The MIF: A Vehicle for Economic Growth

Joint Statement by the Economic Managers

13 June 2023

We, the Economic Managers of the Administration, reaffirm our support for the establishment of the Maharlika Investment Fund (MIF) as a vehicle for economic growth for the following reasons:

1. The MIF is aligned with the Medium-Term Fiscal Framework (MTFF) and the 8-Point Socio-economic Agenda. It also operationalizes the Philippine Development Plan 2023 - 2028, specifically Chapter 11.2 (Ensure Sound Fiscal Management and Improve Tax Regime), in which it is stated under Outcome 4 (Sustainable Management of Debt Ensured) that one of the strategies included is to "diversify and explore alternative sources of financing…. New instrument formats will also be explored to reach new markets and investors."

2. The legal framework provided by Senate Bill No. 2020—approved by the Senate and adopted by the House of Representatives—follows fundamental principles of economic policy and financial market participation in favor of and for the ultimate benefit of the Philippine economy and the Filipino people.

3. The Maharlika Investment Corporation (MIC) and the MIF aim to execute and sustain high-impact infrastructure and development projects, ease fiscal constraints, and maximize expected returns for our country's investments. The objectives are clear: to invest funds that are available in government instrumentalities and utilize them for investment purposes on the basis of their individual mandates.

This is evident in the following provisions:

> Section 2: "the State shall establish a [MIF] by investing national funds, and coordinating and strengthening the investment activities of the country's top-performing [GFIs] to promote economic growth and social development"
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> Section 12: "that the [MIF] shall be used to invest on a strategic and commercial basis in a manner designed to promote fiscal stability for economic development, and strengthen the top-performing GFIs through additional investment platforms that will help attain the National Government's priority plans"
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> Section 13 which echoes the objective of the MIF to promote socio-economic development "by making strategic and profitable investments in key sectors to preserve and enhance the long-term value of the Fund; to obtain the optimal absolute return and achievable financial gains on its investments; and to satisfy the requirements of liquidity, safety/security, and yield in order to ensure profitability."

The purpose of the MIC's investments is to generate high returns so that national wealth is expanded and profitable socio-economic projects are financed and implemented. These include investments in financial instruments, real property, and both physical and digital infrastructure.

It must also be noted that "unlike public capital Specialized Investments Funds (SIFs), mixed capital SIFs are typically insulated from macrofiscal interdependence, especially when their anchor is a quasi-sovereign entity, because they are not considered part of the sovereign balance sheet and are usually not directly responsible for economic policy" (Divakaran et al., 2022).

Envisioned to allow the government to execute and sustain high-impact and long-term economic development programs and projects without imposing new taxes, Senate Bill

No. 2020 allows for profitable investment development projects while also ensuring that there is flexibility in the market activities of the MIC/MIF. 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.

4. The MIF Bill was identified as a priority legislative measure of the Administration and its Economic Team, along with the Military and Uniformed Personnel (MUP) Bill, among other legislative priorities, recognizing that the said measures provide radical reforms to improve our country's economic and fiscal standing. Both measures symbolize the Administration's recognition that nations should begin finding ways to gradually close the gap in the budget deficit, and reflect the concerted efforts to promote continued fiscal sustainability. This will allow our nation to move away from reliance on foreign and domestic loans to fund our annual budgetary requirements and will move us closer to self-sustainability in sourcing financial requirements. These priorities, along with other measures, are in the Administration's pipeline and are expected to improve the country's fiscal resilience.

5. As stated in Senate Bill 2020 Section 2 (Declaration of Policy), the MIF primarily aims to optimize the use of government financial assets in maximizing returns. The main advantage of the MIF over GFIs is that it can maximize returns because it is allowed to undertake more investment options. In contrast, investible funds of GFIs are concentrated in low-risk investments such as government securities which are less volatile but have low levels of return.

Hence, while other development institutions such as the National Development Company have the mandate of pursuing commercial, industrial, and agricultural mining ventures to assist the private sector in undertaking vital projects, the MIC is created for the optimization of government financial assets and the promotion of intergenerational wealth, through investments and other wealth creation measures. The MIC does not overlap with the mandate of NDC, which is "to pursue commercial, industrial, agricultural or mining ventures in order to give the necessary impetus to national economic development. NDC, may on its own, or in joint venture with the private sector, undertake vital projects when necessary or when the private sector is not willing or able to undertake such projects due to high risks or to lack of funds/resources."

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. By providing an alternative source to public infrastructure spending, there would be a bigger budgetary allowance for other priority expenditures.

Further, the MIC may invest in capital markets (with an emphasis on generating financial returns) or sectoral investments (with an emphasis on generating economic returns) as a matter of investment strategy and policy that the lawmakers wisely afforded to the MIF Board. In principle, even if the MIC initially focuses on capital market investments which emphasize financial returns, this still has a tangible benefit through generation of financial income to the National Government which would ultimately redound to the benefit of the nation's future socio-economic agenda.

6. Investing in the MIC will allow GFIs to possibly obtain medium- to long-term returns that are higher than their 10-year average return. For instance, the Land Bank of the Philippines (LBP) has a 10-year average return on investment (ROI) of 4.23% and the Development Bank of the Philippines (DPB) has a 10-year average ROI of 3.59%. Meanwhile, the expected return of Maharlika is estimated to be around 8.6% on average, much higher than their cost of capital and the return in their current investment places. This is based on simulations which take into consideration the blend of investment placements between the planned capital market investment sub-fund and sectoral investment sub-fund.

