



By Justine Eligio, Ferry Grijpink and Suraj Moraje

# Philippines: Broadband nation

The Philippines can harvest the dividends of high-speed connectivity if private and public sector players join forces.

High-speed connectivity has become central to nation-building. Indeed, increased broadband use can expand economic growth and job creation -- for example, each job in the information and communications technology (ICT) sector creates two to four positions elsewhere in the economy. Broadband can facilitate spending and service delivery efficiencies across sectors, including a 15% reduction in CO2 emissions via smart grids, increased patient coverage in health care, and low-cost mass education.

Further, governments can employ this technology to increase transparency and efficiency in public administration -- implementation of electronic land records in India led to a dramatic reduction in perceived corruption -- while improving delivery of citizen services. In Mexico, for example, the government launched several online services to improve public administration.

The McKinsey Global Institute's research has shown that fully exploiting the Internet economy could potentially add a full percentage point to annual GDP growth in emerging markets, such as China and some African countries. These benefits can be far reaching -- for example, more than 50% of e-commerce activity in China and India happens outside of Tier 1 cities. Broadband is also a great enabler of growth for small and medium-size enterprises, allowing these firms to better access remote markets through virtual storefronts, easier market research, and greater price transparency.

The Philippines has historically had strong affinity for new technology. The country was an early adopter of technologies ranging from color TVs to mobile payments and is now amongst the fastest-growing smartphone markets in Asia Pacific, increasing 32% annually in the last five years. Unfortunately though, the Philippines lags behind its peers in broadband enablement.

As a result, outside of the phenomenally successful business process outsourcing industry, the ICT sector has contributed relatively little to the economy of the Philippines.

Nonetheless, experience globally shows that countries can rapidly increase broadband connectivity by combining the forces of the public and private sectors. These stakeholders should consider pursuing the following key initiatives:

### **Creating a national broadband aspiration**

Not all broadband is created equally. While the capability of wireless technologies has been evolving rapidly, the more expensive-to-build high-speed fixed line connectivity is still better suited for many heavier applications, for example, enterprise-grade IT and high definition video. It is therefore essential for the Philippines to know what broadband it would like, and where. For example, Australia has announced a nationwide plan to connect 93% of all homes, businesses, and schools using high-speed fiber optic technologies. Malaysia, on the other hand, adopted a target to connect 50% of homes at two Mbps, sufficient for many applications most of the time. The Philippines should define its service aspiration by island group, since the country's fragmented geography will have significant implications on the investments needed. It will also be important to understand the impact that 5G wireless technologies could have on cost-performance tradeoffs.

### **Selecting a model to build connectivity**

While the business case for broadband may be clear from a country perspective, the reality is that telecommunications operators often cannot recoup the costly investments they must make from subscriber revenues alone. Many countries have therefore pursued public-private-partnership models, where the government has co-invested sufficiently to make the business attractive to the private sector. The models have taken several forms, depending on the local context and the extent of broadband ambition. They have included setting up separate legal entities (Singapore), injecting direct investments (Malaysia), reverse auctioning subsidies (Portugal and the United States), and providing indirect subsidies (Korea). When negotiating these models, the participants should jointly agree on a network architecture and plan, as well as on the broader regulatory context needed.

### **Stimulating demand**

Institutions could play a central role in embedding Internet-based technologies into the day-to-day lives of citizens. For example, South Korea made access to broadband essential for school-going youth by introducing online work into the school curriculum. India's digitized UID program can verify the identity of more than a billion people within 200 milliseconds, helping the government reduce leakage in direct subsidy payments and other services. Its Digital Locker program allows all citizens to store their important documents on the mobile phones. Filipino corporations and governments could similarly anchor the local ICT industry by digitizing their own processes and services, creating employment for local IT engineers and software writers. For many organizations, these benefits could quickly translate into faster growth through superior service delivery. The Chinese insurer Ping An, for example, has launched a mobile application by which consumers can upload photographs of damages from car accidents, resolving most claims within a day. The company's face recognition technology has also helped it create the fastest lending platform in China, requiring only six minutes to complete an application.

Broadband is increasing in importance and will soon become a basic need. The Philippines can rapidly improve its broadband delivery by adopting an integrated approach to the sector.

*Suraj **Moraje** is a Senior Partner and Managing Partner, Philippines in McKinsey & Company, based in Manila where Justine **Eligio** is a research analyst. Ferry **Grijpink** is a Partner and leader of the Telecommunications, High Tech and Media practice in Southeast Asia, based in Singapore.*