Policy Brief

SENATE ECONOMIC PLANNING OFFICE

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The Maharlika Investment Fund

The previous administration's infrastructure push started a positive momentum for development as it began to bridge the country's decade-old infrastructure gap. This focus on investment, however, encountered financial challenges in light of other emerging government priorities. The Maharlika Investment Fund is envisioned to address these limitations by providing access to foreign capital that will augment the government's resources. This mechanism, however, also comes with potential downside risks which have to be considered in determining the best way forward to achieve the government's objectives.

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I. Introduction

Infrastructure investment is widely regarded as an effective way of stimulating the economy. It can boost productivity, enhance connectivity and trade, spur growth, and foster economic inclusion. Cognizant of this, the government has been looking at accelerating infrastructure investments to sustain the Philippine economy's positive growth momentum. Limited resources, however, have prevented the sufficient allocation of funding for infrastructure. The pandemic made this even worse as it strained public finances and required the diversion of the budget to other areas such as healthcare and social services. In addition, the country's access to official development assistance (ODA), a key source of financing for major infrastructure projects, will likely be affected by the Philippines' forthcoming graduation to upper middle-income status. The transition will render the country ineligible to avail of the low-interest loans and grants that are offered to low-income and lower middle-income economies.

To reduce the heavy reliance of infrastructure projects on local funds and prepare for the country's economic transition, the government is proposing for the establishment of the Maharlika Investment Fund (MIF) and the creation of its corporate arm, the Maharlika Investment Corporation (MIC). The MIF shall serve as an investment vehicle for drawing both domestic and foreign capitals, including those from global financial institutions and multilateral partners. It is envisioned to be an alternative source of financing to support capital-intensive projects such as those under the *Build Better More Program.* Through the said Fund, the government would be allowed to mobilize financial assets towards investments with potentially higher returns that may be prohibited under the current regulatory frameworks.

As an independent fund, the MIF will adhere to the *Santiago Principles,* which contain generally accepted values and practices on sovereign wealth funds (SWFs). Other developing countries have created SWFs to diversify their economies and to pursue development and strategic growth objectives. The proposal must hence be examined to see if the same policy direction is applicable to the Philippine context. This Policy Brief aims to provide an overview of the salient features of the proposed MIF, discuss the concerns and issues raised against it including its feasibility and practicability, and provide appropriate recommendations on the proposed measure.

II. Overview of the Maharlika Investment Fund

Brief History. The MIF was first proposed by House Speaker Martin Romualdez through House Bill No. (HBN) 6398. The measure underwent at least four Committee meetings to discuss the provisions and the issues raised against it before the House Committee Report was submitted. Notably, the proposed mandatory contribution from pension funds—i.e., from the Government Service Insurance System (GSIS) and the Social Security System (SSS)—was eventually dropped after severe backlash from the public. The bill was later certified as urgent on 14 December 2022 by President Ferdinand Marcos Jr., citing the need to establish a sustainable national investment fund which will spur economic growth and social development. The certification enabled the House of Representatives (HRep) to approve the substitute bill, HBN 6608, 17 days after it was filed.

As with all legislative proposals, the Senate must pass a counterpart bill for the measure or concur with the HRep version to become law. Senator Mark Villar filed Senate Bill No. (SBN) 1670 while Senator Raffy Tulfo also filed another version under SBN 1814. Three Committee hearings were conducted to discuss the legislative proposal and were followed by three technical working group (TWG) meetings to finalize the measure before the Senate Committee Report was submitted. The proposed measure under SBN 2020 was sponsored by Sen. Mark Villar and is currently undergoing interpellations.

Rationale. According to its proponents, the MIF is envisioned to allow the government to execute and sustain high-impact and long-term economic development programs and projects without imposing new taxes. By pooling the investible funds of select government financial institutions (GFIs) and channeling them into diversified financial assets and development projects, the MIF aims to obtain the optimal absolute return and achievable financial gains on its investments, preserve and enhance the long-term value of the Fund, and promote economic development.

Table 1. Features of the Proposed Maharlika Investment Fund

Particulars	Details
Corporate vehicle	Maharlika Investment Corporation (MIC)
Objective	To promote socio-economic development by making strategic and profitable investments in key sectors to preserve and enhance long-term value of the Fund
Funding sources	LBP; DBP; BSP dividends; PAGCOR revenues; DOF-PMO properties and privatization proceeds; other sources such as royalties
Allowable investments	Cash, currencies, tradeable commodities, fixed income instruments, corporate bonds, equities, joint ventures, real estate, among others
Governance	Nine board members: Finance Secretary (Chairperson); CEO as (Vice-Chairperson); Presidents of LBP and DBP; two regular directors and three independent directors

Source of basic data: Senate Bill No. 2020, filed on 20 March 2023

Initial Capitalization and Allocation. Under the current version of the bill, SBN 2020, the MIC shall have an authorized capital stock of PhP500 billion to be divided into five billion shares (with a par value of PhP100 per share). Of the said number, 75 percent would be classified as common shares (with voting rights) and the remaining 25 percent as preferred shares (no voting rights but have priority over income).

