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It appears the Maharlika Investment Fund (MIF) is a fait accompli. As we write, our finance officials are in New York and Toronto, pitching the MIF to international bankers and representatives of Middle East sovereign wealth funds. This means once President Marcos, Jr. affixes his signature, a newly-created Maharlika Investment Corporation (MIC) will pool, before the year is over, PhP 75 billion in seed capital from the LandBank and Development Bank of the Philippines. With a further PhP 50 billion plus two full years of dividends from the Bangko Sentral ng Pilipinas (BSP), its nine directors, all presidential appointees, will be able to invest in tradable commodities, overseas instruments, and local development projects to earn dual bottom line returns — financial and social — for the country.

At least that is the plan. Our colleagues at the UP School of Economics and Foundation for Economic Freedom, as well as commentators Stephen CuUnjieng and former BSP Deputy Governor Diwa C. Guinigundo have laid out some of the most compelling arguments against the Maharlika Fund. We are in full agreement with them over the seriousness of its design flaws, in rationale, implementation, and governance. These will not so easily be overcome simply by appointing "someone competent", as the President has suggested. The most successful sovereign

[1] The views in this paper are solely those of its authors and do not necessarily reflect those of De La Salle University.

investment funds in the world have gone to much greater lengths to ensure political influence, errors of judgment, and base human nature are kept in check by multiple guardrails, most crucially independence from the Executive.

In truth, neither its proponents nor its critics will decide the long-term viability of the Maharlika Investment Fund. Only capital markets will, especially if the goal is to eventually grow it past the initial PhP 500 billion capitalization. Nobody asked us, but if we were to design a tenable MIF, one with the best chance of attracting local and overseas capital, augmenting existing programs, and attaining the administration's Philippine Development Plan 2023-2028 targets, the following would be its essential features:

1. **A clear identity**. We certainly would not permit the mixed messaging, alternately presenting the MIF as a sovereign wealth fund, an infrastructure fund, an investment fund, or a general development fund. Admittedly, there may be some benefit in labeling Maharlika an SWF, perhaps to pique the interest of much larger and liquid sovereign wealth funds. But "fake it till you make it" will not conceal the MIF's makeshift character, merely diverting then consolidating pre-existing state holdings into a new entity, financed neither by commodity export booms nor foreign exchange surpluses. There may be scope for establishing a new development fund, even in the presence of institutions such as the LandBank and DBP — but not without re-examining key premises of our longstanding development strategy.
2. **A focused rationale**: **enabling rapid structural transformation**. As we argue in the Angelo King Institute's (2023) latest issue of the *Philippine Economic Monitor: State of the Economy Report*, six percent GDP growth is achievable. We do not think the economy can attain a higher growth rate and sustain it for five to six years. In any case,

attaining six percent growth rate consistently for the next five years will not be enough to realize the Philippine Development Plan’s 2023-2028 targets for income per capita and poverty reduction, which are based on a 6.5 to eight percent growth rate. Therefore, one must ask: where is the incremental output going to come from? The balance of payments remains the most formidable constraint. Even if successful, the Maharlika Fund’s strategy of investing in upgrading infrastructure, boosting agricultural productivity, and expanding social programs will all trigger large increases in imports, which must be paid for by foreign exchange. The only way to avoid a balance of payments crisis (and the subsequent government responses that perversely dampen growth) is to match rising import bills with rapidly increasing export revenues.

Put another way: for the past half century, the Philippines has relied on remittances to overcome recurring current account deficits and avert balance of payments crises. Until the country finds a way to earn significantly higher revenues from exports, it will not only suppress its own growth potential — it will perpetuate a dependence upon the sacrifices of overseas Filipino workers.

What has recent economic history taught us about how to ease balance of payments constraints so that faster growth can be sustained? The answer is simple but difficult: transform the productive structure of the economy. Development may be defined in terms of outcomes like poverty reduction, better health and education, greater access and equity, but the actual process requires a steady and widespread progression up the economic value chain. It is not enough that Philippine farms, factories, and offices produce more goods and services — they have done so every year for three decades now. They have to produce more *complex* goods and services, the kind that earn more export revenue per unit of inputs.

Seen this way, past administrations have been conservative in their approach to development, preferring to directly ameliorate poverty via social programs and encourage growth by a string of major infrastructure projects, while citing budget deficits as a binding constraint. Structural transformation is mentioned in the Philippine Development Plan, but it is far from being the driver of development policy that it should be — with or without a Maharlika Fund.

3. **Deals for development**. A troubling two-tiered equilibrium persists among firms in the Philippines: micro, small and medium enterprises (MSMEs), which comprise 99.58 percent of total firms, exhibit little capacity to innovate and scale up, while the country's largest conglomerates remain in the non-tradables sector, with little appetite to export (Felipe et al. 2023). Table 1 shows revenue sources across different sectors, decomposing them into export revenues and revenues from multinational corporations (MNCs). Manufacturing earns by far the most revenue, but only 40 percent derives from exports. Wholesale and Retail Trade, particularly in Motorcycle Repair, make up the bulk of service industry revenues together with Financial and Insurance Activities, yet collectively derive only two percent from exports. Agriculture and Mining exhibit the highest ratios in export to total revenue, but for much smaller aggregates. In all cases, high percentages of revenue from exports coincide with increased percentages derived from multinationals.

