Transparency and Public Participation in Infrastructure Development

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Good morning everyone, our thanks to Stratbase and to its President Professor Dindo Manhit for the invitation to speak before all of you.

Transparency and public participation are two important development concepts which every government has been seeking to mainstream in the course of its work in infrastructure.

These two concepts are also areas which several governments have difficulty trying to implement for various reasons.

In the course of this discussion, we will try to discuss what to do and what not to do.

Mainly we will discuss the case of the Maharlika Investment Fund in which public participation was key in keeping government honest, ensuring that government initiatives truly advance the public interest.

The initial concept of the Maharlika Investment Fund was this: It was originally called the Maharlika Wealth Fund, based on the concept of sovereign funds in various countries, particularly natural-resources rich nations in Europe, the Middle East and international finance centers such as Singapore and Hong Kong.

Its initial objectives included funding big-ticket infrastructure projects such as the national grid and various dams around the country.

But this proposal came out of left-field, this was never a campaign promise, this was never part of any high-level discussions between the executive and the legislature. Some were speculating that this was born out the President's visit to Singapore while watching the Singapore Grand Prix.

What MIF proponents initially failed to mention was this –

Sovereign wealth funds can only be viable if funded through the wealth generated by natural resources, such as oil, natural gas and mining. This is the case in Norway, Russia and the Middle East.

We have no oil, we have limited natural gas and the current revenue sharing framework on mining does not favor government.

SWF can also be funded through surplus government funds, foreign currency deposits, among other government financial instruments. This is the case in international finance centers such as Singapore and Hong Kong.

We have no surplus government funds, and we are currently on a balance of payment deficit.

But what certainly sealed the fate of the MIF as originally proposed was the inclusion of government and private pension funds as major funding sources for the PH sovereign wealth fund.

As soon as the news broke that pension funds were a major funding source, there was swift opposition from major sectors of society. Leading business groups opposed it. One business group which initially supported the MWF rescinded ist support. Workers' and employees' groups opposed it. Economic experts opposed it.

Essentially, the new Marcos administration experienced its first and worst crisis only five months into power.

And this level of pushback was not without basis.

The MIF should have never included pension funds as these funds are being held in trust for the benefit of its members, and not for the benefit of government.

These funds have specific investment objectives, timelines and risk tolerances which may be incompatible to the objectives of a PH SWF.

As an example, Singapore's SWF, Temasek, has written off its $275-Million investment to bankrupt crypto firm FTX.

And the question to government is this: If a future PH SWF makes a similar mistake as Temasek on government and private pension funds, will government be able to foot the bill, and make pensioners whole?

Probably not.

There is no doubt that SWFs around the world were able to finance the development of their respective countries. Qatar has been able to stage the current World Cup and Norway is able to sustain its welfare state on the backs of their SWFs.

But instituting our own SWF without a sustainable source of funding such as oil, gas and natural resources wealth or significant foreign currency reserves is putting the cart before the horse.

Relying mainly on pension funds and government banks which already have their own investment objectives, timelines and risk tolerances subjects the pensions OF ordinary families to extraordinary risk. Retirees and depositors did not sign up to subject their money to this new type of risk.

And most certainly, a PH SWF will undertake riskier bets than what is currently being undertaken by our pension funds and GFIs, because a more conservative or moderate investment strategy is already being undertaken by pension funds and GFIs now. In other words, there is no point undertaking a moderate investment strategy under a new SWF if this is already being undertaken by pension funds and GFIs today.

As such, this would have subjected retirement funds of government and private employees to significant risk. Investment mistakes such as Temasek's investment into bankrupt FTX will always be a possibility even if the best safeguards are put in place.

Ultimately, government took a step back from its original proposal. It removed pension funds as funding sources, and sought to institute greater transparency, accountability and professionalism in a future MIF. As now proposed, its leadership structure will be composed of independent finance professionals.

We are also urging the Senate to implement a compensation structure based on fund performance. This ensures that the fund is free from political interference and fund performance is the most important bottom line.

Looking back, there are several lessons which government and the private sector can learn from the ongoing Maharlika Investment Fund saga.

Number one. Ideas, plans and projects with broad public impact should always be tested before launch. The fate of the nation or the fate of our public cannot be decided in small rooms and private offices.