The common shares worth PhP375 billion would be subscribed by the National Government, of which PhP125 billion would be initially subscribed by the Land Bank of the Philippines (LBP) with PhP50 billion, the Development Bank of the Philippines (DBP) with PhP25 billion, and the National Government with PhP50 billion. Meanwhile, the preferred shares worth PhP125 billion will be made available for subscription by the National Government and by reputable private financial institutions.

The contribution of the National Government would be pooled from central bank dividends, gaming revenues, privatization proceeds, and other sources as follows:

a. **Dividends from the Bangko Sentral ng Pilipinas (BSP).** The central bank will be required to remit 100 percent of its total declared dividends to the National Government for the first and second fiscal years upon effectivity of the Act. Afterwards, this contribution would be reduced to 50 percent until the increase in the capitalization of the BSP, in accordance with Republic Act (RA) No. 11211, is fully paid. Once the increase in capitalization of the BSP is completed, 100 percent of BSP dividends would once again be remitted to the National Government until the MIC's capitalization of PhP50 billion is fully paid.

b. **Gaming revenues from the Philippine Amusement and Gaming Corporation (PAGCOR) and other government-owned gaming operators/regulators.** For a period of five years, PAGCOR will be required to contribute 10 percent of the National Government's share of its income. Other government-owned gaming operators and regulators shall likewise contribute 10 percent of their revenues from gaming operations. The provision indicates that shares earmarked for the Universal Health Care Act should not, in any manner, be diminished.

c. **Properties and privatization proceeds from the Department of Finance-Privatization and Management Office (DOF-PMO)**. The Privatization Council shall be tasked to identify real and personal properties, as well as the amount of privatization proceeds for contribution to the MIC.

d. **Other sources, such as royalties and/or special assessments based on the fiscal regime of the government.**

The proposed measure also provides for an automatic review of the foregoing contributions by the Finance Secretary every five years, to take into consideration the Fund's adequacy in relation to the objectives of the Act and fiscal conditions of the government, among others.

To allay fears that the pension funds would be tapped for the MIF, Section 6 of the substituted bill now expressly provides that under no circumstances would social security agencies such as the GSIS, SSS, and Home Development Mutual Fund (Pag-IBIG Fund) would be requested or required to contribute to the Fund.

Allowable Investments. Proponents highlight that the MIF would give GFIs the opportunity to channel their funds to investments that will provide the best absolute return. To meet this objective, the MIF will have more allowable investment options (e.g., investing in unlisted equities or participating in joint ventures or consortiums) that may be prohibited or subject to strict regulations by the BSP. The current draft provides that the MIC shall be authorized to invest in the following, subject to strict compliance with investment and risk management guidelines:

a. Cash, foreign currencies, metals, and other tradable commodities;
b. Fixed income instruments issued by sovereigns, quasi-sovereigns and supranationals;
c. Domestic and foreign corporate bonds;
d. Listed or unlisted equities, whether common, preferred, or hybrids;

e. Islamic investments, such as Sukuk bonds;
f. Joint ventures or co-investments;
g. Mutual and exchange-traded funds invested in underlying assets;
h. Real estate and infrastructure projects;
i. Loans and guarantees to, or participation into joint ventures or consortiums with Filipino and foreign investors, whether in the majority or minority position in commercial, industrial, mining, agricultural, housing, energy, and other enterprises, which may be necessary or contributory to the economic development of the country, or important to the public interest; and
j. Other investments as may be approved by the Board.

Investments in real estate (e.g., agro-industrial estates and economic zones, estate infrastructure and other development projects) shall be limited to major capital projects as endorsed by the appropriate approving body, such as the National Economic and Development Authority (NEDA) Board, to ensure alignment with the socioeconomic development program of the government. Moreover, the MIF is prohibited from investing in areas that are explicitly prohibited under existing laws and conventions to which the Philippines is a party.

Governance Structure. Along with the creation of the independent fund known as the MIF, the measure will likewise establish the MIC, to act as a vehicle for the mobilization and utilization of the Fund. The MIC shall be governed by a Board of Directors to be composed of nine members. The members of the Board include the Secretary of the DOF (as the Chairperson, *ex-officio*), the Chief Executive Officer (CEO) of the MIC (as Vice-Chairperson), the Presidents of the LBP and DBP, two regular directors, and three independent directors from the private sector. This corporate body shall be responsible for the MIF's overall governance and management.

The CEO, regular directors, and independent directors shall be appointed by the President of the Philippines upon the recommendation of the Advisory Body. The CEO and the regular directors shall have three-year terms while the independent directors shall have a term of one year but is eligible for reappointment, provided that their cumulative term does not exceed nine years.

To assist and advice the Board, an Advisory Body shall be created and will be composed of the Treasurer of the Philippines and the Secretaries of the Department of Budget and Management (DBM) and NEDA. The Advisory Body will be tasked to provide guidance in the formulation of the general policies related to investment and risk management but will not take part in the management or control of the MIC. Apart from this, a Risk Management Unit would also be organized to ensure that the MIC is taking measures to achieve a prudent balance between risk and reward.

Exemptions and Privileges. The current draft of the measure exempts the MIC from various regulatory burdens. For instance, compensation packages, appointment of the Board of Directors, and the determination of the organizational structure of the MIC have been exempted from the Government-Owned or -Controlled Corporations (GOCC) Governance Act of 2011. With reference to procurement, the bill exempts the engagement of professional or technical services necessary for the selection of investments (e.g., fund management, investment analysis, advisory and underwriting, securities brokerage and dealership, and capital market and equity research analysis) from the Government Procurement Reform Act.

