Strengthening Telecommunications

There is need for significant reform in the telecommunications sector in the Philippines, despite the progress that has been made over recent years. The need for change in the policy and regulatory framework is the most pressing need, which when implemented should facilitate the introduction of more vibrant competition in the sector, with resultant savings for consumers, and benefits for economic development throughout the nation. Particularly urgent also is the need for extension of basic service to some 35,000 barangays where there is not even a single telephone. Suggested areas for focus include addressing issues related to universal access, competition, institutional structure and spectrum management.

1. BACKGROUND

The telecommunications industry in the Philippines has a unique history. Unlike most of its regional neighbours (which generally featured government-operated Post and Telegraph companies until recent years), the Philippine Telecom Sector has been dominated by a single private sector operator (PLDT) for decades. Another difference between the Philippines and its neighbours is the long term existence of a telecommunications regulatory body, the National Telecommunications Commission (the NTC), which has been responsible for telecom regulation in various forms for more than 30 years.[1]

However, like most of its neighbours, for many years, the Philippines suffered from poor telecommunications availability throughout most of the country. In 1988, the Government recognized that the Telecom Sector was essentially moribund, with very limited rural services, and long waiting lists for service throughout the country. There were only 591,000 telephone lines in the entire country, and there were literally hundreds of municipalities with no telephone service whatsoever. The monopoly incumbent had failed to provide services in much of the countryside, minimizing its investments in growth and expansion of services. Moreover, the scores of smaller telephone companies operating in primarily rural parts of the country lacked the capital to expand their networks and services.

To address these problems, the Government initiated a series of Legislative and Executive actions aimed at introducing competition to the sector, and removing the Government from the sector as an operator. These initiatives have led to significant progress in the sector, now marked by the operation of many service providers, an increase in telephone penetration, and a particularly dramatic growth in the availability of wireless telephony services throughout the country.

The prime thrust of Philippine Government policy as it applies to Telecommunications has been, since 1987, the need to create a regulatory/policy environment in which the private sector will play the lead role in sector development and expansion. The National Telecommunications Development Plan (NTDP) (for 1991 to 2010), published by the DOTC in 1990 stated:

"The efficient and rapid growth of the telecommunications sector requires the maximization of the role of the private sector, with the Government acting as the facilitator. Accordingly, the Government shall initiate further improvements to the policy and regulatory environment and privatize government telecommunications assets and/or operations as soon as practicable."

[1] In 1979, under Executive Order 546, two regulatory bodies, the Telecom Control Bureau and the Board of Communications, were merged, and the NTC was established under the Ministry of Transportation and Communications (now DOTC).

This policy theme has been repeated often in legislation (RA 7925 and other initiatives discussed below) and in policies relating to both telecom and ICT development. The NTDP set out growth targets for the sector, including teledensity (3.5 per 100 population by 2010), PCO distribution (100% of municipalities by 1997) and a series of related investment and operational targets. Clearly, the teledensity target has been exceeded by a huge margin, as have the various forecasts of sector investments. However, the PCO distribution target has been missed by a large margin, primarily because of the focus on urban areas by all the carriers in the sector. As a result, 35,000 barangays out of the total of 42,000 have no telephone service.

Much remains to be done, as there are still many municipalities in rural parts of the country that lack meaningful access to basic telephone services, and even more which require upgrades to bridge the so-called "digital divide", through the provision of access to Internet services. Cellular wireless services are not yet easily used for Internet access for such applications as education and health care, and while wireless technology is expanding rapidly in the Philippines as elsewhere, there is still a serious shortage of basic services in many parts of the country. The regulatory body, the National Telecommunications Commission (the NTC), has succeeded in motivating some expansion to rural and remote parts of the country, but recently, such expansion has slowed to a trickle, and it appears as though new thinking is required to finish the task.

2. THE ISSUES

2.1 Universal Access

The most important issue facing the policy makers and the industry in the Philippines telecom sector is the failure to achieve adequate distribution of basic services throughout the country. There are several reasons for this failure – many blame the economic setbacks suffered by the ASEAN countries generally. This slowdown has affected the ability of current operators to effectively expand their services into areas to which they were committed under the NTC's Service Areas Scheme (SAS) which in several cases was the basis for their being allowed to enter the market in the first place. The SAS required new entrants to commit to installing services in unserved and underserved areas in their serving territories, and in return, they would be allowed access to the "cream" markets in urban centres. Although this has worked to a degree, the current situation shows that the program has failed to achieve its prime objectives. Entrants focused on the urban areas first, and then failed to meet their rural/remote targets. There is serious overlap and oversupply in many urban areas, and the obvious shortfall in the countryside. Today, mobile service networks provide about 75% geographical coverage to approximately 90% of the population. This opens up the opportunity for mobile cellular telephony to address the universal access challenge.

2.2 Institutional Structure

One of the most serious institutional issues facing the sector (agreed by virtually all stakeholders), is the lack of independence of the regulatory body. Historically, the Commissioners of the NTC have been co-terminus with the government of the day, and in a number of instances, the most recent one being within the past few months, the Commissioner has been dismissed for political reasons, or simply for making unpopular decisions. This situation undermines the credibility of the process, and is completely unacceptable as a model for operating a regulatory function in any economic sector.