Our ideas and plans should always be subject to testing, to scrutiny, to consultation with affected sectors and communities.

Had high-level officials sought the advice of economic experts, public intellectuals and affected sectors prior to the announcement of the original MWF, the new government could have avoided its first and worst crisis. In their own silos in the Palace and Batasan, they probably said it's a go, it sounds good, or worse: we are doing this, because we can.

And this is not even about humility in public service, which is obviously important. But this is more about how to make sure that a supposedly brilliant life-changing idea does not blow up in our faces just because we failed to test, we failed to ask questions, we failed to consult.

Number two. Never second-guess public sentiment.

When the original concept was being created, proponents most definitely focused on the grand objectives which can be achieved with a massive investment kitty. This included funding major infrastructure projects such as dams and the national grid.

They probably thought that no one, not even economic experts nor even the typical Filipino family would object to such lofty objectives for national development. They probably thought that including pensions funds into the kitty was justified given the grand objectives of the MIF.

This was probably true for high-level officials who never considered pension funds as indispensable to their retirement years. They probably have various instruments and family offices ensuring their retirement and even the sustenance of multiple generations of their families.

But this was not true for retiring teachers whose pensions may be obliterated in a single losing investment bet like Temasek. This was not true for retiring factory workers whose already limited SSS pension might get lost with the SSS' foray into the MIF.

And to quote the popular social media meme: We are not the same.

In fact, in other major projects, government has been guilty of second-guessing the public.

One example has been the Manila Bay Dolomite Project. More than P400-M has been dumped into this project at the height of the pandemic lockdown. It was touted as a part of the Manila Bay rehabilitation push as ordered by the Supreme Court Mandamus.

But the Supreme Court Mandamus, and the Manila Bay rehabilitation plan never included beach nourishment as part of the necessary projects to improve the water quality in Manila Bay. In fact, in order to improve water quality, what was needed were more sewage treatment plants and other projects with real impact to water quality and sanitation.

On the defensive, the Palace defended the project as necessary for the public's mental health, and gaslighted opponents by comparing the trash in Manila Bay during a previous administration.

Ultimately, funding for the project had ceased to date, validating the basis for the public's opposition that it was nothing but a beautification project, and limited funds should have been used somewhere more impactful to the objectives of rehabilitating Manila Bay.

Again, because we are all not the same, government should never second guess.

Last and number 3. Never underestimate public sentiment.

To reiterate, public opposition to the original MIF was swift. Within 24 hours from launch, major sectors of Philippine society, policymakers and opinion makers were up in arms against the MIF.

Malacanang and Congress suddenly found themselves in crisis, which they never expected.

The President's son, typically articulate on various issues, was suddenly nowhere to be found. The Finance Secretary was attacking his peers, calling them ignorant. The defense of the MIF was suddenly left to second-level factotums. Curiously, the Senate washed its hands and said well we still don't have any bill filed here.

There was radio silence from the President and the Speaker. They only spoke a few days after, when the pension funds were already being taken out of the bill, saying that they are open to further suggestions to improve the proposal.

But the damage has already been done. They were diminished by this flurry of negative public sentiment, with the boldest opponents even raising that this was similar to the various cash grabs in the first Marcos administration.

Instead of being able to focus on real, achievable gains from the MIF, proponents were stymied by the intense public reaction to the MIF funding sources.

In fact, because of this intense negative public sentiment, any development or positive changes in the MIF bill moving forward will now be subject to suspicion and greater scrutiny. It was an avoidable, self-inflicted blunder by both Malacanang and Congress.

So to recap: three lessons today on transparency and public participation in infrastructure development.

1. Test before launch
2. Never second-guess public sentiment
3. Never underestimate public sentiment.

These are lessons which are applicable to both government and corporates. We should avoid making self-inflicted blunders. We should get out of our silos. We should get out of our private offices and spend more time in public spaces.

Because failing to do so has real consequences. To government and politicians, it has consequences on their political capital. It has consequences on their prestige. It subjects them to crisis. To corporations, it subjects them to regulatory and political scrutiny. It damages their social capital and impacts their reputation. Worse, it impacts their stock price and their bottom line.

So test, never second-guess, never underestimate.

Maraming Salamat po.