Previous versions of the bill proposed for the exemption of the MIC from local and national taxes. Since the MIC would be allowed to invest in financial instruments and essentially compete with the private sector, the tax exemptions have been removed to ensure a level playing field.

Limitations and Safeguards. In order to ensure that the Fund is established with the highest standards of accountability, fiscal responsibility, and good governance, proponents have incorporated a number of safeguard measures which include the following:

a. **Multilayer Audit Mechanisms.** In line with Article IX of the 1987 Constitution, the books and accounts of the MIC shall be subject to the examination and audit of the Commission on Audit (COA). Apart from this, the MIC would also have internal and external auditors. The internal auditor shall be independent from the management of the MIC and shall have access to all documents and information pertinent to the audit. Meanwhile, an external auditor from an internationally recognized auditing firm shall also be engaged to audit the financial statements of the MIC.

b. **Compliance with *Santiago Principles*.** The measure also requires audits to include an assessment of the implementation of the said principles, as well as recommendations to improve compliance to the same, as applicable. The *Santiago Principles* consists of 24 generally accepted principles and practices to promote transparency, good governance, accountability, and prudent investment practices among SWFs.

c. **Monitoring by an Oversight Committee.** Given the large public funds to be contributed to the MIF, a Joint Congressional Oversight Committee shall be created to monitor and evaluate the performance of the MIC. The Committee shall be composed of five members each from the HRep and the Senate.

d. **Applicability of Freedom of Information (FOI).** In pursuit of transparency and accountability, the measure expressly provides that all documents of the MIF and the MIC shall be open, available, and accessible to the public. These documents include, but are not limited to, all investments (whether planned or under negotiation), statements of assets and liabilities (SALNs) of the Board of Directors, and audit documents.

e. **Inclusion of Graduated Fines for Offenses.** The bill likewise includes a graduated scheme of fines ranging from PhP100 thousand to as much as PhP5 million, as penalty for various offenses and are considered separate from any other administrative, civil, or criminal liability under other applicable laws.

III. Analysis of the Potential Benefits and Implications of the MIF

According to its proponents, the creation of the MIF can fast track the achievement of the envisioned inclusive and sustainable economic growth as outlined in the Medium-Term Fiscal Framework (MTFF), the Eight-Point Socioeconomic Agenda, and the Philippine Development Plan (PDP) 2023-2028. During the various public hearings and Committee meetings on the measure, however, several concerns on the MIF have also emerged which warrant prudent consideration.

The MIF will mobilize funds towards infrastructure and development projects. This is one of the major advantages cited by the proponents. Based on the Public Investment Program (PIP) 2023-2028, most of the Programs, Activities and Projects (PAPs) of the government will be implemented through the traditional mode of procurement under the Government Procurement Reform Act while Official Development Assistance (ODA) and Public-Private Partnership (PPP) will account for less than 5 percent of all PAPs (Table 2). With respect to the infrastructure flagship projects under the *Build Better More Program*, the indicative fund sources were primarily through ODAs and the General Appropriations Act (GAA). These figures illustrate the country's heavy reliance on local funds and concessional financing (i.e., ODAs, multilateral concessional assistance) as the main financing mechanisms for infrastructure projects. Access to the latter, however, could be lost as the Philippines moves towards upper middle-income status. With these considerations in mind, the MIF is envisioned to assist in the transition from traditional methods of procurement and debt-financing to equity-financing.

Table 2. Overview of Priority Plans and Projects

By mode of implementation or indicative funding source	Public Investment Program 2023-2028		Build Better More Program 2022-2028	
	No. of Projects	Share	No. of Projects	Share
Local funds / GAA	5,112	95.9%	66	34.0%
ODA	176	3.3%	79	40.7%
PPP	41	0.8%	45	23.2%
To be determined	-	-	4	2.1%
Total	**5,329**	**100%**	**194**	**100%**

Source of basic data: NEDA

The MIF provides an alternative source of financing by extending the Philippines' reach in the global financial market, increasing access to foreign capital. By allowing the MIF to invest in high-yielding assets which offer better rates of return, it would be able to bankroll capital-intensive infrastructure projects, high-return green and blue projects, and agro-industrial ventures with greater socioeconomic impact.

Note though that while the MIF could increase financial support to infrastructure development, there is also a need to assess whether the Philippines has the corresponding institutional capacity to manage new capital-intensive and big-ticket infrastructure projects. Other than financing, the absorptive capacity of national government agencies is often touted as the stumbling block to the country's infrastructure development.

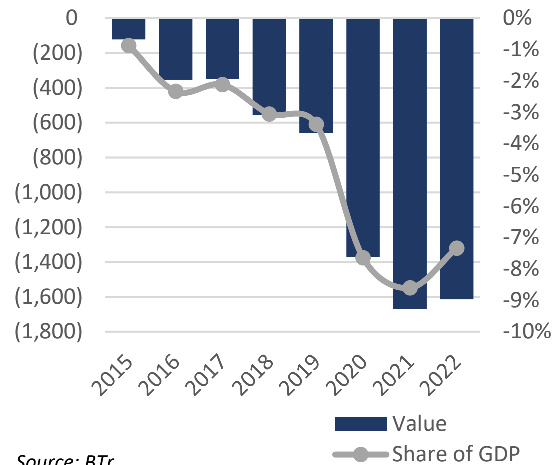
The country's experience with PPPs has also been less than stellar. The government should consider strengthening established mechanisms for PPP or joint ventures to maximize the MIF's intended outcome. Another option that has been raised would be to simply strengthen and empower existing institutions with similar mandates, such as the National Development Company (NDC). This would be consistent with the NDC's mandate to pursue commercial, industrial, agricultural, or mining ventures for national economic development as provided under Presidential Decree No. 1648.

