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Consolidating Consensus, Advancing People's Struggles and Building Alternatives

Sovereign Debt Fund in Disguise: FDC on Maharlika Investment Fund

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Sovereign Wealth Fund (SWF) is not a brand-new concept as it has been mechanized by various countries all over the world in a form of balance of payments surpluses, foreign currency reserves, and other fiscal and natural reserves (SWF Institute, n.d.). Sovereign Wealth Fund also follows the principle of *intergenerational equity,* basically through investing in ventures that will benefit the future generations. Usually, the array of assets being utilized for SWFs are natural resources and funds from other government royalties. That's why most of the countries that employ this policy have natural reserves like fossil fuels and minerals (i.e., Norway and Saudi Arabia). This is targeted to foster economic growth in the form of a state-owned investment fund, which is supposed to diversify its means and facilitate a sustainable economy for the future generations. Therefore, SWF is generally not an ill-conceived mechanism as it also aims to foster economic development and stability among countries adopting it.

To further contextualize, the Philippines in its past administrations attempted to create a sovereign wealth fund. In 2013, the growing foreign exchange reserves (i.e., the Malampaya Fund) was studied and explored as a backbone to the proposed SWF (Sanchez et al., 2021). In 2019, the Duterte Administration also showed its interest in setting up the Sovereign Wealth Fund using the intergenerational equity principle. This means maximizing the mineral-rich lands for the perusal of next generations. As a proposal, the Department of Finance (DoF) and legislators including Rep. Joey Salceda recommended raising the excise tax on mining and an additional 2% tax on the gross output of large-scale metallic mining, which will all form part of the so-called "Natural Resource Trust Fund". (DoF, 2019). However, this also means changing the dynamics of the current Philippine Mining Act of 1995 for the worse as it will encourage large-scale mining operations that will wreak havoc to the already vulnerable communities.

Recently, the Philippines has been alarmed by the news regarding the proposed establishment of the *Maharlika Investment Fund (MIF),* a form of SWF. The House Bill No. 6608 and Senate Bill Nos. 1670 and 1814 are plagued with huge public clamor as the capital sources of these investment funds were revealed and further scrutiny of the provisions of these bills were exposed. Many progressive movements and organizations call for the scrapping of these bills as the country faces multiple crisis that will not be resolved by the creation of the MIF and instead focus on policies that will reinvigorate a pro-people development and will directly resolve the urgent needs of the people amidst the rising prices of food, hurting economy, ballooning debts, job loss, inequality, regressive taxation, and privatization of intended public services. Clearly, with these foregoing conditions that our country is facing, establishment of the MIF is a misplaced priority of the government and more so, by certifying it as an urgent bill is premature.

As the 19th Congress plays a crucial role in the enactment of this proposed investment fund, the Freedom from Debt Coalition welcomes the critical discussion points that were expressed and raised by the Senate members with regards to the urgency and relevance of a sovereign wealth fund, scrutiny of the provisions of the Maharlika Bills and the effects exposing our resources in a highly volatile investment environment. With this, the Freedom from Debt Coalition, being one of the critical entities on the present economic framework of the government, firmly stands against the creation of this controversial Maharlika Investment Fund. In these highly convoluted times for the country's economy, MIF would further endanger not only the funds for future generations, but the hopes for decent and livable conditions for every Filipino at present.

While it is true that policymakers pushed for an Investment Fund in 2016, macroeconomic realities and external standing of the economy is sustainable and stable. Hence, the idea of establishing a SWF is not an absolute evil concept that the Coalition opposes. In fact, it is one way of revenue generation that is not sourced from borrowing to shift the country away from being debt dependent. However, the country is now bombarded with billions of budget deficits and a ballooning PHP 13.644 trillion debt! Clearly, with the need for reviving a shattered economy while suffering from an austere government spending on people's survival and recovery, now is not the right timing for a Sovereign Wealth Fund. It is untimely for schemes that are uncertain and volatile, where social spending is much needed to arrest the widening and deepening inequalities. Given the volatility of investment instrumentalities, it would rather leave a ***sovereign debt*** **than the promised surplus** of MIF.

