengthen the telecom equipment and handset manufacturing ecosystem in India through incentives, and rationalization of taxes and levies.
- **Establish robust standards for security and privacy:** Clear rules relating to security standards should be set to help reduce uncertainty for equipment providers, and service providers. The Government, industry and related global standards bodies should coordinate to establish protocols for standardization, interoperability and performance of connected devices.
- **Address security and governance issues of internet:** There is a need for an overarching multi-stakeholder oversight body, which deals with all matters relating to cyber security and amalgamates the work done by different agencies. A principles-based approach to surveillance is required, so that trust among internet community is not lost.
- **Establish policy framework to boost emerging services of cloud and M2M:** It is important to put in place clear regulatory frameworks to set up a solid foundation for these services such as cloud and M2M to prosper. There should be a single nation-wide policy on data centers for providing cloud services, avoiding regional/state-wise difference in regulations.

Financing needs

- A Telecom Finance Corporation should be set up on the same principle as that of the Power Finance Corporation.
- USOF fund needs to be eliminated or reduced to 1%-3%, and the funds already collected under USOF should be efficiently utilized.

Spectrum availability

- All spectrum currently lying unutilized with various government agencies should be made available on priority in conformity with globally harmonized bands.
- Spectrum usage charge should be revised and reduced to 1%, given that spectrum is allocated at market-determined prices.

Taxes and duties

- Bring handsets under provisions of "Goods of Special Importance" under the Central Excise Tax Act, 1956; therefore, capping the maximum VAT that can be levied by states at 5%
- Shift National Calamity Contingent Duty (NCCD) of 1% from mobile phones to other goods, to share levies equitably among industries.

Local manufacturing

- Minimum interest subsidy of 5% on all fixed capital investments for entire Electronic System Design and Manufacturing (ESDM) sector on the lines of benefits given under Technology Upgradation Fund Scheme (TUFS).
- Ten-year tax holiday on a block of 15 years on all profits and gains for manufacturing in the mobile phone industry.

RoW and other impediments to telecom tower installation

- The DoT guidelines should be incorporated in the statutory framework and rules in line with the 53rd parliamentary committee report. State governments should be mandated to follow the guidelines through suitable legislation or direction.
- Adopt uniform RoW across all states at a uniform and reasonable cost.