The creation of the MIF can ease fiscal constraints. As an additional vehicle for financing, the MIF is expected to widen the fiscal space in the near- to medium-term as it reduces heavy reliance on local funds and development assistance as the main financing mechanisms for infrastructure projects. Instead of incurring more debt through the traditional modalities, the projects would be financed with investible funds from GFIs or equity placements thereby freeing up resources for the government's other priority projects. This follows from the argument that by providing an alternative source to public infrastructure spending, there would be a bigger budgetary allowance for other priority expenditures.

It has been raised though that the proposed funding sources of the MIF seem contrary to the government's fiscal consolidation program. There is an underlying One Fund concept as enunciated under Presidential Decree No. 1177 which requires that all income and revenues of the government must accrue to the General Fund. For instance, BSP dividends (prior to the enactment of RA No. 11211), royalties, privatization proceeds, and the share of National Government income to PAGCOR, are all remitted to the national treasury and used to fund the GAA. Earmarking them for the MIF may add pressure to the budget deficit and exacerbate the current debt load at a time when the economy needs to grow faster to push back debt. Figures 1 and 2 provide a snapshot of the government's rising debt and budget deficit.

In addition, since the MIF would be allowed to issue debt and debt-like instruments, the government's capacity to absorb potential losses from the MIF's operations must be evaluated. Credit rating agencies have already warned that the country could face a downgrade if the government fails to put its debt-to-gross domestic product (GDP) ratio on a firm downward path. As of the first quarter of 2023, the country's outstanding debt stock accounted for 61.0 percent of GDP (slightly higher than the 60% threshold deemed sustainable for developing countries), while its deficit-to-GDP ratio was 4.84 percent, down from 6.41 percent in the first quarter of 2022. Given this tight fiscal situation, the government should be prioritizing initiatives to keep the deficit low and the borrowings at a minimum. The concern on the growing debt and deficit is exacerbated by the high cost of additional public borrowings at this time.[1]

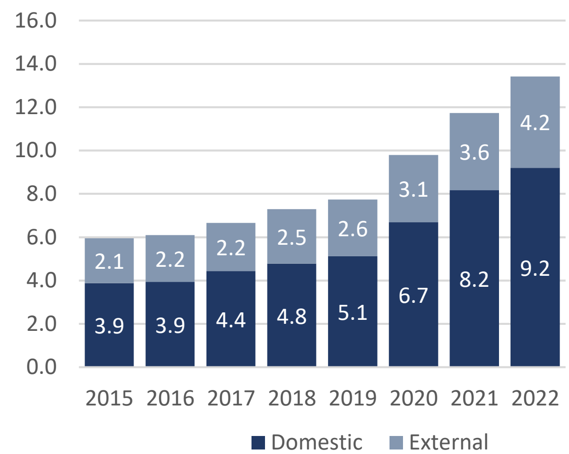
Figure 1. Budget Deficit (in PhP billions)



Source: BTr

The MIF can maximize expected returns with more allowable investment options and encourage more foreign investments. Proponents of the measure have pointed out that the main advantage of the MIF over GFIs is that it can maximize returns because it is allowed more investment options. In contrast, investible funds of GFIs are concentrated in low-risk investments such as Treasury Bills which are less volatile but have low levels of return.

Figure 2. Government Debt (in PhP trillion)



Source: BTr

Based on Bureau of the Treasury's (BTr) business proposal, the MIF could generate an average yield of around 6.5 percent to 10.8 percent in 10 years, depending on the fund placements. For instance, under a realistic allocation and return scenario where there is a 50:50 allocation between capital market investment and sectoral investments, return on equity is estimated at 8.64 percent per year on average. This is higher than the long-term inflation target of 2-4 percent and the recent yield of the comparative 10-year average return for government securities which stands at 4.7 percent.

Table 3. Estimated Returns from the MIF

Allocation Mix between Major Sub-Funds		10-Year Ave. of Simulated Annual Returns
Capital Market Investment (%)	Sectoral Investment (%)	
100%	0%	6.51%
75%	25%	7.58%
50%	50%	8.64%
25%	75%	9.68%
0%	100%	10.78%

Source: BTr Business Proposal for the MIF

Moreover, the MIF could encourage more investors, especially those who may have been previously deterred by their unfamiliarity with the local business environment, through the MIC's expertise and government-backing. Investors could be assured that the MIC is highly capable of navigating through the numerous challenges in the country's bureaucratic and regulatory landscape. Given the MIF's primary objective of funding infrastructure, the Fund is also seen to generate multiplier effects which could open up more opportunities for investors to enter the Philippine market.