The role of government generally for telecommunications is also an issue. The recent decision to establish a Department of Information and Communications Technology is in line with worldwide trends, and in itself is a positive sign. However, the continuation of the lack of an independent regulator, and the decision by the government to continue to play a role as an operator in the sector through the Telecommunications Office (TELOF) of the former Department of Transportation and

Communications (DOTC) are both signs of a failure to act responsibly to introduce true reform and world-class governance. The TELOF operation is a drag on public funds, provides only marginal telecom services, and has long been the subject of government policy decisions to downsize, privatize or eliminate the function. For example, TELOF has very low productivity of 4.5 lines per employee compared to the average of 243 lines per employee in lower middle income countries, and incurs significant operating losses each year. Clearly, this issue has not been confronted in the most recent iteration of government policy, and will thus continue to be a problem in the sector.

2.3 Competition

Competition in the telecom sector would seem to be alive and well, as there are many operators in the market – 11 international gateway operators for instance, and three significant wireless players operating nationally. However, the fact is that the SAS program actually created a series of regional duopolies, each with its own chosen domestic and international long distance connections. Users cannot exercise choice of long distance provider as in truly competitive markets, and choice at the local service level is almost non-existent. There is some competition in the deregulated private line and data market, which benefits business users in the urban centres. Until the recent entry of a third national wireless operator, rates for mobile service were generally identical.

In other words, competition exists to a degree, but dynamic competition in the sector requires more effort. Carrier pre-selection for long distance access is long overdue, and interconnection rules must be enforced to ensure that entrants actually have a fair chance in the marketplace.

Finally – market entry rules or requirements are difficult, to say the least. Every service provider requires a Congressional Franchise and further certification by the NTC, both of which processes are politically influenced, slow, and costly. Until more open market entry arrangements are in place, the market will be an oligopolistic domain for a few major economic players and will not encourage market innovation nor consumer welfare.

2.4 Spectrum Management

With regard to spectrum management at the NTC, there are serious problems in the area of computerized records and monitoring capacity. Another major issue is the inability of the NTC to utilize the proceeds from spectrum fees for funding needed regulatory and enforcement operations. All the revenue from their fees goes to the general revenue fund of the government, and they have virtually no budget for new equipment or staff support. This lack of support has led to an essentially passive mode of regulation, by necessity. As a result, there has been little enforcement possible to ensure that allocated spectrum is in fact used effectively and efficiently. Poor management of the radio spectrum constrains sector development through slow allocation of spectrum resources, inadequate allocation of bands and failure to make new frequency bands available in a timely manner.

It is suggested that the government require the NTC to conduct a comprehensive proceeding to examine ways in which to improve its current spectrum policies and practices for awarding licenses and managing the radio spectrum. The objective should be to ensure economically optimal use of scarce resources. Properly implemented, improved policies and practices should also generate substantial non-tax and tax revenues for the budget.

3. THE ROADMAP TO REFORM

The following table outlines proposed initiatives (in order of priority) that should be considered by the Philippines government in order to achieve true sector reform and expansion of much-needed services to underserved areas in the country.

Objective	Steps to be taken in Short Term (1-2 years)	Steps to be Taken in Medium Term (up to 5 years)
Universal Access to Basic Services	NTC should conduct a proceeding to determine the nature of the problem, including status of commitments, demand factors, wireless coverage etc. Universal access should be carefully defined and should include internet access and affordability aspects. 3. NTC should establish a subsidy program to achieve coverage needed. If a universal service fund is deemed to be the answer – NTC and DOTC should define the mechanism and collection methodology.	1. NTC should put a mechanism for expansion in place and monitor performance. 2. If an aid program can be harnessed to provide the needed subsidy, NTC should manage its implementation – all funding should support private sector initiatives. 3. Universal Access should be an integral part of a long term ICT plan to be coordinated with the new ICT Department if formed.
Promoting Competition	1. Open the long distance market by introducing carrier selection mechanisms. 2. Allow resale by "value-added" service providers.	1. Consider opening the local market to all operators, establishing interconnection rules for all entrants. 2. Change legislation to allow market entry without the need for legislative franchises, with licensing to be done by the NTC.
National Telecom Development Plan	DOTC (or its successor department) and the industry should implement a new "edition" of the NTDP, following a similar pattern to the production of the last plan in 1990, concentrating on hard development targets with time frames attached. This time, the plan could include an IT component, but care should be taken with the focus of the study – it may be more prudent to do it in two parallel paths.	DOTC (or its successor department) should monitor actively, progress on the NTDP, taking action as required to ensure compliance by the industry wherever failures occur – or institute necessary corrective action where feasible. NTC should issue an annual report on compliance with the NTDP, and recommendations for actions required.
Legal Framework for Telecommunications Governance	Begin the process of developing a successor law to RA7925, encompassing the needed institutional strengthening, sector reform, universal service funding and IT expansion goals.	With these objectives in mind, review the current legislation, with the view of creating a comprehensive ICT Bill that would spell out a new role for the government, with an independent, self-funded regulatory body, and policy guidance to ensure expansion of needed services.
Spectrum Management Issues	Conduct a proceeding aimed at developing a plan for Spectrum Management reform. The review should include spectrum policies and practices, with the aim to ensure economically optimal use of scarce resources. Properly implemented, improved policies and practices would also generate substantial non-tax and tax revenues for the budget.	Ensure that the staffing and other resources are in place in the NTC to implement the plan emanating from the proceeding described in the short term plan.