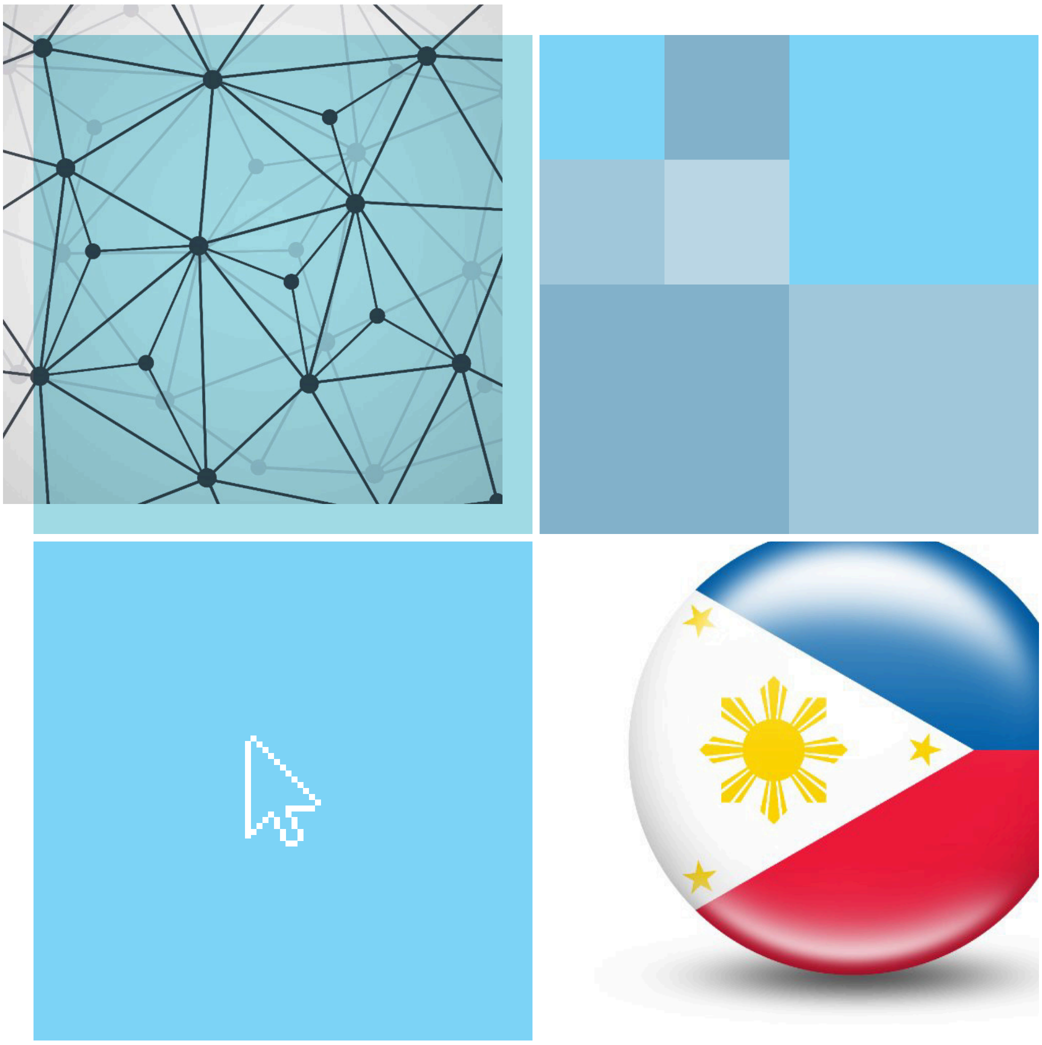

Digitalisation & IT Sector Brief

PHILIPPINES

COUNTRY OVERVIEW

The second-largest archipelago nation in the world after Indonesia, the Philippines, is a group of more than 7,600 islands in the northeastern-most corner of Southeast Asia. The country lies at the centre of an important sea trade route with Taiwan and China due north, Indonesia due south and Vietnam and the rest of mainland Southeast Asia to the west. The Philippines does not share any land borders with other nations. Malaysia is the closest country geographically – Omapuy, a small island in the southwest of the country, lies just 50 kilometres off the coast of Sabah on the island of Borneo.