[1] Interest rates are projected to rise further since the US Federal Reserve may still tighten its policy rates. The interest rate for the 364-Day Treasury Bills was assumed to reach 3.0 percent to 4.5 percent in 2023, but this has already been breached when interest rates for the same instrument reached 5.864 percent in March 2023.

Proponents argue that the positive effects of guiding investors through an SWF is already evident in the experience of the Indonesia Investment Authority (INA). Given its similarities in objectives, the INA has been touted as a model SWF to pattern the MIF after. From an initial capital of US$5 billion *(40% in cash; 60% in shares of state-owned enterprises*) the INA aims to grow its assets under management (AuM) to US$20 billion in the near future with the help of its investor partners. At present, the INA has over US$6.8 billion worth of AuM, just two years after it was launched in 2021. Indonesia's Coordinating Ministry for Economic Affairs reported in March 2021 that there is over US$24.5 billion worth of investment commitments from other countries such as the United Arab Emirates, Japan, United States, Canada, and Netherlands.

*Founded in 1974, **Temasek Holdings** has emerged as one of the largest SWFs around the world with over US$496.6 billion in managed assets. One of the features of Temasek Holdings which may be key to its success is its independent and international Board. The Temasek Board is composed of 14 members, majority of whom (85%) are non-executive independent private sector business leaders. With a diverse set of managers, the Fund benefits from the various skills, experiences, and knowledge of its board members. It must also be noted that the President and the Singapore Government do not direct Temasek's investment, divestment, or business decisions, rather these are directed by its independent Board and management.*

Indeed, the experiences of other countries with SWFs are well-documented. Some SWFs (e.g., Norway GPFG and the Timor-Leste Petroleum Fund) are considered clear success stories (Carpantier & Vermeulen, 2021). According to data from the SWF Institute, two of the ten largest SWFs (in total assets) are managed by Singapore through GIC (US$690 billion) and Temasek Holdings (US$496 billion). In the ASEAN, at least seven SWFs are already in existence. Table 4 contains key information on select SWFs established in the region.

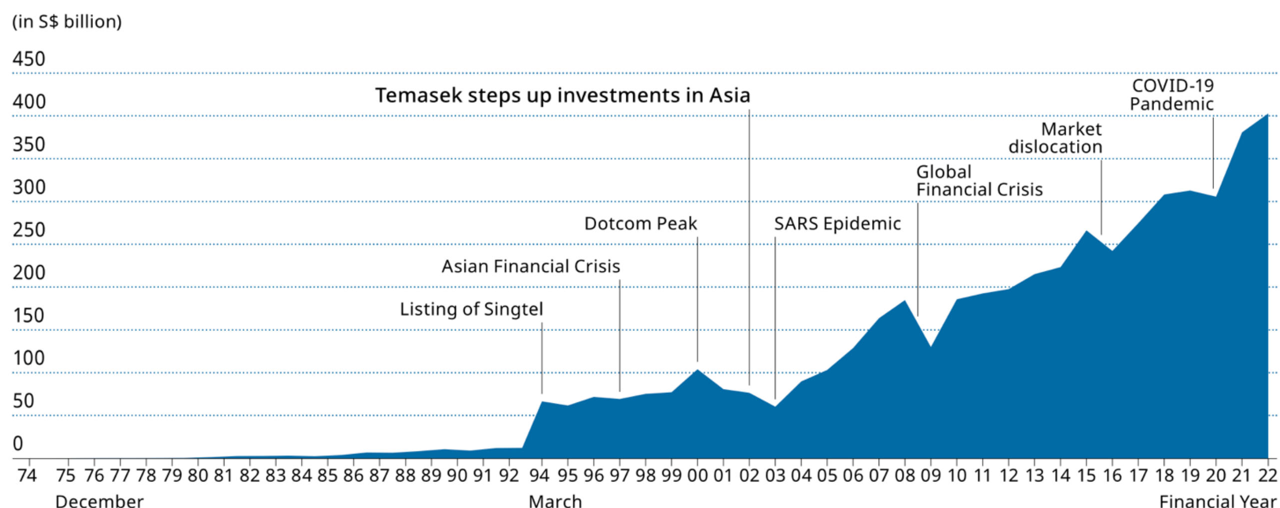
It must be noted though that the return on investments in the MIF may also take time as evidenced by the experience of Temasek Holdings. Figure 3 illustrates the growth of the Temasek net portfolio value since its inception in 1974. In addition, higher expected returns also have a corresponding higher risk of losses. While providing more allowable investment options to the aforementioned GFIs can potentially lead to higher returns, there is a corresponding and equal chance of recording heavy losses, especially with the heightened uncertainty and volatility in the global financial market. For instance, despite being one of the largest and well-established SWFs, Singapore's Temasek Holdings was forced to write off a US$275-million loss in its portfolio after the bankruptcy of cryptocurrency exchange Futures Exchange Trading Ltd. (FTX) in November 2022. Similarly, Norway's Government Pension Fund Global (GPFG) also reported a US$164-billion loss in 2022 citing unusual market conditions.

