

Fiscal Policy and Multilateral Cooperation: Challenges and Opportunities for Philippine Connectivity

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ABSTRACT

The Asia-Pacific's connectivity ambitions highlight the need for sound fiscal policies to address infrastructure gaps and ensure sustainable development. This study explores how the Philippines can optimize access to multilateral funding from the AIIB and ADB by leveraging fiscal strategies like debt management, public-private partnerships, and budgetary reforms. It examines challenges such as limited fiscal space, governance issues, and geopolitical dynamics while advocating for fiscal transparency, improved project evaluation, and institutional capacity-building. By aligning national policies with regional priorities, the Philippines can strengthen multilateral cooperation, advance sustainable infrastructure investments, and contribute to inclusive economic growth and regional integration.

INTRODUCTION

Globalization has underscored the importance of infrastructure connectivity in driving economic development and regional integration, particularly in the Asia-Pacific. Multilateral development banks (MDBs) like the AIIB and ADB play a critical role in addressing the region's infrastructure needs, estimated to exceed USD 20 trillion by 2030 (Creutz, 2023). For the Philippines, aligning fiscal policy with regional connectivity initiatives is essential to overcome development bottlenecks and achieve long-term socio-economic growth. However, challenges such as fiscal constraints, governance standards, and shifting geopolitical dynamics complicate the effective use of multilateral support.

This paper explores how public fiscal policy—revenue mobilization, expenditure management, and debt sustainability—can optimize the Philippines' access to multilateral financing. Strategies like prudent debt management, targeted budget allocations, and public-private partnerships (PPPs) are key to leveraging MDB support. These fiscal choices impact not only the country's eligibility for funding but also the sustainability and inclusiveness of infrastructure investments. The central question is: How can the Philippines effectively use fiscal policy to maximize multilateral financing while addressing fiscal, institutional, and geopolitical challenges?

Methodology

This study employs a multi-method approach, integrating a review of academic and policy literature, an analysis of fiscal developments in the Philippines and Asia-Pacific economies, and case studies on public-private partnerships (PPPs), debt management, and multilateral development bank (MDB) engagements. Insights from regional and institutional reports, alongside cross-country comparisons, provide best practices relevant to the Philippines. Existing research, such as Creutz (2023) on MDB funding models, Ji and Rana (2024) on MDB roles in Belt and Road initiatives, and Navarro and Llanto (2014) and Komatsuzaki (2019) on Philippine fiscal reforms, informs the analysis. However, limited studies directly explore how fiscal policy interacts with multilateral funding in the Philippines. This paper addresses this gap by integrating fiscal, institutional, and geopolitical perspectives.

While comprehensive, this approach has limitations. The reliance on secondary data and institutional reports may not fully reflect real-time developments or capture the nuanced realities of project implementation. Data gaps in tracking fiscal performance and evaluating project outcomes constrain assessments. Additionally, cross-country comparisons, while useful for identifying best practices, may overlook context-specific challenges unique to the Philippines, such as governance and fiscal capacity differences.

Future research should incorporate primary data collection, such as interviews and fieldwork-based case studies, to provide deeper insights into fiscal governance and multilateral cooperation. Despite these constraints, this study offers a foundation for understanding the interplay between fiscal policy, multilateral financing, and geopolitical considerations in the Philippine context.

THE PHILIPPINE FISCAL LANDSCAPE AND MULTILATERAL COOPERATION

The Philippines' fiscal landscape and its engagement with multilateral development banks (MDBs) are key to addressing infrastructure gaps and promoting economic growth. This section explores the evolution of fiscal policy, the role of MDBs, and the challenges in financing infrastructure, highlighting the interplay of fiscal constraints, governance issues, and geopolitical dynamics.

Evolution of Public Fiscal Policy

The evolution of public fiscal policy in the Philippines highlights the complex interplay of challenges and reforms that have shaped its economic stability and engagement with multilateral funding institutions. From the 1980s to 2005, the country faced recurring budget deficits that undermined macroeconomic credibility, disrupted public investment programs, and delayed critical infrastructure projects (Diokno, 2007). This fiscal volatility eroded investor confidence, raised borrowing costs, and constrained the Philippines' ability to absorb large-scale multilateral financing effectively. Crucial infrastructure development was hampered, narrowing fiscal space during crises and weakening the country's bargaining position with multilateral development banks (MDBs).

One of the most significant consequences of this instability was the government's limited capacity to implement countercyclical fiscal measures during economic downturns. Without the ability to redirect resources toward urgent infrastructure needs, the Philippines struggled to maximize the benefits of regional connectivity initiatives. Reforms in the 1990s sought to address these issues, including targeted tax measures like adjustments to excise taxes and improved VAT collection, which increased the tax effort and supported recovery from recession (Canlas, 2007). Institutional innovations, such as the creation of a

large taxpayers' unit in the Bureau of Internal Revenue, broadened the tax base and improved collection efficiency. These governance improvements enhanced fiscal credibility and strengthened the country's standing with multilateral lenders. However, the lack of sustained institutionalization of these reforms left fiscal gains fragile, underscoring the need for long-term adaptability in fiscal governance (Diokno, 2007).

The 1990s reforms demonstrated the importance of aligning tax measures, institutional strengthening, and public investment priorities to restore macroeconomic stability. While these measures revived investor confidence and improved access to multilateral resources, the Philippine government's reliance on external financing remained a double-edged sword. Foreign debt consistently accounted for approximately 50% of government liabilities for over two decades, providing much-needed development funds but also exposing the budget to external shocks like currency fluctuations and global financial crises (Diokno, 2007). Debt servicing costs, consuming more than half the national budget since 2003, diverted resources from new infrastructure investments, forcing the government to adopt a strategic and selective approach to multilateral borrowing.