The Republic of the Philippines is also the second-most populated country in the region after Indonesia, and its capital Manila with 13.5 million people[1] is only slightly smaller than Jakarta. Only Singapore is more densely populated within the bloc. Nearly half of the country's people live in cities[2]. Luzon, which sits at the country's northern end and where Manila is located is home to 62 million people[3], more than half of the total population of the Philippines, and ranks as the fourth most populated island in the World – only Java, Honshu and Great Britain have more people.

Before the pandemic, the Philippines' annual growth remained above 6% for eight consecutive years[4], ranking the country among the best economic performers in the region during the past decade. By 2050, the Philippine economy is projected to become the fourth largest in Asia behind only China, India and Indonesia, and 19th in the world. Output has moved away from a focus on agriculture towards manufacturing, including semi-conductors, garments, and oil and petroleum products.

The Philippines recorded a deep recession following the onset of Covid-19 but in 2021 began to see signs of an equally sharp recovery. In the third quarter of 2021, official data showed GDP growth of nearly 7% which followed 12% expansion in the previous quarter, resulting in 5.6% GDP growth for the year[5]. Overall growth was expected to further accelerate to 6% in 2022[6]. Economists in 2021 repeatedly raised forecasts for the economy as the Philippines exceeded expectations amid a successful vaccination drive and heavy public spending on infrastructure. In March 2022, the country surpassed 120 million vaccine doses administered[7] suggesting complete coverage of about 60% of the population.

1 https://psa.gov.ph/content/highlights-national-capital-region-ncr-population-2020-census-population-and-housing-2020
2 https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=PH
3 https://www.philatlas.com/luzon.html
4 https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=PH
5 https://psa.gov.ph/national-accounts
6 https://www.adb.org/news/adb-raises-2021-2022-growth-forecasts-philippines
7 https://doh.gov.ph/covid19-vaccination-dashboard

SECTOR OVERVIEW

Connectivity levels have in recent years lagged behind other countries in the region, and the pandemic has highlighted the digitization challenges facing the country. However, there are signs that said challenges are being addressed. The Philippines added more than 4 million new internet users during 2020[8], a 6.1% annual increase, meaning two-thirds of the population is now online. Mobile phone saturation was achieved years ago – there are nearly one and a half handsets for every person in the country[9]. However, because connectivity was relatively costly and unreliable in rural areas, large numbers of the population failed to connect to the internet using their mobile phones. This, however, is changing fast as the percentage of people with a mobile device that is not a smartphone has fallen to less than 13%[10], and now more than 80% of people in the country use social media[11].

General characteristics and trends

Room for connectivity growth: Few countries in Southeast Asia can expect so much future connectivity growth as the Philippines over the next decade based on current relatively low saturation levels and the large population of more than 100 million people, based on International Telecommunication Union (ITU) data[12]. Still one-third of the population does not use the internet, or about 37 million people, a significant number greater than the total populations of five of ASEAN's ten member states.

Country	Percentage of Individuals using the Internet/100					
	2000	2005	2010	2015	2019	2020
Cambodia	0.05	0.32	1.26	18	78.27	78.80
Indonesia	0.93	3.60	10.92	22.06	47.69	53.73
Malaysia	21.38	48.63	56.30	71.06	84.19	89.56
Philippines	1.98	5.40	25.00	-	46.88	-
Thailand	3.69	15.03	22.40	39.32	66.65	77.84
Vietnam	0.25	12.74	30.65	45	68.66	70.29

According to "Google, Temasek and Bain, e-Conomy SA 2020", new users are coming online at a blistering pace, adding 49 million new internet users in 2020, compared to 100 million between 2018 to 2019.

Total Internet user in South East Asia

Year	Internet users in Millions
2015	260
2019	360
2020	400

Source: Google, Temasek and Bain, e-Conomy SEA 2020

Given that the vast majority of these people already own a mobile phone, the potential for connectivity growth is increasing., Based on the Digital 2020 for the Philippines report conducted by We are Social and Hotsuite, there were 173.2 million mobile connections in the Philippines in January 2020. The number of mobile connections in the Philippines increased by 38 million (+28%) between January 2019 and January 2020 and in total was equivalent to 159% of the total population.

8 https://datareportal.com/reports/digital-2021-philippines
9 https://datareportal.com/reports/digital-2021-philippines
10 https://datareportal.com/reports/digital-2021-philippines
11 https://datareportal.com/reports/digital-2021-philippines
12 https://www.itu.int/en/ITU-D/Statistics/pages/stat/default.aspx

- Heavy internet usage: The Philippines' internet users spend more time online than any other country in ASEAN and most other countries in the world, according to a 2021 survey by DataReportal[13]. Their 2021 survey found that people aged 16 to 64 years old remain online for nearly 11 hours on average each day in the Philippines, including more than four hours using social media and three and a half hours streaming videos. The Philippines, with its relatively young population, ranks among the heaviest users of popular social media platforms including Facebook.

