Foundation for Economic Freedom, Inc.

STATEMENT ON THE MAHARLIKA INVESTMENT FUND

We, the Foundation for Economic Freedom, welcome the suspension of the implementation of the Implementing Rules and Regulations (IRR) of the Maharlika Investment Fund (MIF). While on principle, the concept of an MIF may not be a good idea in the absence of a fiscal surplus, nonetheless, it is a good move to review the current IRR to ensure that the Fund's objectives are achieved without a high cost to the economy.

We recommend that the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (Land Bank) contribution to the MIF be phased in over several years rather than invested in one lump sum, depending on the number of financially viable projects as determined by the MIF Board. A lump sum capital contribution would likely be idle and unproductive since it would take the MIF several years to organize, identify, and vet the projects worthy of investment.

The benefits of a phased-in capital contribution, rather than a lump sum contribution, are manifold: First, it will allow DBP and Land Bank to continue to extend loans to farmers and development projects. The lump sum contributions of DBP and Land Bank will be charged against its capital in their balance sheets and constrain their ability to extend loans. On the other hand, a phased-in contribution will allow the Government Financial Institutions (GFIs) to continue to extend loans, build up their profitability, and further boost their capital. Furthermore, a phased-in capital contribution may help the GFIs avoid a credit rating downgrade, which will affect the cost of its borrowings.

Second, a phased-in capital contribution will also alleviate pressure on the Bangko Sentral ng Pilipinas (BSP) to extend regulatory relief to DBP and Land Bank and avoid establishing an unwelcome precedent that may cause harm to the entire financial industry in the long run.

Third, it would help DBP avoid violating the General Banking Act (RA 7181), which states that "the equity investment in any one enterprise shall not exceed 25% of their net worth."

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We also recommend that the IRR make it easier for multilateral institutions and foreign investment funds to be part of the MIF to improve governance and adherence to the Santiago Principles for Sovereign Wealth Funds.

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