Table 4. ASEAN Sovereign Wealth Funds

Name of fund	Year of inception	Initial allocation or capital	Initial funding sources	AuM (in US$ bn)
GIC *(Singapore)*	1981	US$5 billion[a]	Foreign reserves	690
Temasek *(Singapore)*	1974	SG$354 million	State-owned equities	496[c]
Permodalan Nasional (*Malaysia)*	1978	Undisclosed	Undisclosed	81
Brunei Investment Agency	1983	Undisclosed	Revenue from oil exports	55
Khazanah Nasional *(Malaysia)*	1993	MYR 10 billion	Undisclosed	31
Indonesia Investment Authority	2021	US$5 billion[b]	State budget	6
State Capital Investment Corporation *(Vietnam)*	2005	VND 5 trillion	Undisclosed	2

Basic data from Nikkei Asia research; [a] World Bank (2018); [b] Indonesia Investment Authority; [c] SWF Institute

Figure 3. Temasek Net Portfolio Value Since Inception



Source: Temasek website

While SWFs are expected to have diversified portfolios to hedge for losses like these, given the current events and the country's present fiscal position, it bears asking whether it is the best time to pursue an endeavor of this scale.

Furthermore, the success stories of SWFs have not been absolute. Other SWFs (e.g., Fundo Soberano do Brasil, the Russian Reserve Fund) have been unable to cope when they encountered difficulties which resulted in their liquidation. Table 5 provides a brief review of SWFs which failed due to mismanagement (e.g., Papua New Guinea, Ecuador, Nauru) and adverse economic circumstances (e.g., Ireland, Brazil).

Table 5. Brief Review of Selected Failed SWFs

Country	SWF	Reason for closure
Papua New Guinea	Mineral Resource Stabilization Fund (1974-2001)	Poor integration with budget and fiscal policy led to large fiscal deficits and public debt
Ecuador	Stabilization Fund for Investment and Debt Reduction (2002-2005)	Subfunds had extremely complex revenue earmarking rules which limited the margin for budget flexibility and led to fragmented cash management
Nauru	Nauru Phosphate Royalties Trust (1968-2005)	Depredation of capital (high government expenses, bad investments in real estate, shipping, and air services)
Ireland	National Pensions Reserve Fund (2001-2014)	Lost its mandate of investment to bail out Irish banks during the 2008-2010 banking crisis
Brazil	Fundo Soberano do Brasil (2008-2018)	Shut down and transferred money toward repayment of foreign debt

Source of basic data: Carpantier & Vermeulen, 2021

A major example of SWF failure is the unfortunate experience of Malaysia's 1MDB or 1Malaysia Development Berhad. The mismanagement of the 1MDB Fund has been attributed to inadequate safeguards which enabled the diversion of funds to shell companies and led to billions in embezzled money.

In the Philippines, there are fears that the MIF will suffer the same fate as the NDC during the 1970s and early 1980s when it experienced heavy losses from implementing government-led industrialization projects on copper smelter, petrochemical complex, and heavy engineering industries, among others. The NDC was used to infuse equity into several companies that were affected by the economic crisis during the 1980s. In the end, the National Government had to absorb PhP3.96 billion in NDC assets as provided for under Administrative Order No. 64, s. 1988 to determine which assets may be subject for privatization.

On Determining the Appropriate Scheme and Source of Funding. In the current draft, the BSP was identified as one of the main contributors for the MIF's seed capital. The proponents cited that the robust performance of the banking industry provides a leeway for the central bank to temporarily reallocate its dividends. It may be recalled that RA No. 11211 approved the increase in the BSP's capitalization from PhP50 billion to PhP200 billion to ensure the financial strength of the institution in light of the growth of the banking industry. The proponents of the MIF also claim that these funds would be more productive if they were channelled towards the MIF since the gains from MIF investments are expected to offset any costs that come with the delay in the central bank's capital buildup.

In recent years, the BSP's net worth has declined due to billions in paper losses (i.e., results from holding an asset that has decreased in price but has not been sold) on investments in government securities, stocks, and other securities. Table 6 provides financial highlights of the BSP in the last five years.

Table 6. Financial Highlights of the BSP (in PhP billion)

Particular	2018	2019	2020	2021	Aug 2022[a]
Assets	4,851	5,084	7,075	7,576	7,405
Liabilities	4,735	4,938	6,904	7,440	7,276
Net worth / Total capital account	**116**	**145**	**171**	**136**	**128**
Unrealized gains/(losses) on investments in gov't securities, in stocks and other securities	(2)	0.4	14	(72)	(142)
Net income for distribution	**39**	**46**	**31**	**35**	[b]

Source of basic data: COA Annual Reports of BSP 2019-2021; [a] Philippine Daily Inquirer (22-Feb2023); [b] Data not available

Should the MIF be adopted in its current form, the BSP estimates that it could take around 14 years before its capitalization goal of PhP200 billion is achieved. Deferring the BSP's capital buildup could undermine the central bank's ability to manage inflation, and respond to financial shocks, especially amidst sustained uncertainties in the global financial markets. It may be recalled that the collapse of Credit Suisse, the second-largest bank in Switzerland in early 2023 raised fears about a global banking crisis. While the Philippine banking sector was spared from this disruption, there is no telling when the next crisis could happen. Efforts to strengthen the BSP's balance sheet must hence be prioritized to enable monetary authorities to navigate through policy challenges in times of financial stress. It has also been raised that allowing the BSP to become a fund source for the MIF may create a precedent wherein the BSP can now be tapped to directly fund other government entities engaged in the financing of development projects which is expressly prohibited in Article II Section 128 of its amended Charter.