The persistence of elevated debt levels further highlighted vulnerabilities to external shocks such as rising interest rates and currency depreciation, intensifying fiscal stress. These challenges underscored the urgency of diversifying financing sources and improving domestic resource mobilization to reduce dependency on foreign loans. Montes (1980) concluded that fiscal instability was exacerbated by cyclical fluctuations in tax revenue and debt ratios, especially during periods when tax revenue as a percentage of GNP dropped to critically low levels. Financing deficits primarily through foreign sources exacerbated these vulnerabilities, while weaknesses in tax administration and expenditure management further eroded fiscal capacity. MDBs increasingly demanded robust institutional frameworks to ensure fiscal prudence, reinforcing the need for comprehensive fiscal and budgetary reforms (Montes, 1980).

Inadequate revenue mobilization constrained fiscal autonomy, creating reliance on concessional funding and technical assistance. This dependency exposed structural vulnerabilities that, if left unaddressed, risk perpetuating a cycle of fiscal distress. Such instability jeopardizes the Philippines' sustained engagement with multilateral lenders and its ability to achieve long-term connectivity and infrastructure goals. Global evidence demonstrates the risks of fiscal mismanagement, with public debt-to-GDP ratios often surging in post-crisis years following poorly managed fiscal policy shocks (Corsetti & Müller, 2013). Consequently, for a country like the Philippines, with limited fiscal buffers and exposure to external crises, the consequences of weak fiscal management could be severe (Diokno, 2007).

The government's efforts to finance large-scale connectivity projects under significant fiscal constraints expose it to the risks of procyclical tightening—where spending cuts during economic downturns undermine essential development programs. To address these risks, the Philippines must prioritize building fiscal resilience through countercyclical policies, strategic contingency planning, and enhanced coordination with monetary authorities (Montes, 1980). Strengthening fiscal governance, adopting sustainable debt management practices, and aligning fiscal strategies with multilateral funding requirements are essential for leveraging partnerships effectively and advancing the country's infrastructure and connectivity goals (Go, et al., 2022).

Role of Multilateral Development Banks

MDBs like the ADB and AIIB address infrastructure funding gaps, with government spending persistently below the 5% GDP benchmark—just 2% in 2005 (Diokno, 2007; Go et al., 2022). The AIIB's focus on regional connectivity, aiming for 25–30% of its portfolio by 2030, incentivizes alignment with

its priorities (Creutz, 2023). To access MDB funds, the Philippines must improve governance, project selection, and compliance with social and environmental standards, despite administrative burdens (Kennedy & Qayyum, 2023). In addition to financing, MDBs provide technical assistance to enhance project implementation (Dakila, 2021). MDB commitments, like \$22.8 billion from ADB and \$9.93 billion from AIIB in 2021, are vital but increase fiscal pressures. Effective debt management, corruption mitigation, and improved infrastructure delivery are critical to maximizing MDB support (Beja, 2009; Canlas, 2007). Collaboration, such as ADB-AIIB co-financing, offers opportunities but requires careful navigation to avoid geopolitical tensions, especially given AIIB's ties to China's Belt and Road Initiative (Kyaw, 2021). MDBs also support private investment through public-private partnerships (PPPs), which helped close 119 projects worth \$57 billion from 1990–2016 (Endo & Seetharam, 2021).

Current State of Infrastructure Financing

The Philippines relies heavily on external borrowing, with foreign debt comprising 50% of liabilities over the past 25 years. While this has funded vital infrastructure, it has crowded out resources for domestic investments and delayed upgrades needed for economic growth (Diokno, 2007; Beja, 2009). Chronic underinvestment, with infrastructure spending below 2% of GDP in 2005, has deepened socio-economic disparities and weakened competitiveness in transport, energy, and water sectors (Go et al., 2022).

Reliance on external financing exposes the country to risks from interest rate fluctuations and currency shocks, highlighting the need to develop domestic capital markets and improve debt management. Limited tax revenues, averaging 13.2% of GDP from 2001 to 2008, further constrain fiscal space, as debt servicing consumes most government revenues (Beja, 2009). Tax reforms and better revenue administration are essential to reduce dependence on foreign loans.

The COVID-19 pandemic exacerbated fiscal pressures, with the debt-to-GDP ratio reaching 60.5% by 2021, limiting infrastructure investment capacity (Debuque-Gonzales et al., 2022). Pro-cyclical spending cuts during crises stalled recovery efforts, underscoring the need for countercyclical strategies and innovative financing mechanisms.

MDBs provide critical funding and technical assistance but often impose administrative burdens that delay implementation (Kennedy & Qayyum, 2023). Simplifying processes while maintaining accountability is key to maximizing MDB support. Institutional reforms, efficient project management, and stronger governance are essential for leveraging external funds effectively.

To address infrastructure gaps sustainably, the Philippines must balance fiscal resilience, social equity, and environmental sustainability. Strengthened revenue generation, diversified financing, and improved institutional frameworks are critical to advancing long-term development goals.

CHALLENGES IN MULTILATERAL FUNDING ACCESS

The Philippines faces significant challenges accessing multilateral funding due to fiscal constraints, governance weaknesses, and geopolitical dynamics. Rising debt levels, limited fiscal space, and institutional inefficiencies hinder the country's ability to effectively engage with international financial institutions (IFIs) and secure resources for critical infrastructure development. By the end of 2021, the debt-to-GDP ratio reached 60.5%, surpassing pre-pandemic levels, while the fiscal deficit widened to 7.6% (Debuque-Gonzales et al., 2022). This highlights the fragility of the fiscal framework, which struggles to absorb economic shocks without exacerbating fiscal distress.