Social Media Platform	Global Ranking
Facebook	6th
Youtube	10th
Twitter	11th
Instagram	18th

Source: Global Social Media Use Ranking as of Jan 2021

This demonstrates that people in the Philippines consume data at a high level once they decide to first use the Internet. For digital marketing companies and SMEs, which increasingly rely on social media, this high level of internet usage points to significant opportunities.

- Increasing internet speeds: After lagging on download speeds, the Philippines' global rankings for both mobile and fixed broadband internet speed improved substantially in December 2021[14]. The country's median mobile internet download speed increased to 19.20 megabits per second (Mbps) from 18.68 Mbps in November 2021, moving the country up one spot to 89th place out of 138 countries surveyed. The Philippines rose nine places to 63rd place in terms of fixed broadband median download speeds from 72nd place in November 2021, as rates increased to 50.26 Mbps from 46.44 Mbps the previous month. This improvement follows major investment in fibre-optic cabling across the country, and construction of new mobile phone towers, many of which have upgraded mobile connectivity from 3G to 4G. The Philippines has also started to roll out and switch on 5G infrastructure in some cities, further boosting download speeds. These infrastructure improvements mean video streaming has become more viable across greater sections of the country providing new opportunities for small businesses working in or reliant on video streaming.

- Focus on Artificial Intelligence: The Department of Trade and Industry (DTI) has recently developed the National Artificial Intelligence Roadmap, a blueprint for the Philippines to position itself as an Artificial Intelligence (AI) hub in the region, which includes the creation of the National Center for AI Research (NCAIR). Union Bank and Medgate Philippines, a medical firm, are two companies that have recently incorporated AI into their service offerings. The government is concerned that increased AI usage will create unemployment in certain sectors and has tasked NCAIR with targeting support to SMEs to both help those left behind and to encourage AI usage by those whose operations can benefit from the technology.

13 https://datareportal.com/reports/digital-2021-philippines
14 https://news.abs-cbn.com/business/01/19/22/philippine-internet-speeds-improve-in-december-ookla

MAIN PRODUCTS, SERVICES, AND SEGMENTS

Digital Banking

The central government recently announced a target by which 70% of adults in the Philippines would have access to banking services by 2023[15]. In response, the central bank has begun issuing several new digital banking licenses to both local and foreign companies including Overseas Filipino Bank, which became the first digital-only lender in the country in mid-2020. UNO Bank, GOTyme, Union Digital, Maya Bank and Tonik Digital Bank have also since been issued with digital banking licenses. Maya Bank is due to launch in the first quarter of 2022, and Union Digital in the second quarter. After receiving approval in September 2021, Maya Bank stated it would target unbanked and underserved clients, as well as SMEs by offering digital banking services including an e-wallet platform called PayMaya.

E-Commerce

While the pandemic has spurred an unprecedented rise in online shopping in many countries, few have witnessed the same level of expansion as the Philippines during the past two years. After record sales of USD3 billion were recorded in 2019[19], the e-commerce market grew 33% to USD4 billion in 2020, and as a result, it is now being tipped to reach USD15 billion in 2025, which would represent 400% growth in six years. In late 2021, a selling survey by Amazon[20] found that 70 per cent of domestic SMEs in the Philippines had begun to sell their wares online, the highest rate in Southeast Asia.

The local e-commerce market is dominated by companies including Ladaza, Shopee, Amazon, Carousell and Zalora, but the rapid expanding nature of the segment is likely to create opportunities for both homegrown and foreign SMEs and startups.

Cryptocurrency

The Philippines has seen rapid adoption of crypto assets helped by a favourable regulatory environment. One survey in 2020 found the country ranked third in the World behind Nigeria and Vietnam when it came to the percentage of respondents who said they used or owned cryptocurrencies[16]. About 4.5 million people, or 20% of the population were found to own cryptocurrency[17], a high rate compared to the rest of the region. Similarly, nearly three-quarters of people in the country said they were aware of cryptocurrencies. In 2019, Iloilo City became the first city in the Asia-Pacific region to close a property deal using cryptocurrency – three luxury properties were sold using Bitcoin and Litecoin.