Given the BSP's important role in maintaining price and financial stability, other fund sources may be considered. Policymakers may wish to consider the privatization of PAGCOR, the Philippine Charity Sweepstakes Office (PCSO), E-Bingo, and the Small Town Lottery (STL) as an alternative source of initial capitalization. Former Finance Secretary Carlos Dominguez III had estimated back in 2019 that the privatization of the gaming industry could yield about PhP300 billion in revenues annually. This would also circumvent the possible ramifications of using dividends contrary to the Dividend Law of 1993.

With regard to the subsequent funding of the MIF, giving the MIC ample time to prove its performance and track record in growing funds before receiving additional resources from the National Government may also be considered. For instance, Vietnam's SWF, the State Capital Investment Corporation, started with VND 5 trillion (roughly PhP16.7 billion) in 2005 before its chartered capital was raised to VND 50 trillion (roughly PhP105.5 billion) nearly a decade after. With this, the initial contribution to the Fund and its corresponding returns may already be sufficient for the moment given the other priorities of the government. Recognizing the long-term nature of infrastructure investments, funding the MIF in tranches may be considered since the MIC would likely focus on polishing its structure and operations in its early stages. Table 7 shows select non-tax revenue sources that are proposed to be tapped for contributions to the MIF. These include the royalties on natural resources such as income from Malampaya as well as earnings from privatization of state assets.

Table 7. Proposed Non-Tax Revenue Sources for the MIF (in PhP billions)

Particulars	2018	2019	2020	2021
Non-Tax Revenues	**284.26**	**309.59**	**351.30**	**262.46**
Malampaya	24.52	26.57	19.08	19.79
Privatization	15.66	0.88	0.48	0.32
PAGCOR Income	31.82	35.46	16.12	15.03
Dividends on share of stocks	40.79	53.42	135.54	58.06
BSP dividends	17.48	23.05	15.90	17.00[1]

Source of basic data: BTr Nat'l Gov't Cash Operations Report; COA Annual Report of BSP 2020-2021
Note: DBP and LBP were granted dividend reliefs to improve capital ratios. LBP request for CY2020-2021 are still pending.

IV. Conclusion and Recommendations

While progress has been made in previous administrations, the infrastructure gap remains a critical barrier to the country's development. This is made even more challenging by the fiscal constraints brought by the pandemic as well as the pending transition of the country to upper middle-income status. With these considerations in mind, policymakers have proposed the establishment of the Maharlika Investment Fund as a way forward. As an additional investment mechanism, the MIF presents opportunities to generate higher returns and to access foreign capital for priority big-ticket infrastructure projects. There is no guarantee, however, that these benefits would materialize especially given the current uncertain and volatile market conditions. As it is, the costs to the National Government of creating the MIF appear to be clearer (i.e., investible funds from GFIs, delayed BSP capitalization) but the benefits seem to be less so (i.e., returns would depend on performance, projects that would benefit from investments are yet to be identified). Moreover, while the government's economic managers are clearly pushing for its creation, prominent economists, business, and cause-oriented groups have also been vocal about their opposition. Resolving whether to establish the MIF or not is thus a complex decision.

Nevertheless, the MIF may be viewed as a long-term undertaking which could evolve and improve in response to the country's needs and priorities. While the timing of the establishment may not be optimal, a well-structured and responsibly managed Maharlika Investment Fund could be profitable in the future. If the government is really keen on passing this bill, policymakers may wish to consider the following recommendations to improve the proposed measure:

Strengthen Safeguard Mechanisms

On Investment Exposure. There may be a need to improve the automatic review mechanism for the investment exposure of the GFIs and GOCCs to the MIF. The current draft provides that an automatic review by the DOF is done every five years but prudent fiscal management would dictate that it must be assessed more frequently. For instance, it would be helpful to periodically assess thresholds for potential losses or whether the target return on investments set for the MIF would already be sufficient in light of possible changes in the macroeconomic assumptions and fiscal targets.

In addition, the current draft removed the provision which explicitly states that debt and debt-like instruments issued by the MIC are sovereign guaranteed and indicated the MIC's obligations would only be secured by its assets under management. As a GOCC, however, this may raise a concern on whether the language would sufficiently safeguard the government from any additional contingent liability. Noting that the MIF would also involve private funds, the bill should already explicitly state that the MIC will not have sovereign guarantee. As of 2020, the government's contingent liabilities reached PhP30.26 trillion, 1.5 percent of which or PhP458.35 billion is attributed to the National Government's Direct Guarantees on GOCC Loans.

On Contribution from Pension Funds. The current draft expressly indicates that GOCCs providing for social security (e.g., GSIS, SSS, and the Pag-IBIG Fund) shall not be requested or required to contribute to the MIF, however, it does not prevent these GOCCs from investing voluntarily. Their voluntary contribution though may go against public opinion since the idea of hard-earned pensions going to the MIF already received fierce backlash when it was first raised. As such, it may be more prudent to exclude these GOCCs from investing in the MIF unless their Boards and the majority of the GSIS, SSS, and Pag-Ibig members allow it.