Fiscal Space Constraints

The governance framework in the Philippines emphasizes public participation and fiscal transparency, as reflected in constitutional provisions like the recognition of civil society organizations (CSOs) in the 1987 Constitution and local ordinances such as Naga City's Empowerment Ordinance (Magno, 2015). However, these measures have achieved limited progress in fiscal transparency, with the Philippines scoring only 48 on the 2012 Open Budget Survey (Magno, 2015). This gap between formal provisions and practical implementation highlights challenges in fostering meaningful public engagement. Incomplete and inaccessible financial data further restrict oversight and accountability, limiting the transformative impact of transparency initiatives.

Policies like National Budget Circular 542 and the Transparency Seal requirement in 2012 improved fiscal openness, with 87 percent of national agencies complying initially (Magno, 2015). However, gaps in financial disclosures hinder rigorous scrutiny and expose systemic weaknesses. These shortcomings are particularly relevant when multilateral development banks (MDBs) like the ADB and AIIB condition financial support on governance standards. Such deficiencies pose reputational risks and highlight the need for institutional reforms to enhance compliance and credibility.

Institutional Challenges and Capacity Constraints

Institutional weaknesses, such as the rigid National Tax Allotment (NTA), formerly the Internal Revenue Allotment (IRA), exacerbate fiscal inefficiencies. The fixed allocation of 40 percent of revenues to local governments perpetuates regional disparities and limits the central government's capacity to fund critical infrastructure (Navarro & Llanto, 2014). These challenges are compounded by technical and administrative capacity shortfalls that delay project implementation and reduce effective use of funds. Misalignment between the national budget and MDB requirements further limits the sustainability and impact of infrastructure investments.

Limited capacity in planning, project selection, and fund disbursement diminishes the Philippines' ability to absorb multilateral aid and comply with MDB benchmarks. These inefficiencies not only delay projects but also restrict access to future funding. Addressing these bottlenecks requires targeted capacity-building, technological modernization, and stronger inter-agency coordination to maximize the benefits of multilateral cooperation (Navarro & Llanto, 2014).

Lessons from Past Reforms and Recent Challenges

Historical reforms demonstrate the potential for targeted interventions to improve governance. Early 1990s reforms, such as the establishment of a large taxpayers' unit and excise tax adjustments, increased the tax effort from 13.3 percent to 15.2 percent of GDP in one year (Canlas, 2007). While these reforms enhanced revenue generation and fiscal credibility, their reversibility underscores the need for sustained institutionalization to ensure long-term stability.

The COVID-19 pandemic exposed vulnerabilities in fiscal governance as rapid spending increases strained public financial management systems. Revenues fell by 9 percent in 2020, while expenditures rose by 11.3 percent, highlighting weaknesses in resource allocation, oversight, and revenue mobilization (Basilio et al., 2022). These challenges emphasize the need to modernize financial management systems, strengthen audit mechanisms, and leverage real-time data to maintain fiscal discipline during both routine operations and crises.

Building Sustainable Governance Partnerships

While transparency initiatives have made progress, accountability gaps persist, undermining trust among investors and donors and limiting the government's ability to mobilize resources for infrastructure development (Debuque-Gonzales et al., 2022). MDB safeguards provide external checks on governance but reveal weaknesses in national systems. Strengthening internal systems for project evaluation, fiscal risk management, and corruption prevention is critical to reducing dependence on MDB conditionalities and fostering greater national ownership of development initiatives.

Establishing the Philippines as a genuine multilateral partner requires integrating fiscal transparency, participatory budgeting, and institutional accountability into its governance framework. Moving beyond compliance involves embedding these principles into fiscal policies and project management to sustain long-term reforms. Institutionalizing these changes would strengthen partnerships with external financiers, improve fiscal resilience, and align development strategies with equity and sustainability goals. A robust governance framework is essential for optimizing access to multilateral funding while advancing inclusive and sustainable growth.

Governance and Institutional Weaknesses

The governance framework of the Philippines emphasizes public participation and fiscal transparency, as reflected in constitutional provisions like the recognition of civil society organizations (CSOs) in the 1987 Constitution and local ordinances such as Naga City's Empowerment Ordinance. However, these measures have achieved limited fiscal transparency, evidenced by the Philippines' low score of 48 on the 2012 Open Budget Survey (Magno, 2015). This gap between formal provisions and practical implementation highlights challenges in fostering meaningful public engagement. Incomplete and inaccessible financial data hinder oversight, limiting accountability and reducing the transformative potential of transparency reforms.

Efforts like National Budget Circular 542 and the 2012 Transparency Seal requirement improved fiscal openness, with 87 percent of national agencies initially complying (Magno, 2015). Yet gaps in the depth and quality of financial disclosures persist, preventing rigorous fiscal scrutiny. These deficiencies expose systemic weaknesses that hinder transparency initiatives from achieving substantive improvements. Although multilateral development banks (MDBs) such as the ADB and AIIB incentivize reforms through conditionalities, non-compliance risks damaging the country's credibility and underscores the need for institutional improvements to align fiscal governance with international standards.

Institutional weaknesses, such as the outdated Internal Revenue Allotment (IRA)—now the National Tax Allotment (NTA)—further constrain fiscal efficiency. The fixed allocation of 40 percent of revenues to local governments perpetuates regional inequalities and limits the central government's ability to reallocate resources to strategic priorities (Navarro & Llanto, 2014). These rigidities, coupled with technical and administrative capacity gaps, slow project implementation and reduce effective use of funds. Misalignment between the national budget and MDB requirements amplifies inefficiencies, limiting the sustainability and impact of infrastructure investments.

Limited capacity in planning, project selection, and fund disbursement undermines the Philippines' ability to absorb multilateral aid and comply with MDB benchmarks. Delays in implementation diminish the developmental impact of external funding and reduce access to future financial support. Addressing these issues requires targeted capacity-building, technological modernization, and improved inter-agency coordination to ensure the government can fully leverage multilateral partnerships (Navarro & Llanto, 2014).

