Diokno says PHL may tap G7 infrastructure fund

FINANCE Secretary Benjamin E. Diokno said the government will consider tapping the Group of Seven's (G7) Partnership for Global Infrastructure and Investment (PGII) program to support the Philippines' building efforts.

To continue the momentum of the previous administration's Build, Build, Build program, "we are considering all possible sources of funding" to meet a target for infrastructure spending of 5-6% of gross domestic product (GDP), Mr. Diokno said after the Development Budget Coordination Committee's (DBCC) meeting on Friday.

Aimed at supporting the infrastructure needs of low- and middle-income countries, the PGII hopes to mobilize $600 billion over the next five years, of which $200 billion will consist of grants. It is intended to leverage private sector investment, according to US President Joe Biden.

The G7 is composed of Canada, France, Germany, Italy, Japan, the UK, and the US.

Mr. Diokno said however that the government intends to reduce its foreign exchange risks, which would make minimizing foreign borrowing a consideration.

"The financing mix, if I remember right, is 75%-25% (in favor of domestic borrowing) and for the longer term we will try to increase this to 80-20. We will borrow domestically at 80% and 20% from foreign sources," he said.

"The way we borrow is that we try to be opportunistic. There are many sources of borrowing in terms of foreign debt, so we will choose the least cost as far as we're concerned and the one that will offer the best terms. For example, (if) it's 40 years to pay, we would tend to borrow from those sources," he added.

Regarding public-private partnerships, Mr. Diokno reiterated that mode of financing projects can help the Philippines expand its fiscal space for infrastructure.

"For example, there are some airports. We can actually offer them for unsolicited or solicited proposals (for the) private sector to operate," he said.

"An example will be in Bohol. We have constructed the Bohol international airport... I think it will significantly improve the operations and management of that airport if the private sector runs it, and we might consider giving it to the private sector," Mr. Diokno added.

The amended Public Service Act now allows foreign direct investors to own and manage a wide range of infrastructure like airports, seaports, telecommunications companies, railroads, subways, skyways and tollways.

"Disbursements for 2022 to 2023 will be maintained above 20% of GDP at P4.955 trillion and P5.086 trillion, respectively, to ensure continuous implementation of priority programs on infrastructure and socio-economic development, among others," the DBCC said on Friday.

Similarly, disbursements for 2024 to 2028 are also projected to be above 20%, as indicated in the DBCC's revised macroeconomic targets released on Friday.

The target of 5-6% infrastructure spending relative to GDP was extended to 2028, the last year of President Ferdinand R. Marcos, Jr.'s term. — **Diego Gabriel C. Robles**

Gov't borrowing falls 43.38% at end of May

GROSS BORROWING dropped by 43.38% year on year at the end of May, as the National Government (NG) stepped up debt repayments.

According to preliminary data from the Bureau of the Treasury (BTr), gross borrowing was P883.11 billion in the year to date.

In May, the government's debt position was a net redemption of P282.58 billion, with repayments outweighing new borrowing.

Domestic net redemptions were at P270.68 billion, against P104.4 billion a year earlier.

At the end of May, the NG's outstanding debt also declined 2.1% month on month to P12.5 trillion, after it repaid advances made by the Bangko Sentral ng Pilipinas (BSP).

The record high for NG outstanding debt was P12.76 trillion at the end of April.

The May position on Treasury bills was a net issuance of P85.89 billion.

Fixed-rate Treasury bonds (T-bonds), meanwhile raised P115.21 billion.

Foreign gross borrowing rose 50.33% to P11.71 billion in May, consisting entirely of project loans accounting for all of it.

The government repaid P23.61 billion to foreign creditors in May.

In the year to date, gross domestic borrowing fell 57.37% year on year to P644.82 billion.

The government generated P457.8 billion from Retail Treasury bonds, and P446.45 billion from fixed-rate T-bonds.

Gross external borrowing rose 10.50% year on year to P279.61 billion in the five months. — **Diego Gabriel C. Robles**

Retail association outlook positive for remainder of 2022

THE Philippine Retailers Association (PRA) said its outlook for the rest of 2022 as the public resumes its pre-pandemic consumption patterns.

PRA President Rosemarie B. Ong said: "We're expecting the second quarter to even be better than the first quarter. So far, the outlook (for) this year is very positive despite the challenges. Those challenges are external. We have no control of that. I think the main driver was home consumption," Ms. Ong said on the sidelines of the PRA's recent second quarter general membership meeting in Makati City.

