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The growth and distributive impacts of public infrastructure investments in the Philippines

By Erwin Corong, Lawrence Dacuycuy, Rachel Reyes and Angelo Taningco

Various business surveys have assessed that the quality of infrastructure in the Philippines has remained relatively low. Against this backdrop, the Philippine government has implemented policy measures to improve the quality of public infrastructure in order to help foster robust economic growth and alleviate poverty.

In 2010, this team of Philippine researchers conducted a study, with support from PEP – through an AusAID-commissioned initiative – that aimed to provide a quantitative assessment of the growth and distributive impacts of public infrastructure investments in the Philippines.

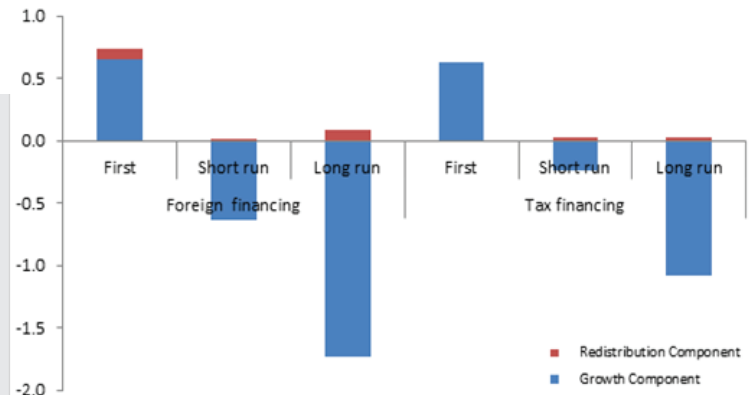
This study uses a dynamic computable general equilibrium (CGE) model linked to a microsimulation module that traces the channels in which public infrastructure investment filters into the Philippine economy.



Key findings and conclusions

Overall, the results of this study reveal that:

- Higher public infrastructure-to-GDP ratio brings about positive real GDP effects as well as reduces poverty and income inequality in both the short- and long-run periods;
- Public infrastructure spending that is financed by international borrowing leads to expansion in output for all sectors in the long-run, whereas not all sectors benefit in spending financed by production taxes;
- The decline in poverty in both the short- and long-run periods is greater in public infrastructure spending that is financed by international financing than in tax financing.



Growth and Re-distribution Components (changes in poverty headcount, percentage points)

Policy recommendations

The researchers recommend for the Philippine government to become more proactive in finding ways to finance increases in public infrastructure investments. Specifically, the Philippine government shall 1) source international financing of infrastructure projects at concessional rates, and 2) enhance the promotion of public-private partnerships (PPPs), to provide greater technical and financial assistance for infrastructure projects.