Past fiscal reforms show the potential for targeted interventions to improve governance. For example, 1990s reforms, including the creation of a large taxpayers' unit and excise tax adjustments, increased the tax effort from 13.3 percent to 15.2 percent of GDP in just one year (Canlas, 2007). These reforms enhanced revenue generation and bolstered fiscal credibility but proved reversible, emphasizing the need to institutionalize reforms for long-term stability. Sustained efforts are necessary to address recurring fiscal challenges and avoid the cyclical vulnerabilities that have historically undermined progress.

The COVID-19 pandemic exposed weaknesses in fiscal governance, particularly in managing emergency spending. Revenues fell by 9 percent in 2020, while expenditures jumped by 11.3 percent, straining public financial management systems and amplifying fiscal risks (Basilio et al., 2022). Limited oversight and inefficient resource allocation during the crisis highlighted the need to modernize financial management systems, strengthen audit mechanisms, and use real-time fiscal data to maintain discipline and resilience in both routine operations and emergencies.

Although transparency initiatives have made strides, structural challenges persist. High compliance with formal requirements often masks the absence of robust accountability measures, which erodes trust among investors and donors and undermines the government's ability to mobilize resources for infrastructure development (Debuque-Gonzales et al., 2022). While MDB safeguards provide essential external checks on governance, over-reliance on these mechanisms reveals gaps in domestic oversight systems. Strengthening internal capacities for project evaluation, fiscal risk management, and anti-corruption measures would reduce dependence on MDB conditionalities and foster greater national ownership of development initiatives.

To effectively engage with MDBs as a partner rather than a mere borrower, the Philippines must institutionalize reforms that embed fiscal transparency, participatory budgeting, and accountability into its governance framework. Moving beyond compliance-based engagement would strengthen partnerships with external financiers, improve fiscal resilience, and align fiscal strategies with broader development goals (Debuque-Gonzales et al., 2022; Magno, 2015). A robust governance framework is essential for optimizing access to multilateral funding while ensuring sustainable and equitable development outcomes.

Geopolitical Dynamics

Geopolitical dynamics significantly influence the Philippines' engagement with multilateral development banks (MDBs), particularly the Asian Infrastructure Investment Bank (AIIB) and the Asian Development Bank (ADB). The country employs a hedging strategy, engaging with both AIIB, which is heavily influenced by China's Belt and Road Initiative (BRI), and ADB, which is aligned with Japan and the United States. This approach diversifies funding sources and mitigates risks of over-reliance on a single geopolitical power (Wu & Velasco, 2022). However, this strategic balancing act also introduces complexities in project selection and implementation.

Geopolitical considerations are particularly salient in sovereignty-sensitive sectors like maritime infrastructure and transport corridors. While Chinese-backed institutions like the AIIB offer faster financing, they raise concerns about alignment and public perception. Conversely, the ADB's rigorous governance standards ensure accountability but can slow project implementation. Policymakers must balance technical and economic merits with political considerations, ensuring robust governance to protect national interests (Wu & Velasco, 2022; Lee et al., 2020).

The COVID-19 pandemic highlighted the importance of MDBs in providing concessional financing and policy support, but heavy reliance on external funding exposes fiscal vulnerabilities. Strengthening

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institutional capacity, improving transparency, diversifying funding sources, and fostering public-private partnerships are critical to reducing dependency and building fiscal resilience (Dakila, 2021).

STRATEGIC FISCAL MANAGEMENT

Strategic fiscal management is vital for the Philippines to tackle economic complexities, secure multilateral funding, and sustain infrastructure investments. By focusing on debt management, domestic borrowing strategies, and public-private partnerships (PPPs), the country can strengthen fiscal resilience, align national priorities with regional connectivity goals, and achieve long-term development objectives.

Debt Management Approaches

Navigating the complexities of fiscal management in the Philippines requires a robust approach to debt management, given the dual challenges of rising external obligations and domestic financing needs. Effective strategies for optimizing the external debt portfolio, refining domestic borrowing practices, and leveraging public-private partnerships are vital for mitigating fiscal risks while advancing sustainable infrastructure financing. Strengthening these areas can enhance fiscal resilience, improve project implementation, and align financial strategies with national development goals and regional connectivity initiatives.

External Debt Optimization

Strategically managing foreign liabilities is essential to mitigate vulnerabilities associated with external shocks and currency fluctuations. The Philippines' high external indebtedness, with foreign debt constituting a significant share of government liabilities, exposes the country to risks from exchange rate volatility, global interest rate hikes, and external economic disruptions. To address these challenges, the Philippines must aim for a balanced mix of foreign and domestic liabilities, reducing over-reliance on single creditor groups. This approach would diversify risk and strengthen fiscal resilience while enabling the government to maintain adequate repayment capacity without compromising broader development priorities (Diokno, 2007; Debuque-Gonzales et al., 2022). Efficient external debt management should focus on renegotiating loan terms to secure extended maturities and lower interest rates, ensuring that debt liabilities align with sustainable fiscal frameworks.

Historical patterns of crisis-driven debt accumulation, such as during the Asian Financial Crisis and the COVID-19 pandemic, underscore the need for prudent borrowing policies that go beyond loan volumes to address currency composition, interest rate structures, and maturity profiles. Poorly structured debt amplifies fiscal vulnerabilities, creating refinancing risks during economic downturns or periods of financial instability. Managing external debt effectively requires dynamic liability practices, including debt buybacks, targeted refinancing, and concessional lending agreements. These measures reduce immediate fiscal pressures while reinforcing fiscal discipline and credibility, fostering confidence among multilateral lenders and international investors (Beja, 2009; Debuque-Gonzales et al., 2022).