Sector	Revenue	Exporter Revenues	Export % of Revenue	MNC Revenues	MNC % of Revenue
	PHP millions				
Agriculture, Forestry, and Fishing	190,140	62,212	33%	51,130	27%
Mining and Quarrying	171,781	98,915	58%	24,949	15%
Manufacturing	4,770,868	1,911,288	40%	3,007,554	63%
Electricity, Gas, Steam and Air-conditioning Supply	1,025,293		0%	61,607	6%
Water Supply, Sewerage, Waste Management and Remediation Activities	62,690		0%		0%
Construction	221,153		0%	25,753	12%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	2,625,660	49,752	2%	665,286	25%
Transportation and Storage	480,513		0%	82,742	17%
Accommodation and food Service Activities	135,602		0%		0%
Information and Communication	548,792	16,143	3%	36,383	7%
Financial and Insurance Activities	2,137,676		0%	328,539	15%
Real Estate Activities	447,541		0%	2,882	1%
Professional, Scientific, and Technical Services	85,394	48,230	56%	85,394	100%
Administrative and Support Service Activities	436,106	390,431	90%	419,186	96%
Public Administration and Defense; Compulsory Social Security	40,197		0%		0%
Education	2,298		0%		0%
Human Health and Social Work Activities	34,597		0%	3,138	9%
Arts, Entertainment and Recreation	28,414		0%	16,039	56%

Source: Business World (2022)

Many studies have documented how exports are able to more quickly generate employment growth and raise incomes (Kim, 2020; Abbey et al, 2017). They also enhance firm productivity and profitability, especially when multinationals play a central role in linking domestic manufacturing to global production networks. More importantly, deepening existing export products (that is, increasing their product complexity), tends to improve export performance more than diversifying the range of products (Tanasritunyakul, 2020).

If we were to design an investment fund to support a priority development need without simply duplicating the mandates of existing institutions like the LandBank, DBP, or even Congress, it would focus exclusively on aggressive structural transformation of the Philippine economy. It would support legislative efforts such as Senate Bill 2218 or the Tatak Pinoy Act, which provides a roadmap for enhancing the productive capabilities of Filipino enterprises. We would endorse seeding money from government financial institutions (GFIs), not for general and unnamed investments in infrastructure, real estate and agricultural productivity, but toward supporting entrepreneurship by solving the information and coordination failures that appear when firms attempt to diversify and upgrade — that is, when they attempt to produce and export new products. The upside for MSMEs is large: MSMEs already contribute 25 percent of export revenue and the Department of Trade reports that 65 percent of exporters are MSMEs. A re-oriented Maharlika Fund would help MSMEs surmount obstacles in supply chain management, cash flow, and human resource management. It would address the problem, reported by Laforga (2020) that the share of MSME credit to total bank credits has fallen over time, and that despite legislated increases in microfinancing, lenders often do not comply with mandatory allocation requirements to MSMEs.

Finally, we would commit the MIF to design a modern industrial policy program to help firms realize not only “small jumps” (to produce and export similar but slightly improved products that use existing capabilities), but also “large jumps”, allowing them to produce and export new products that require advanced capabilities the country does not yet possess. We would use MIF profits not for expanding anti-poverty programs, but for improving the organizational know-how and financing learning among MSMEs, so that they become more efficient sources of primary and intermediate inputs for conglomerates and multinationals. In thorough strategic consultation with heads of our largest firms, we would introduce significant incentives (and in return extract binding commitments) for them to take up the challenge and establish an international high-value manufacturing presence for the Philippines.

4. **Unimpeachable governance**. The President is right — managerial competence and integrity are indispensable for keeping the MIF “from getting into trouble”. Yet individual characteristics are not sufficient conditions for good governance. The public may have grown blasé and cynical from decades of graft and impunity, but international capital markets require more than professional appointments and declarations of compliance to the Santiago Principles. They will know from recent experience with sovereign wealth fund scandals that good governance can only be maintained by institutional safeguards — in particular by rules that go against the personal and political interests of those establishing the fund. They will know that a universally acceptable first set of appointees is no guarantee of continued probity from subsequent appointees once the fuss has died down.

Singapore’s Temasek Holdings Limited (est. 1974) is an exemplar in state-fund governance, despite its reported heavy losses in 2023. Its management and advisory boards ensure majority of directors are independent, accountable to the President for

> fair market value transactions, but not appointed by him or her. On the most critical committees — Executive, Audit, Leadership Development and Compensation, Risk and Sustainability — the chairs are non-executive directors. We cannot help comparing the lengths to which it has gone to embed non-intervention by political actors in its design with the governance structure described in Articles IV, V, VIII and IX of Senate Bill 2020. They do not have to quibble about whether prescription periods for crimes and offenses ought to lapse after 10 or 20 years.

If the administration must have its Maharlika Investment Fund, so be it. But let it take on a clear identity as a development fund, not an ersatz sovereign wealth fund. Let it signal credibility to international markets by embracing governance best practices that emphasize political non-interference and reliance upon private, even international, professional expertise. Most of all, let it contribute additionally toward Philippine Development Plan targets by focusing exclusively on transforming our economy's productive structure — solving the scaling-up problems of MSMEs and enabling our conglomerates to export significantly more complex goods.

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