Asked about rising local coronavirus disease 2019 (COVID-19) cases, Ms. Ong said that the PRA is hoping that the infection count "does not escalate" and hinder the retail industry's recovery.

"I think things are under control and besides, majority of the population has been vaccinated already. From the reports that we got, most of the infected easily recover if they are vaccinated," Ms. Ong said.

The Health department on Saturday reported 13,021 active COVID-19 cases, following the detection of 1,825 new infections.

Ms. Ong said however that PRA members are reporting challenges in logistics due to a shortage of shipping containers.

"It is a world container shortage because the world is ramping up (from the pandemic)," Ms. Ong said.

"Lead times have been prolonged. Retailers have to strategize. Before, it was two weeks, now (they have to plan around) one month. The lead time has doubled, depending on the origin," she added.

Ms. Ong said some retailers have increased their prices due to rising fuel costs, though the trend cannot be "generalized — it depends on the sector."

"By and large, retailers are resilient. We've gone through the pandemic, we've gone through so many challenges, and we work together. We collaborate and share ideas," she added.

Ms. Ong added that "we need to tech up the industry. For one, it will help the retailers to be more efficient in their processes — and (to handle) digital payments."

The Department of Trade and Industry estimates the retail trade's gross value added at over P600 billion in the first quarter of 2022, up from over P500 billion in early 2018. — **Revin Mikhael D. Ochave**

PHL signs on to UN convention on electronic communications in trade contracts

THE PHILIPPINES has submitted its instrument of ratification of a United Nations (UN) convention recognizing the use of electronic communications in trade contracts, the Department of Foreign Affairs (DFA) said in a statement on Friday.

The instrument was deposited by the Philippine Mission to the UN in New York, the DFA said.

Philippine Mission Deputy Permanent Representative Ariel R. Peñaranda, speaking at Digital Week of the 55th annual session of the United Nations Commission on International Trade Law on Thursday, called the treaty a "significant milestone in strengthening our cross-border international trade with key trading partners, some of whom are already States Parties, as it ensures that fundamental principles of e-commerce are recognized and enforced across borders."

With the ratification of the Convention on the Use of Electronic Communications in International Contracts, the Philippines "will also move forward with the establishment of guidelines for cross-border mutual recognition of digital signatures, electronic communication and contracts, noting that the Convention facilitates technology-neutral mutual recognition among parties," Mr. Peñaranda said.

The convention, which was adopted on November 2005 and came into force in March 2013, mainstreams the use of contracts concluded and other communications exchanged electronically, recognizing them as valid and enforceable.

"Ratification... sends a strong signal of the Philippines' readiness to adopt a modern and predictable legal regime for international electronic contracts. It will further bolster our efforts to promote cross-border transactions," former Trade Secretary Ramon M. Lopez has said.

Mr. Peñaranda said signing on to the convention is in line with the Philippines' E-Commerce Roadmap.

The Philippines signed the convention in September 2007. It is the 16th state-member of the convention and the second Association of Southeast Asian Nations state to ratify it.

In a 2021 United Nations Global Survey on Digital and Sustainable Trade Facilitation, the Philippines scored 86%, higher than the Southeast Asia average of 74%. — **Alyssa Nicole O. Tan**

OPINION

Tradition and transformation in single family offices

SUITS THE C-SUITE
KRISTOPHER S. CATALAN *and* **JULES E. RIEGO**

(Second of two parts)

In the first part of this article, we discussed how single family offices (SFOs) have concerns about managing reporting responsibilities and compliance in response to the evolving regulations and seizing the opportunities arising from harnessing new technologies to enable data-driven decision-making. This is based on the survey recently conducted by EY teams to gather and share deeper insights into their priorities in times of accelerating economic, social, and geopolitical disruption.

It was striking how, regardless of where these surveyed SFOs are and the different functions they undertake, there were several common focus areas identified — wealth and regulation, digital transformation, risk and regulation, and strategy and governance.

In this second part, we will discuss risk and reputation, and strategy and governance.

RISK AND REPUTATION

Risk management has long been a strategic focus for most SFOs, but many are seeing the need to revisit scope, methods and leading practices. In particular, SFOs raised the need for more sophisticated and rigorous models for managing an expanding scope of risk and reputation considerations. A failure to address this need can leave families and family office leaders exposed to unexpected situations.