Addressing Debt Servicing Pressures

Debt servicing pressures have historically strained the Philippine fiscal landscape. In the 2000s, debt service payments consumed over half of the national budget and nearly all government revenues in some years, crowding out resources for critical social and infrastructure investments. To prevent such fiscal crowding-out effects, optimization efforts must focus on aligning external debt strategies with the country's

long-term development goals. Loans from institutions like the AIIB and ADB, which offer concessional terms, are essential in reducing the cost of borrowing while ensuring that debt proceeds are allocated to high-impact projects with measurable developmental outcomes. However, the benefits of concessional loans can only be fully realized if institutional inefficiencies, such as delays in project implementation, are addressed to maximize their value (Debuque-Gonzales et al., 2022).

Geopolitical and Governance Considerations

Geopolitical considerations further complicate external debt management. The Philippines must navigate the influence of lenders like China within the AIIB, balancing the benefits of faster funding access against potential geopolitical risks. Traditional lenders such as the ADB offer more established governance safeguards but may impose slower funding processes. To safeguard national interests, the Philippines must carefully calibrate its engagement with multilateral lenders, ensuring that debt agreements align with long-term development priorities while minimizing political leverage risks (Kyaw, 2021; Baviera & Arugay, 2021). Strengthening governance frameworks and adopting transparent borrower selection criteria are critical to maintaining fiscal integrity and ensuring that debt-financed projects contribute to sustainable development.

The decentralized fiscal system in the Philippines adds complexity to external debt management, as local government units (LGUs) often lack the capacity to access or manage foreign loans effectively. This has resulted in regional disparities in infrastructure development and inefficient use of borrowed funds. Aligning debt strategies with national investment planning and strengthening LGU capacity through targeted technical assistance and capacity-building programs is essential to ensure equitable and effective project implementation (Llanto, 2012). Robust debt management frameworks, including annual sustainability assessments and enhanced debt disclosure practices, are also needed to maintain transparency and accountability in public debt management, signaling fiscal discipline to investors and multilateral lenders.

Domestic Borrowing Strategies

Domestic borrowing has emerged as a critical pillar of the Philippines' fiscal strategy, particularly during periods of external instability. Instruments such as government bonds and treasury bills provide a fiscal buffer, allowing the government to mobilize resources without exposing the economy to exchange rate fluctuations. During the COVID-19 pandemic, domestic borrowing played a key role in addressing fiscal deficits caused by declining revenues and rising expenditures. Government revenues fell by 9 percent in 2020, while nominal spending increased by 11.3 percent, necessitating significant issuance of domestic debt securities to maintain essential public sector operations. These efforts were supported by coordinated interventions from the Bangko Sentral ng Pilipinas (BSP), which injected liquidity equivalent to 12.1 percent of GDP through government securities purchases and advance dividend remittances. While these measures provided short-term stability, they also raised concerns about monetary policy independence and inflationary pressures (Dakila, 2021).

Managing Domestic Borrowing Risks

Reliance on domestic borrowing presents risks such as crowding out private sector investment, as government borrowing absorbs a significant share of available credit. Policymakers must balance fiscal autonomy with the economic trade-offs of reduced private sector participation. Strategies to mitigate

these risks include diversifying funding sources and implementing fiscal rules that cap borrowing relative to economic indicators. Strengthening governance mechanisms is also essential to ensure that domestic borrowing proceeds are allocated efficiently to projects with high developmental impact. The Philippines has historically faced challenges with fiscal inefficiencies and corruption, with substantial amounts of public funds lost annually. Instituting independent oversight mechanisms and enhancing transparency initiatives are critical to addressing these vulnerabilities and sustaining public trust in fiscal management (Yap et al., 2007).

External scrutiny from multilateral institutions like the ADB has created additional incentives for the Philippines to pursue reforms in domestic borrowing practices. The ADB's emphasis on fiscal discipline, transparency, and alignment of borrowing practices with project objectives has contributed to improving governance in public debt management. However, balancing these external expectations with domestic priorities remains a challenge, requiring careful negotiation and strategic alignment with multilateral governance standards (Canton, 2021).

Domestic borrowing remains an indispensable component of fiscal strategy, providing a mechanism to address budgetary gaps and stabilize the economy during crises. However, its effectiveness depends on mitigating risks like inflationary pressures, crowding-out effects, and governance challenges. Ensuring prudent borrowing practices through institutional reforms and enhanced fiscal discipline is essential for optimizing the benefits of domestic financing while preserving economic stability. By integrating external and domestic borrowing strategies within a cohesive fiscal framework, the Philippines can strengthen its fiscal resilience, align debt management with national priorities, and achieve sustainable development goals.

Public-Private Partnership (PPP) Framework

Public-private partnerships (PPPs) have played a pivotal role in addressing the Philippines' infrastructure needs, with 119 financially closed projects totaling \$57 billion between 1990 and 2016 (Endo & Seetharam, 2021). These projects demonstrate the potential of PPPs to mobilize private capital, reduce public expenditure, and accelerate infrastructure development. However, the effectiveness of PPPs has been uneven, with investments heavily concentrated in high-yield sectors like energy and ICT, while critical areas such as transportation, water systems, and social infrastructure remain underfunded. For example, less than 10% of PPP investments have gone to water infrastructure, leaving underserved regions vulnerable to water scarcity and insufficient sanitation (Smets, 2015; Canlas & Debuque-Gonzales, 2020).

Key case studies illustrate both the successes and challenges of the Philippine PPP framework. The privatization of Metro Manila's water system in the late 1990s exemplifies both the potential and pitfalls of PPPs. This project expanded water service coverage to millions of residents, reducing water distribution losses from 63% in 1997 to 28% by 2008 (Smets, 2015). However, steep tariff increases and frequent contract renegotiations raised concerns about balancing profitability with affordability. The absence of transparent monitoring mechanisms further undermined public trust, emphasizing the need for enforceable performance standards, strong regulatory oversight, and mechanisms to protect consumer interests (Canlas & Debuque-Gonzales, 2020).