In view of this, the Freedom from Debt Coalition further registers that we are rejecting the creation of MIF due to the following reasons:

1) ***MIF fosters more liability than revenue generation.*** While capitalization and funding of the MIF will be sourced from the Founding Government Financial Institutions (GFIs), its subsequent annual contributions will be sourced from borrowings that will be contracted by the MIF itself. In this case, the country's ballooning debt will continue to face an upward trend since the design of the MIF is geared towards contracting more foreign loans to sustain its investment funds which is in contrast with the Marcos administration development plan to lower down the debt-to-GDP ratio from 63% to 50% by 2028. Hence, there are no safeguard measures that will lower the debt metrics of the country and no strong guarantees that the borrowings made by the MIF will yield surplus and income more than the cost of borrowing. Moreover, there is no consideration on the possible effects of the global recession on the MIF.

   SWFs globally continuously receive calls for greater transparency as a major international economic and financial policy with the issues it entails. For most, SWF forms part of the external governmental investment policies/activities which directly or indirectly accumulates foreign exchange resources. It is born out of the prerogative of the government in managing its reserves once they perceive that its fiscal standing is sufficient to address their short-term goals and needs; hence, investing it in the international financial markets.

As prescribed by Edwin Truman (2007), the accumulated foreign exchange resources goes along with the domestic debt-management policies, specifically in the sterilization mechanisms. Sterilization process subjected the country to incur domestic debts to arrest the monetary impact of accumulating external assets. Even though the sterilization is spotless, Truman (2007) posited that it would still induce negative effects in the macroeconomic level (e.g., collateralizing the long-term assets to finance investments and consumption). There is also a risk with respect to the political objectives of the management. The foregoing could also be true in the Philippines given its dire economic and fiscal situation at the interim.

2) ***Development Framework missing in the allocation of MIF earnings.*** The provisions under the distribution of the net profits of the Maharlika Investment Fund Corporation pertains to the allocation of at least twenty five percent (25%) for the families falling below the poverty threshold in the form of poverty and subsistence subsidies while the remainder will be remitted to the National Governments to fund social welfare programs and projects. Even with these provisions, this plain rhetoric raises the questions, *where do we spend it and how will these allocations resolve the problems of the poor Filipino families?* Thus, the lack of a specific development framework in the spending of the MIF earnings will result in a band aid solution rather than its promise of addressing the pressing issues of the marginalized sectors of the country. While the MIF bill seeks to integrate the best practices of the Sovereign Wealth Fund in other countries, the bills presented in the 19th Congress fails to even recognize the best practice of our neighboring country like Indonesia where the Indonesia Investment Authority (INA) identified the key sectors that will benefit from investments in their SWF. They also uphold the international national ESG (Environmental, Social and Governance) standards as a basis of their investment approach.

   Evidently, as the MIF does not offer a development framework to uplift the lives and the recovery of the public, we are veering away from attaining economic and social transformation of the country. It offers false solutions that will help boost the shattered economy, while in fact, it is only imprisoned with the stern fiscal consolidation measures that aim to increase domestic debt, impose additional tax burdens, and lower public spending while having a high inflation rate, declining peso denomination, and higher debt service payments!

3) ***Funding sources are questionable.*** While we welcome the developments of the MIF bills from scraping out the pension funds for the initial capital of the SWF, we are expressing alarming concerns on inclusion of the GOCC dividends for the MIF. As we do not have any surplus to fund the SWF, these funding sources remain questionable as GOCC dividends are one of the additional fund sources of the General Appropriations Act to finance necessary programs of the government to augment public spending. Moreover, there are no expressed provisions in these bills regarding the returned guarantees/ return of investments to these founding GFIs. What is more alarming is with the creation of the MIF, the country is leaning towards developing natural resources surplus for the funds of SWF that will fully develop the mining industries and extractive industries which are harmful for the people, destructive to the environment and a critical point where we are opposing the destructive mining in Sibuyan Island.

4) ***The provision for exemptions and privileges of the MIF are ridiculous.*** While assured under the bill that transparency and accountability mechanisms will be observed as it will adhere with global collaborative effort among countries with SWF, which is the 24 Generally Accepted Principles and Practices (GAPP), a set of dubious provisions of exemptions and privileges are integrated in HB 6398. The said bill will be exempted from the GOCC Governance Act of 2011, which poses a greater threat on the management of the "excess" funds from the GOCCs itself, as it will not be binding from the coverage and all provisions of the law. It also gives the liberty and discretion for the Board of Directors to identify the distribution of the net profits of the MIF that they will return for each GFIs as it is exempted to the Dividends Law of 1994. The MIC Board will also be approved by its advisory board and not the Governance Commission for GOCCs. More so, the tax exemptions provided under the proposed legislature includes exemption if not all, in most of the tax obligations for its accruals, revenues, investment earnings and among its other transactions. While its funding sources are paying the correct amount of taxes, the MIC will be exempted from the abovementioned tax measures.