While many SFOs recognize risk management as a key function that must be fulfilled, the survey suggests that some SFOs feel their own risk management frameworks could be strengthened. Only 49% of surveyed SFOs shared confidence that they have a structured process in place to identify risks, while 31% say that risk management decisions are not taken at the highest levels of their organization. This lack of formal, institutional-grade risk management can leave SFOs in a reactive posture, resulting in them spending valuable time putting out fires or dealing with gaps in expectations. Moreover, it can result in reputational risks given the prominence of families.

Robust risk management can deliver broader benefits to the organization, reinforcing trust and confidence not just within the organization, but with the stakeholders as well. Families must review their governance frameworks to determine gaps and potential opportunities, but they must also have a commonly agreed ownership strategy. Families will need to determine high-level risks and use them to frame a properly designed risk program based on their own risk appetite. However, not all families will rank top areas of focus — such as family reputation, investments, cyber and data security and integrity — equally or even view them in the same way.

After refreshing the SFO's risk management strategy and program, benefits will only materialize once an enhanced risk management model is implemented and operating as intended. In order to ensure that these benefits are sustained, SFOs will need to establish an evergreen program for the continuous testing and refinement of their risk management processes. Adopting a comprehensive approach tailored to their own unique risk appetite, strengths and resources will provide SFOs with more certainty and resilience.

Rapid changes in doing business today are disruptions that cause the imbalance of priorities, often becoming a forgone conclusion of misplaced resources as plans are no longer responsive to the current challenges.

Family offices should look at these changes as opportunities to thrive in rather than difficulties to falter from. Establishing a well-organized risk management plan structure would make sense to protect the family name and reputation for years to come. The study shows that as many as 90% of SFOs are considering or are already co-sourcing functions related to risk management, collaborating with external partners to support their risk agenda.

STRATEGY AND GOVERNANCE

In an environment where emerging technologies and changing regulations create disruption, a validated strategic plan and governance systems that are periodically refreshed are more valuable than ever for SFOs. While most SFOs indicated some form of strategic planning and governance construct in place, too many share that these systems are relatively informal. This can often leave gaps in expectations, escalation or execution.

The study showed that SFOs and prominent families themselves are being intentional in designing and operating more sophisticated and strategic governance constructs. Dual Governance, which distinguishes and aligns the business and family governance and contemplates the strategic and often essential role of the family office, is facilitating clarity, execution, and stakeholder alignment.

One of the dynamics driving new risk and reputation frameworks is expanding the definition of value and risk to include new environmental, social and governance (ESG) considerations. This was identified as an area for increased focus and action, especially as it relates to evolving multigenerational family priorities and legacy amidst more prominent ESG trends.

Human capital, societal and community value as well as customer and stakeholder impact are now part of a growing appetite to define value and purpose beyond traditional performance metrics. At the same time, many families are innovating to formally incorporate growing consumer expectations into their strategic planning and governance constructs.

Leading SFOs are taking action in different ways, with 44% of survey respondents planning to exclude investments that do not align with the ethics and values of the family, whether these are ESG-related or reflect other values the family holds. However, the survey also exposes a potential gap in execution — while as much as 85% of SFOs indicate the importance of measuring and optimizing non-financial performance, only 30% do so to a significant extent. Across all regions of the world, the most widely deployed metric in measuring performance for the SFO is cost instead of value.

It should be noted that there is a proven and tangible benefit to innovating performance to include new measures, with 58% of SFOs sharing that including non-financial metrics to a significant extent led to performance that exceeded expectations. As the aspirations and goals of the family expand, it will be critical for SFOs to take the lead in designing and deploying next generation performance criteria that encompasses the broader mandate as it relates to ESG.

PROTECTING THE FAMILY LEGACY ACROSS GENERATIONS

The four key themes discussed show the new pressures that SFOs must navigate related to their wealth. They will have to consider accelerating tax, regulatory and economic policies and disruptions as jurisdictions around the world attempt to address a wide range of societal and geopolitical challenges. This provides exciting opportunities to make use of emerging technologies and data to deliver insights like never before.

As they traverse the pace of change in technology, regulation, risk and governance, SFOs will need agility as they balance their obligations with the need to maintain strategic focus in support of their family stakeholders. In keeping up with the times, SFOs need to align their objectives to enable them to create long-term value and not just short-term returns while managing the risks that will threaten the continuity of the family legacy.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the authors and do not necessarily represent the views of SGV & Co.

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