Similarly, the North Luzon Expressway (NLEX) project, completed in 2005, modernized a critical transportation artery connecting Metro Manila to Central and Northern Luzon. Its success was attributed to a transparent bidding process and effective collaboration between the government and private stakeholders. However, delays caused by land acquisition challenges—a recurring issue in Philippine infrastructure development—led to increased costs and diminished investor confidence. This underscores

the importance of streamlining regulatory processes, clarifying land acquisition policies, and fostering stakeholder engagement to ensure timely project implementation (Herrera Dappe et al., 2023).

Despite these achievements, systemic issues continue to hinder the effectiveness of PPPs in the Philippines. High renegotiation rates, particularly in the transport sector, remain a significant problem. On average, renegotiations have increased project costs by 20–30%, often due to poorly designed contracts, unrealistic initial projections, and weak institutional capacity to manage complex agreements (Herrera Dappe et al., 2023). Furthermore, investments remain skewed toward high-yield sectors, while socially significant but less profitable areas, such as water and rural transport, struggle to attract private capital. This imbalance limits the ability of PPPs to contribute to broader development goals, including equitable regional growth and poverty alleviation.

To address these challenges, the Philippine government must implement key reforms to strengthen its PPP framework. Standardized contract templates, rigorous project appraisals, and independent third-party audits are essential to reducing fiscal risks and ensuring project sustainability. Strengthening institutions like the PPP Center is critical to enhancing technical expertise, enforcing performance standards, and ensuring transparency throughout the project lifecycle. These measures will help minimize renegotiations, improve investor confidence, and align PPP projects with national development priorities (Endo & Seetharam, 2021).

Multilateral development banks (MDBs), such as the AIIB and ADB, are instrumental in supporting these reforms. By providing risk mitigation tools (e.g., partial guarantees), viability gap funding, and technical assistance, MDBs can help attract private investment to underserved sectors. For example, the AIIB has introduced innovative financing mechanisms to support water supply and rural transport projects, which are often overlooked by private investors due to their lower profitability (Endo & Seetharam, 2021). MDBs also play a crucial role in capacity-building, helping governments improve regulatory frameworks, streamline approval processes, and align projects with broader development objectives.

The fiscal constraints facing the Philippine government further underscore the importance of PPPs. With rising public debt and limited fiscal space, the government increasingly relies on PPPs to bridge infrastructure gaps. However, systemic weaknesses in public investment management, such as low budget execution rates and inefficiencies in project implementation, have impeded the effectiveness of PPPs. Addressing these weaknesses requires streamlining approval processes, improving inter-agency coordination, and adopting performance-linked budgetary systems to optimize project execution. Enhanced training and technical support from MDBs can further improve administrative efficiency and ensure PPPs deliver long-term benefits (Komatsuzaki, 2019; Herrera Dappe et al., 2023).

Beyond domestic reforms, the Philippines should explore innovative financing mechanisms to reduce reliance on traditional guarantees and expand fiscal space. Tools such as project bonds, blended finance, and credit enhancement instruments can mobilize private capital while minimizing fiscal risks. Regional initiatives, such as the Chiang Mai Initiative and the Asian Bond Funds, could also be expanded to include dedicated infrastructure funds or risk-pooling mechanisms, providing additional resources for large-scale connectivity projects with regional spillover benefits (Nasution, 2005). By participating in these initiatives and leveraging MDB resources, the Philippines can align its PPP strategies with broader regional development goals.

PPPs have proven their potential to address infrastructure challenges in the Philippines, but their full effectiveness depends on addressing persistent issues such as sectoral imbalances, high renegotiation rates, and institutional weaknesses. By implementing strategic reforms, strengthening regulatory oversight, and

leveraging MDB support, the Philippines can create a more sustainable and inclusive PPP framework. These efforts will not only accelerate infrastructure development but also align national priorities with regional goals, ensuring that PPPs contribute to long-term economic growth and social equity.

Similarities and Differences of the Strategies

While all three strategies aim to mobilize resources for infrastructure development, their mechanisms and implications differ significantly. Debt management and domestic borrowing both involve direct government responsibility for repayment, with the former focusing on external sources and the latter on internal markets. In contrast, PPPs utilize private capital, reducing the government's immediate fiscal burden but potentially creating long-term contingent liabilities.

In terms of similarities, all three strategies require strong fiscal governance, transparency, and coordination with monetary authorities to avoid financial destabilization. Additionally, they must align with the country's development priorities and multilateral funding requirements to maximize effectiveness. However, their effectiveness varies depending on economic conditions: debt management is most critical during periods of high external borrowing needs, domestic borrowing is advantageous when local markets are liquid, and PPPs are particularly effective when private sector expertise and innovation are needed to complement public resources.

This analysis underscores the importance of adopting a tailored, context-specific approach to fiscal strategy. An optimal approach may involve combining these strategies—balancing the fiscal discipline of debt management, the financial independence of domestic borrowing, and the efficiency and risk-sharing benefits of PPPs—to achieve sustainable infrastructure development.

INSTITUTIONAL CAPACITY BUILDING

The Philippines' ability to mobilize and manage resources effectively is crucial for achieving its infrastructure and development goals. Strengthening fiscal institutions and improving project implementation capacity are essential to enhancing public financial management, optimizing multilateral funding, and fostering sustainable growth. By focusing on reforms, risk management, and accountability, the country can better navigate fiscal challenges, align with regional connectivity goals, and capitalize on partnerships with multilateral development banks (MDBs).