On Transparency Provisions. It should also be clarified if the transparency requirements and FOI provisions would also apply to prospective joint venture/consortium partners including unlisted corporations which the MIF may invest in. In the case of beneficial ownership of unlisted corporations, it must be clarified whether the Securities and Exchange Commission (SEC) could compel the disclosure of the ownership structure of unlisted corporations particularly those registered outside of the country. In 2021, the SEC released Memorandum Circular No. 1 which requires all SEC-registered corporations, foreign and domestic stock, and non-stock corporations to disclose their beneficial ownership information to ensure compliance with best practices and international standards on anti-money laundering.

On the *Santiago Principles*. There may be a need to strengthen the current language of the provisions relating to the said principles. For instance, Section 44 does not necessarily mandate compliance but only requires an assessment of the MIF's compliance. With this, a more proactive phrasing on adherence to the principles and an inclusion of consequences in case of non-compliance can help promote more accountability.

On Adequacy of Penalties. The proposed scheme of fines under the measure (ranging from PhP100 thousand to PhP5 million) should also be reviewed. Noting that the MIC would be handling billions in taxpayer money, the maximum fine may be considered a slap on the wrist to perpetrators. Aside from the payment of fines, other penalties such as imprisonment and disqualification from public office should also be considered. More importantly, if the government is to be trusted with managing a fund of this scale, it must first take steps to improve transparency and accountability, and to eradicate graft and corruption.

On Reportorial Requirements and Evaluation. To facilitate the monitoring and evaluation of the Joint Congressional Oversight Committee, a periodic report on the overall investment strategy and financial condition, among others, may be required for submission to the Committee. With this, the bill should also require the MIC to allocate budget for the conduct of an evaluation to assess its effectivity in fulfilling its objectives and its investment performance against specified benchmarks.

Improve Absorptive Capacity of Line Agencies

Other than the lack of funding, the low absorptive capacity of key line agencies is often identified as a culprit in the slow roll-out of big-ticket infrastructure projects. The annual budget allocated for infrastructure programs has not been maximized because of this lingering issue. There is, hence, an opportunity to correct that gap by tightening budget rules for the agencies to comply with in order to maximize the use of funds under the GAA. To this end, an evaluation must also be undertaken to determine the efficiency and effectivity of the present budget allocation on infrastructure programs. This exercise would help in identifying where the gaps or leakages are in the allocation and spending of the infrastructure budget. Apart from this, issues such as those related to procurement should also be addressed since these affect the implementation of infrastructure projects. Finally, eradicating congressional insertions on infrastructure projects may also help address issues on coherence and efficiency in spending on infrastructure programs of the government.

Streamline Allowable Investments

Section 14 (d) allows the MIF to invest in unlisted equities, which present higher risk, are less liquid, and less transparent. Indeed, there is a growing trend amongst SWFs to allocate more funds towards unlisted equities

(such trend seems to be accelerated by the COVID-19 pandemic). It is argued that investments in unlisted assets allow SWFs to take part in value creation (so-called growth equities) thereby diversifying and maximizing sources of returns. It might be worthy to note though that investing in this asset class requires an assessment of whether the proposed MIF's governance structure (i.e., Section 27 provides for the creation of a Risk Management Unit) allows it to adapt to increasing risks. In addition, item (j) essentially provides for a blanket inclusion of other investments subject to board approval. Again, this raises the question of how the proponents of the MIF view risks. Streamlining and explicitly enumerating allowable investments would also help address concerns on the MIF's possible conflicting objectives, given its developmental and commercial characteristics. For instance, Malaysia's Khazanah Nasional Berhad, which similarly has a dual purpose, set up a group of funds to maximize financial returns (a commercial purpose) and another one to promote infrastructure development (a strategic purpose) (Milken Institute, 2023). A similar distinction would allow the MIC to formulate the most appropriate investment strategies for the respective return expectations and risk tolerance.

Incorporate Stress Testing

Since the MIF is envisioned to manage a significant amount of money, it may be prudent to subject the Fund to regular stress testing by its Risk Management Unit. This exercise would allow the MIC to properly estimate and prepare for possible losses in case of exogenous shocks (e.g., market crash). The results of which may likewise be included in the recommended reportorial requirements of the MIC. For instance, the Norway Oil Fund conducted stress testing in 2018 which found that it could lose more than 40 percent of its value in a single year from a combination of a plunge in stock markets and a strengthening in its currency (Carpantier & Vermeulen, 2021). This finding is a sobering reminder that the resilience of SWFs, despite their size, should not be overvalued.

Reconsider the Term of Independent Directors

Under the current draft, independent directors only have a one-year term but are eligible for reappointment. In contrast, regular directors are appointed for a term of three years. While this difference is usually due to the nature of their responsibilities, the one-year period for independent directors may be insufficient to reasonably evaluate their performance and decide on their possible reappointment. With this, legislators may wish to reconsider the terms of independent directors in relation to their intended role in the decision-making process of the MIC.

Pursue Amendments to the Build-Operate-Transfer (BOT) Law

If the goal of the MIF is to mobilize resources towards infrastructure or development projects, amending the BOT Law could be given priority to resolve the private sector's concerns regarding the financial viability and bankability of PPP. PPP projects succeeded in reducing the financial hurdle for large infrastructure however, many projects continue to face significant delays due to the weak absorptive and technical capacity of implementing agencies. If PPP projects and their contracts are well-designed and implemented, with risks balanced between the public and private sectors, there may be no need to create an MIF to fund such projects.

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