The public can remain confident in the stability of the LBP and the DBP even given their investment in the MIC. Limitations have also been established, i.e. investments should not exceed 25% of their net worth.

Relatedly, as the achievement of upper-middle income status – a goal under the MTFF – 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, the MIF can serve as an alternative funding source to relieve the country from relatively higher interest rates imposed by alternative sources of financing.

7. Senate Bill 2020 imposes enough safeguards to minimize risks for shareholders and fund contributors, including the public sector. These are more than what an average investor would need to comply with, specifically as follows:

7.1. Adherence to the Santiago Principles. Section 44 of the Bill states that the "audits required … include an assessment of the implementation of the Santiago Principles and recommendations to improve compliance with such principles". The Santiago Principles are defined in Section 3 as "the twenty-four (24) Generally Accepted Principles and Practices (GAPP) voluntarily endorsed by the International Forum of Sovereign Wealth Funds (IFSWF) members …designed as guidelines that assign best practices for the operations of SWFs … that promote stability in the global financial system, set proper controls on investment risks, and implement sound governance structure".

7.2. Risk Management Committee. Art. V Section 26 of the bill provides that the Board shall organize a Risk Management Committee which shall ensure that the MIC is taking the appropriate measures to achieve a prudent balance between risk and reward in both ongoing and new business activities, taking careful consideration of risk identification, measurement, assessment, mitigation, reporting and monitoring.

7.3. Accountability Measures. The qualifications of the Board were made more stringent in that a person who has pending cases relating to fraud, plunder, corrupt practices, money laundering, tax evasion, or any crimes involving misuse of money or breach of trust would be disqualified from being appointed to the

Board. Further, Board members shall be bonded for the faithful performance of their duties and accounting of all funds and public properties in his/her custody. Relative to this, Board members shall secure a fidelity bond in the amount of Php 10 Million. The penalties for offenses were also increased to ensure that the same is commensurate with the gravity of the offense. Hence, the amended bill imposes imprisonment as a penalty for certain offenses.

7.4. Oversight. An Advisory Body which shall assist the Board of Directors in the formulation of general policies related to investment and risk management. It is composed of the Secretary of Budget and Management, the Secretary of the National Economic and Development Authority, and the Treasurer of the Philippines. Meanwhile, there is a Joint Congressional Oversight Committee tasked to oversee, monitor, and evaluate the implementation of the Maharlika Investment Fund Act. It shall be composed of seven (7) members each from the House of Representatives and the Senate.

7.5. Transparency Measures. The investment policies to be formulated shall include disclosure and transparency mechanisms. Further, approved investment policies of the MIC shall be posted on its website which shall be immediately updated and made accessible to the public. In the same vein, investment and risk management plans, strategies, and activities of the MIC, involving the MIF, shall be disclosed and published on its website for public consumption.

7.6. Publication. To ensure transparency and accountability, the MIC shall regularly publish on its website the terms and conditions of the arrangement with co-investors/joint-venture partners, as well as all financial statements and reports relative to the operations of the co-investment/joint venture.

7.7. NEDA. The NEDA Board, chaired by the President of the Philippines, will continue to be "responsible for formulating continuing, coordinated and fully integrated social and economic policies, plans and programs." Note that this mandate includes investment programming.

8. The Senate has also added another safeguard by introducing the amendment of absolutely prohibiting pension and social funds from contributing to the MIC and MIF. This absolute prohibition is a fiscal risk management measure to ensure that fiscal resources, particularly pension and social funds managed by the SSS, GSIS, and other pension and social funds are used solely for the purpose for which they were created (i.e., to cater to specific needs of the respective individual members).

9. The national government's initial contribution of Php 50 Billion shall be sourced from declared dividends of the BSP, government share in the income of the Philippine Gaming Corporation, and proceeds from privatization of government assets, as well as other other sources of the National Government such as royalties/special assessments. These are funds that MIC can use to finance public infrastructure projects. Prior to the inclusion of provisions on the funding of the MIF, the founding GFIs, the National Government, and the BSP were consulted on their financial viability to support the capitalization of the MIC in its initial years.

The national government contribution only pertains to the seed fund and the contributions of the national government to the MIC shall not be taken from any of the programmed or even unprogrammed appropriations in the national budget.

10. The MIF is not only beneficial but necessary at this point in time. While the Philippines can offer investment opportunities, given that we are still a growing economy, we see that the cost of debt has risen, making the need to explore vehicles to attract equity financing such as MIC/MIF urgent. Hence, the MIC/MIF is an investment for the future that we need to start building now. It is an ideal vehicle and well-positioned to bring in investments as the Philippine economic outlook remains robust amid the global economic slowdown. In fact, some international investors have already expressed interest in investing, such as the Japan Bank for International Cooperation (JBIC) as well as several US investors, and certainly, there will be more interest once the MIF is officially launched.

Let it be clear that the Administration remains focused and committed to the vital and urgent national agenda, with the MIF being one of the strategies towards this overarching goal of national development.

Let us proceed and continue to pursue our economic transformation as set out in our Medium-Term Fiscal Framework, 8-Point Socioeconomic Agenda, and Philippine Development Plan 2023-2028, so that we may sooner achieve upper-middle-income status, single-digit poverty levels, and all the other goals in our Agenda for Prosperity.

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