Strengthening Fiscal Institutions

Reforming fiscal institutions is critical to addressing persistent challenges such as low revenue collection, limited fiscal space, and inefficient public financial management. Modernizing tax administration is a key priority, particularly as the Philippines lags behind ASEAN-5 peers in revenue mobilization. Digital technologies, such as online tax filing systems and data analytics, can improve tax compliance, reduce evasion, and enhance revenue collection. Building on past successes, such as the 1990s reforms that increased the tax effort, innovative tools like blockchain could improve transparency and security in tax systems. Sustained political will and resource allocation are essential to implementing these reforms effectively (Canlas, 2007; Debuque-Gonzales et al., 2022).

Despite progress in fiscal transparency, gaps remain between legal mandates and practical implementation. Initiatives like the Transparency Seal and participation in the Open Budget Survey underscore the government's commitment to accountability. However, financial disclosures must be

presented in more accessible formats to enable broader public engagement. Local practices, such as Naga City's participatory governance model, could be scaled up to enhance transparency and institutionalize stakeholder input into fiscal decision-making (Magno, 2015).

Integrating environmental considerations into fiscal planning is another untapped opportunity. Mechanisms like environmental taxes, transferable permits, and sustainability subsidies can address infrastructure viability and align with MDBs' environmental compliance standards. For example, taxes on high-emission industries could generate revenue for green infrastructure projects while promoting sustainable practices. Implementing such measures requires phased approaches to gain stakeholder acceptance and avoid resistance from affected sectors.

To reduce fiscal vulnerabilities, the government must also adopt robust oversight mechanisms and improve debt management practices. Nearly half of the Philippines' debt portfolio has historically relied on foreign borrowing, exposing the country to external risks. Medium-term expenditure frameworks and dedicated debt management offices can help align fiscal strategies with development goals, reduce refinancing risks, and strengthen fiscal discipline. These reforms will enhance credibility with multilateral lenders, which prioritize evidence of sound fiscal management (Diokno, 2007; Debuque-Gonzales et al., 2022).

Inter-agency coordination is vital for effective fiscal management. The Bangko Sentral ng Pilipinas (BSP) demonstrated this during the COVID-19 pandemic by providing liquidity support, stabilizing public finances, and enabling infrastructure investment. Institutionalizing coordination mechanisms, such as standing committees and integrated policy reviews, can ensure synchronized fiscal and monetary policies beyond crisis periods. This approach strengthens institutional resilience and enhances the Philippines' credibility with MDBs (Dakila, 2021).

Project Implementation Capacity

Weak absorptive capacity and administrative inefficiencies have long hindered the Philippines' ability to utilize infrastructure budgets effectively. Chronic underspending, stemming from weak budget execution systems and complex procurement rules, highlights fundamental flaws in financial management. For instance, infrastructure investment in 2005 was less than 2% of GDP, far below the recommended 5% threshold. Reforms must target bottlenecks in project preparation and streamline approval processes to optimize fund allocation (Diokno, 2007).

Debt servicing obligations exacerbate fiscal rigidity, with over half of the national budget consumed by debt payments in some years. This reduces fiscal flexibility and diverts resources away from critical infrastructure projects. Innovative financing mechanisms, such as blended finance, project bonds, and credit enhancements, can alleviate resource constraints while supporting sustainable infrastructure development. Policymakers must address the trade-off between debt repayment commitments and future investments to ensure long-term fiscal sustainability (Beja, 2009).

The role of the BSP during the pandemic highlights the reliance on short-term monetary interventions to sustain infrastructure development. While these measures provided temporary relief, they underscored systemic weaknesses in fiscal-monetary coordination. Proactive policies and structural reforms are needed to ensure project implementation remains resilient under adverse economic conditions (Dakila, 2021).

Funding mechanisms employed by MDBs, such as centralized rule-based frameworks, offer critical technical assistance and oversight but can limit national autonomy. The government must align domestic

priorities with MDB governance standards while maintaining flexibility in project management. Co-financing arrangements with institutions like the AIIB and ADB introduce additional complexity, requiring strong national frameworks to integrate diverse institutional requirements and avoid fragmented oversight (Graham, 2015; Ji & Rana, 2024).

Lessons from other developing nations, such as Nigeria, emphasize that access to debt resources alone does not guarantee effective project implementation. Transparency, fiscal discipline, and comprehensive oversight are essential to translating multilateral financing into tangible infrastructure outcomes. Capacity-building initiatives, including training programs and technical support, can ensure that project implementation aligns with national development goals and yields measurable socioeconomic benefits (Lola et al., 2023).

POLICY FRAMEWORK FOR SUSTAINABLE FINANCING

To address infrastructure challenges and secure sustainable financing, the Philippines must align its fiscal strategies with national development goals and regional connectivity priorities. A comprehensive approach integrating domestic revenue mobilization, public-private partnerships (PPPs), and risk management strategies is essential to enhance economic resilience, optimize multilateral financing, and address infrastructure deficits that hinder growth.

National and Regional Priorities

Aligning fiscal allocations with national and regional priorities requires stronger domestic revenue mobilization. Persistently low tax effort—averaging 13.2% between 2001 and 2008—has constrained the Philippines’ ability to co-finance large-scale infrastructure projects (Debuque-Gonzales et al., 2022). Structural tax reforms and improved administrative efficiency are crucial to boosting revenues and reducing reliance on external financing. This would foster greater national ownership of projects and improve the government’s ability to match multilateral funding requirements.

A forward-looking debt management strategy is key to fiscal sustainability. While the government successfully reduced its debt-to-GDP ratio from 74.4% in 2004 to 52.4% in 2010, reliance on foreign borrowing—comprising nearly half the debt portfolio—exposes the economy to external shocks (Guinigundo, 2012). Strengthening domestic capital markets, paired with private sector engagement, would reduce vulnerabilities, enhance fiscal autonomy, and align financing strategies with regional infrastructure goals.