   Not to mention that this also contains exemptions from both the Government Procurement Reform Act and the Philippine Competition Act. It is not an alienable fact to the people that most government programs and projects collect a hefty amount of corruption through its procurement and bidding process. Hence, even with the law overseeing these transactions, outright pickpocketing of taxpayer's money is being done. What more with these exemptions at hand? The Freedom from Debt Coalition has been on the forefront of the campaign for transparency and accountability, especially on the transparency in the contracting debt and the usage of each borrowed funds. With the public money at the helm of this danger, the Coalition stands further with the masses and other civil society organizations to oppose these Maharlika Bills in the 19th Congress. Hence, the disguise in adhering with GAPP is only a circumvent to the checks and balances in our system.

5) ***Offenses and penalties are too lenient.*** For a whopping amount of money to be invested and managed in the creation of MIF, the offenses and penalties provisions are weak. They will only pay fines and will not be subject to any perpetual disqualification of holding a public office, reclusion perpetua and among others. For instance, the auditor will only be fined about P80,000-P500,000 and up to P100,000-P600,000 in cases of fraud and injury to the public. Meanwhile, graft and corruption practices involving MIF will be fined up to P100,000-P500,000. With billions of funds to be managed under MIF, the penalties and safeguards are seemingly weak.

6) ***Failure to exercise prudence vis-a-vis the current global trend of SWF loss.*** Over the past year, the world has witnessed some renowned SWFs lose billions of dollars due to the trend of interest rate hikes on bonds and stocks globally. The Russia-Ukraine War also caused steep prices on fossil fuels, burdening SWFs utilizing such as sources of profit. Cases in point: 1) **Hong Kong Wealth Fund** suffered a $26 Billion loss in 2022; 2) J**apan Pension Investment Fund** had its longest loss streak in 20 years (4 quarters in a row), accounting for $14.1 Billion loss from October-December 2022, and 3) the largest SWF in Norway (**Government Pension Investment Fund Global**) recorded its highest loss at around -14.1% or $164 Billion in 2022, citing it as a 'very unusual year' for the market.

   This reality plagues even the long-established and most sophisticated SWF systems in the world. Hence, the practicality and viability of creating a SWF under these volatile international conditions may induce huge challenges for MIF – a looming defeat with its impetuous conception .

With this tight fiscal space that disproportionately impacts the most vulnerable and disadvantaged, the **Freedom from Debt Coalition asserts that it is high time for us to push for the passage of Wealth Tax instead of establishing the Maharlika Investment Fund that has no certain return-of-investment for millions of Filipinos.** At a time when most of our people are experiencing spiraling prices of commodities, widespread joblessness and loss of livelihood and matched with inability of the government to provide ample social amelioration or social protection for all, we simply cannot impose additional taxes on the marginalized sectors while palpably favoring the rich by reducing their taxes and giving them tax incentives. Wealth Tax is the true solution that the country heeds, a revenue source that is not reliant on debt, and a solidarity surcharge for economic recovery and people's survival!

This controversy over Maharlika Investment Fund signals for reorienting the economic planning away from the neoliberal paradigm that burdens the people with its stiff and industry-killing processes. Indeed, **an alternative framework of development that is focused on people's needs** and from which domestic industry and agriculture will thrive for the country's own survival, sustainability, and sovereignty in all aspects. The government must support **people's resilience programs** at all levels and a **grassroots-based solidarity economy**, instead of austerity measures and exposing people's funds to risks and uncertainties.

For so long, the Philippines under the consecutive administrations have been so conservative in government spending. Government financial systems' roles were concentrated into inflation targeting and monetary policy-setting – veering away from its accountability to people with their innate socio-political and economic responsibilities. To end, the looming economic crisis **strongly calls for the government and relevant institutions to use its power in creating economic policies that will foster socially just conditions for all**.

In retrospect, the Freedom from Debt Coalition affirms that the Maharlika Investment Fund must be thoroughly reviewed and be necessarily set aside to prioritize progressive fiscal measures such as increased social spending in times of crisis, debt cancellation, people's economy, wealth tax, wage hikes, and among others. All the more that Filipinos need these responsive policies towards national survival and a sustainable future for all.