Market conditions appear to be improving from an already favourable regulatory position – in mid-2021, the Philippines Stock Exchange (PSE) discussed plans to branch out into a crypto exchange[18], and there are already dozens of licensed, private exchanges operating in the country.

15 https://www.pna.gov.ph/articles/1153742
16 https://www.statista.com/chart/18345/crypto-currency-adoption/
17 https://www.statista.com/chart/18345/crypto-currency-adoption/
18 https://www.cnnphilippines.com/business/2021/7/2/PH-plans-cryptocurrency-exchange.html
19 https://www.bain.com/globalassets/noindex/2020/e_conomy_sea_2020_report.pdf
20 https://www.philstar.com/business/2021/10/19/2135033/philippines-tops-southeast-asia-e-commerce-sales-amazon

Logistics

The expansion witnessed in the e-commerce sector has spilt over into linked markets, particularly e-logistics required to deliver goods in a country made up of thousands of islands. Many of the most popular e-commerce sites operate their own logistics companies, including Lazada with LEX Express and Shopee Xpress, a subsidiary of Shopee of Singapore. However, independent companies, both domestic and foreign, such as LBC Express, JRS Express, J&T Express, Grab Express, Ninja Van and Lalamove have joined the sector given that growth of the traditional logistics segment is expected to grow more than 8.2% annually over the next five years[21].

Among those that will continue to dominate the logistics market is the freight forwarding sector, followed by warehousing. Largely contributing to this is the growth of the industrial and retail sector in addition to the continuous rise of e-commerce in the country. The e-commerce logistics market in the country is expected to grow on the back of new technologies such as automation, blockchain, and Internet of Things (IoT), which are being explored to increase efficiency, improve customer experience, and enhance service quality[22].

IT-BPM

The Philippines' Information Technology and Business Process Management (IT-BPM) sector is one of the best-performing and employment generating activities in recent years.

The Philippines is a top tier destination for IT-BPM services and remains one of the leaders in the global IT-BPM industry, ranking first in voice-related services and accounting for 13% of the global market share. It is expanding to multi-tier and higher-value services that have attracted investors and locators globally. The industry has also showcased its ability to offer more complex and digitally-enabled non-voice services and niche the business process services to various industries.

The country has since evolved from being an alternative destination for low-cost services to providing high-quality services at competitive price points. The Philippines is rapidly growing its capability to offer non-voice BPM and IT services to an increasingly broader set of clients worldwide, expanding its horizontal BPM services in areas such as finance and accounting, as well as vertical-focused solutions such as healthcare information services. These services, along with the substantive increase in multinationals turning to the Philippines for shared services supporting global operations, is facilitated through the combination of skilled client-facing talent, a well-established ecosystem, significant cost savings, robust intellectual property protection and the commitment from the government to ensure growth of the sector.

In terms of revenue, the Philippine IT-BPM industry reached USD26.7B in 2020 and there is still potential for the industry to reach USD29B by 2022 despite the effects of the COVID-19 pandemic. Meanwhile, in terms of manpower, the industry grew by 1.8% from 2019 to 2020, representing about 23,000 full-time equivalents (FTE), bringing the total industry headcount to 1.32 million. Based on the recalibration study conducted by the Everest Group, it aims to attain a headcount growth of 5% and revenue growth of 5.5% per annum from 2021 to 2022.

Emerging Industry 4.0 trends include big data and analytics (BDA), IoT, automation and artificial intelligence (AI), and cloud computing, all of which rely heavily on the IT-BPM industry. With the formulation of the AI Roadmap, the Philippines is laying the foundations to keep up with rapidly changing times and improve its technology adoption and competitiveness in the country.

21 Source: https://www.mordorintelligence.com/industry-reports/philippines-freight-and-logistics-market#:~:text=The%20Philippines%20freight%20and%20logistics,8.2%25%20during%20the%20forecasted%20period.&text=Many%20distribution%20as%20well%20as,productivity%20in%20the%20near%20future.

22 Source: https://www.kenresearch.com/automotive-transportation-and-warehousing/logistics-and-shipping/philippines-e-commerce-logistics-market-outlook-to-2025/420223-100.html

REGULATION

Currently, several laws are being considered by the House of Representatives and the Senate in line with recent developments on e-commerce, such as the proposed Internet Transactions Act (ITA) of 2022 and the House Bill No. 7425 (An Act Imposing Value-Added Tax on Digital Transactions in the Philippines), among others.