Effective fiscal-monetary coordination is also vital. During the COVID-19 pandemic, the Bangko Sentral ng Pilipinas (BSP) injected liquidity equivalent to 12.1% of GDP, stabilizing public finances and enabling infrastructure investments (Dakila, 2021). Institutionalizing inter-agency collaboration through formal mechanisms like data-sharing and integrated planning would ensure proactive crisis management and align fiscal policies with multilateral lenders’ expectations of systemic resilience.

Public-Private Partnerships (PPPs)

PPPs have mobilized \$57 billion across 119 projects in the Philippines (1990–2016), illustrating their potential to address infrastructure gaps (Endo & Seetharam, 2021). However, sectoral concentration in energy and ICT has left critical sectors like transportation and water underfunded. Reforms to reduce barriers, diversify PPP investments, and enhance regulatory frameworks are needed to attract private capital to underserved areas (Go, et al., 2022).

Challenges such as frequent renegotiations and weak oversight have undermined PPP efficiency. Strengthening regulatory bodies, standardizing contracts, and implementing performance reviews can minimize fiscal risks and improve transparency (Canlas & Debuque-Gonzales, 2020). Multilateral institutions like the AIIB and ADB can support these reforms by providing technical assistance, risk mitigation tools, and policy guidance tailored to the Philippine context.

Innovative financing mechanisms, including blended finance and project bonds, can complement PPPs by mobilizing private capital while reducing government exposure to fiscal risks. Regional cooperation initiatives, such as shared infrastructure funds, can further enhance financing for cross-border projects and strengthen the Philippines' integration into regional connectivity strategies (Nasution, 2005).

Risk Management Strategies

Robust risk management frameworks are critical to sustainable infrastructure financing. Multilateral institutions often employ tools like project readiness filters, fiscal risk registers, and scenario analyses, which the Philippines can adapt to improve budget execution and minimize delays (Herrera Dappe et al., 2023). Integrating these tools into national planning processes would ensure resources are allocated to projects with the highest developmental impact.

The Philippines' reliance on foreign borrowing poses significant risks, including exchange rate volatility and global interest rate hikes (Diokno, 2007). To manage these vulnerabilities, it is essential to strengthen debt sustainability assessments, conduct stress tests on debt portfolios, and diversify financing sources. Negotiating longer maturities and more flexible repayment terms with multilateral lenders, such as the AIIB and ADB, would contribute to fiscal stability by reducing short-term repayment pressures while aligning debt obligations with long-term development goals (Debuque-Gonzales et al., 2022).

Strengthening the technical capacity of public institutions is vital for managing fiscal risks effectively. Investments in training programs, advanced analytical tools, and integrated debt management systems would empower government agencies to identify and mitigate risks proactively. The persistent challenges of exchange rate volatility, procurement delays, and project implementation bottlenecks necessitate a robust institutional response (Diokno, 2007; Herrera Dappe et al., 2023). Additionally, empowering local government units (LGUs) to manage public-private partnerships and implement risk-sharing mechanisms would improve infrastructure outcomes at the regional level (Navarro & Llanto, 2014).

Embedding sustainability into fiscal policies through tools such as green bonds and environmental taxes can generate revenue streams for climate-resilient infrastructure projects while meeting the environmental standards of multilateral institutions (Herrera Dappe et al., 2023). For example, environmental taxes on high-emission industries can serve dual purposes: incentivizing sustainable practices and funding green infrastructure. However, to ensure accountability, these measures must be accompanied by transparent monitoring and evaluation systems. Such systems would not only improve fiscal governance but also enhance public trust by delivering measurable outcomes aligned with national development priorities (Debuque-Gonzales et al., 2022).

CONCLUSION

This study examines how the Philippines can leverage fiscal policy and multilateral cooperation to drive infrastructure development and enhance regional connectivity. It analyzes the evolution of fiscal strategies, institutional reforms, and partnerships with multilateral development banks (MDBs) like the

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AIIB and ADB, highlighting their role in addressing infrastructure deficits within limited fiscal space. By exploring fiscal constraints, governance structures, and multilateral partnerships, the research identifies mechanisms to align national development goals with global financial interdependencies.

The study highlights the complex interplay between fiscal policy, institutional capacity, and access to multilateral funding in the Philippines. Persistent deficits and reliance on external debt have undermined macroeconomic stability and lender confidence, emphasizing the need to strengthen fiscal governance and align budgetary processes with MDB requirements to secure concessional loans and technical assistance. Public-private partnerships (PPPs) are identified as valuable tools to address resource gaps, though challenges such as renegotiations and sectoral imbalances persist.

Debt management is pivotal, as external borrowing exposes the country to currency and interest rate risks, while domestic borrowing risks crowding out private investment. Geopolitical dynamics further influence the Philippines' engagement with MDBs, requiring a balanced approach to maintain strategic autonomy while optimizing financing and project outcomes.

This research contributes to understanding the co-evolution of fiscal policy and international cooperation in emerging economies. It bridges the gap between fiscal reform and multilateral engagement, offering lessons on debt management, PPP structuring, and navigating MDB safeguards. Comparative insights from regional peers contextualize the Philippine experience, providing broader policy relevance.

The study acknowledges several limitations, including reliance on secondary data, potential gaps in real-time fiscal performance tracking, and the challenges of capturing project-specific nuances. Future research should focus on post-pandemic fiscal consolidation, geopolitical shifts, and innovative financing tools. Case studies and quantitative methods could provide deeper insights into fiscal reforms and project implementation. Additionally, exploring the role of emerging technologies in fiscal transparency and sustainability represents a promising area for further inquiry.

Ultimately, the research underscores the need to strengthen synergies between fiscal strategies and multilateral cooperation. Institutional capacity building, adaptive fiscal management, and alignment with global best practices are essential for unlocking the full potential of external partnerships. By integrating economic, social, and geopolitical considerations, the Philippines can achieve sustainable infrastructure development and chart a resilient path toward inclusive growth in an interconnected global context.

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