Amidst the rapid expansion of the digital sector spurred by the pandemic, the Philippines has been working to update its legal regime to address the changing face of commerce in the country from offline to online retail. Discussions have increased regarding the need for updated legislations, and therefore new laws are expected in the medium term. Currently, several laws are being considered...

Legal requirements

The E-Commerce Act was passed in 2000 and numerous supplementary laws are currently under consideration. The DTI issued a draft administrative order in the third quarter of 2021 which aims to enhance consumer confidence in online transactions. This order is being examined by the private sector and is expected to remind e-commerce sellers of their legal obligations in regards to marketing, sales, payments and all other facets of the e-commerce process. There are no specific legal requirements in regards to digital signatures which is covered in part by the E-Commerce Act.

A Republic Act No. 10173 or the Data Privacy Act was passed into law in 2012 and came into force in September 2016 – this comprehensive legislation governs online and digital data in particular, and makes exceptions for overseas data handling which benefit the cloud computing sector in particular. There are no specific legal requirements in regards to digital signatures, including with government offices or in relation to online contracting. Digital signatures are therefore legally recognized by courts in the Philippines.

In early 2021, the central bank (Bangko Sentral ng Pilipinas) issued guidelines for the establishment of digital banks which led to the flurry of new digital banking licenses issued throughout 2021. The new regulations stipulate that all digital banks operating in the Philippines must maintain a head office in the country as a point of contact, with a minimum capital requirement of PHP 1 billion (about USD20 million). All digital lenders are regulated by the central bank in Manila.

In 2017, the PSE issued a legal notice called 'Circular 944' which enshrined the exchange's role as a regulator of cryptocurrencies in the Philippines. Although the notice stated that virtual assets were not recognized as currency, it did make their use de facto legal. As such, the Philippines is considered one of the most crypto-friendly countries in the region.

Taxes

As part of economic recovery initiatives, the government announced a raft of tax relief measures in the third quarter of 2021. Named the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, the measures lower tax rates on income for SMEs and foreign corporations, depending on the income scale. This included lowering the minimum corporate income tax rate to just 1%.

Sales tax in the Philippines is lower than many countries in the Asia-Pacific region and equates to 12% for online sales of more than PHP 1.92 million (about USD38,500) per year.

Parliament is currently considering a 12% sales tax on digital transactions to help generate state funds for pandemic response efforts. In September, 2021, the bill was approved by the lower house[23], a key step towards being enshrined into law.

The Philippines is currently working on the Internet Transactions Act (ITA). Among the key provisions of the act include the establishment of the E-Commerce Bureau as the main implementing agency of the objectives of the bill. The bill also outlines the rights and obligations of e-commerce stakeholders, as well as remedies available not only for online consumers, but also for online sellers as both are equally important in establishing trust in e-commerce. It identifies best practices and principles in terms of code of conduct as well as the obligations and liabilities of online platforms, ride hailing services and online merchants in ensuring consumer protection and registration of their sellers.

In addition, the country is also working on its ratification of the UN ECC.

23 https://www.pna.gov.ph/articles/1154253

MARKET ENTRY

Setting up a business in the Philippines

The Philippines ranks about halfway up the global league table for ease of doing business and has made gains in recent years, achieving an 'easy' rating by the World Bank. Following a significant amendment to the Public Service Act passed by the Senate in early 2022[24], the Philippines has now opened sectors including airlines, railways and telecoms to 100% foreign ownership as part of government efforts to boost the economy following the global pandemic.

The time required to complete company registration varies a great deal depending on the type of business. There are five main structures available: a sole proprietorship, partnership, corporation, local branch office or representative office. The much smaller sole proprietor structure typically takes one or two working days to complete registration, while a corporate structure can take up to one calendar month and requires a minimum of five people.

New start-ups in the Philippines should be aware that much administrative power is devolved to cities and local governments, and therefore all new businesses are required to obtain what is known as barangay clearance, or permission from the smallest local administrative unit known as the barangay, and a business permit from the local mayor. A key next step is to then register with the Bureau of Internal Revenue (BIR), the main tax-collecting authority.

Registration bodies

Aside from local government offices and the BIR, new business owners are required to register with the DTI, in the case of sole proprietorships, and with the Securities and Exchange Commission (SEC) for corporations and partnerships. As with many other countries in the region, there are numerous agency services available that charge fees to aid start-ups navigate the registration processes involved.

24 https://www.dti.gov.ph/archives/news-archives/amended-public-service-act-to-fuel-economic-rebound/

RECOMMENDATIONS AND TRENDS

- Offline to online: With 86% of business leaders stating they need to undergo digital transformation, according to a recent survey, and with just 32% stating they have a strategy already in place, the private sector appears to be midstream in terms of going online. The Philippines' private sector and wider population have demonstrated in recent years that adaption and change can come quickly – SMEs should therefore remain flexible and ready for a rapid digital transformation.

- Digital payments: The Philippines has witnessed a marked shift towards e-payments over the past two years, and to a lesser extent growing usage and investment in cryptocurrencies, and these trends are expected to continue to grow even after pandemic lockdowns cease. The Philippines is also expected to witness many among its unbanked population skipping traditional banks in favour of digital banks now that the latter sector is growing so rapidly following new licensing regulations issued by the central bank at the start of 2021. SMEs are advised to consider digital payments as standard after 2025 when the majority of the population are expected to regularly use e-wallets to pay for goods and services.

- Cloud computing: Although such services remain underused in the Philippines, cloud computing was expected to take off with the building of a new data centre by Alibaba Cloud which was due to open before the end of 2021. This initiative includes the training of 50,000 local IT workers and follows the setting up of the Philippines Ecosystem Alliance, a body that is also promoting cloud and related IT services. In 2020, the Department of Information and Communications Technology (DICT) updated its Cloud First Policy which promotes cloud computing as the preferred technology for government administration and services[25]. Cloud services are therefore expected to become more widely available and less costly providing a considerable advantage for digital SMEs seeking market entry in the Philippines.

  Hyperscalers and Data Centers: The hyperscalers and data centres were identified by the DTI-Board of Investments as new priority sectors for intensive promotion under the "Make It Happen in the Philippines" campaign, the new international investments promotion campaign of the Philippines. With the country's thriving digital and economic profiles, robust and sustainable infrastructure, and rich talent pool, combined with strong government support and a favourable regulatory environment, the Philippines is poised to be the next hyperscaler's hub in the Asia-Pacific region.

25 https://dict.gov.ph/dict-releases-amended-cloud-first-policy-for-govt-transition-to-new-normal/

The Philippines is likewise gaining ground as more tech companies are attracted to the growing demand for internet and IT-enabled services in the country. The Philippines' enterprise spending on cloud services is expected to grow from USD1.8 billion to USD2.6 billion in 2024, according to Global Data, a data analytics and consulting company. Hyperscaler investors can likewise take advantage of the Philippines' ready infrastructure such as possible co-location options with existing data centres and the country's renewable energy readiness.

- Peso stability: The peso has remained broadly stable despite the pandemic, reflecting, in general, investors' continued focus on the country's macroeconomic fundamentals which include a manageable inflation environment, a strong and resilient banking system, a prudent fiscal position, and an ample level of international reserve buffer.

  Nevertheless, there are a number of risk factors that could affect the exchange rate path in the near term. At times, sentiment arising from both external and domestic developments can drive some movement in the peso, but there were reversals when sentiment dissipate. This is indicative of the fact that while sentiment can lead to temporary fluctuations in the peso, its long-term trend is still driven by fundamentals.

  Amid these headwinds, the Government has plenty of tools to respond to any short-term volatility in the exchange rate, particularly the availability of FX reserves buffer alongside macro-prudential measures. There are also existing liquidity enhancing and management tools such as the US dollar repo facility, Exporters' Dollar and Yen Rediscount Facility, and the enhanced Currency Rate Risk Protection Program.

  More importantly, the Government remains committed to its flexible exchange rate policy. The Bangko Sentral ng Pilipinas (Central Bank of the Philippines) will continue to allow market dynamics to determine the exchange rate path and participate in the market only when the exchange rate volatility threatens the inflation target or exerts undue pressure on inflation expectations while ensuring orderly market conditions on a daily basis

- Less restricted travel: From 10 February 2022, the Philippines reopened its borders to fully vaccinated international travellers from visa-free countries for either business or tourism purposes[26]. Fully vaccinated foreign travelers are no longer required to go through mandatory quarantine as long as they are able to present a negative RT-PCR test done within 48 hours before departure. On the other hand, said travellers must monitor themselves for seven days and subsequently report to the local government if they have symptoms. Other provisions include the presentation of vaccination certificate, a return ticket and a passport that is valid for at least six months. Businesspeople and foreign SMEs should therefore see less restricted entry.

26 As of 3 March 2022.

Digitalisation & IT Sector Brief