

8.2 Ex-Post evaluation of TEs: Practical Session

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Introduction

- **Task:** evaluate the extent to which a hypothetical tax incentive has met its objectives.
- **Recall:** often we have imperfect data or studies to inform evaluations of TE.
- **The purpose of this exercise is to highlight**
 - I. how to draw conclusions from some highly aggregated data
 - II. how to think about the limitations of the data at hand.

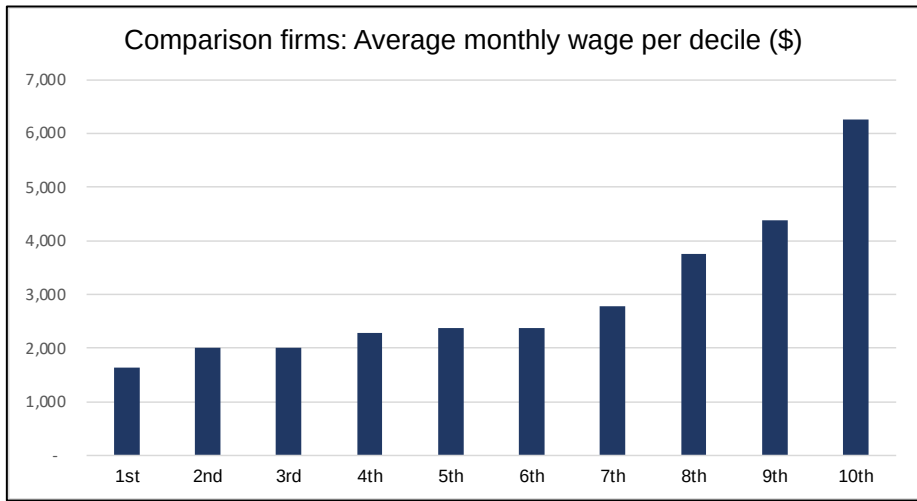
Introduction

- **Task:** evaluate the extent to which a hypothetical tax incentive has met its objectives.
- **Consider the case of a 10-year tax holiday in Nepal (i.e., 0% CIT rate for 10 years) given to foreign investors.**
- The tax holiday was announced on 1 Jan 2012.
- In order to qualify for the tax holiday, investors had to commit to invest at least US\$5m in Nepal before the deadline of 1 Jan 2013.
 - **The objectives of the incentive were**
 - **(i) Boost FDI into Nepal**
 - **(ii) Create high-quality, well-paid jobs in the economy**

Setup

- Information:
 - 3 pieces of evidence (on paper)
 - 1 set of data (Excel).





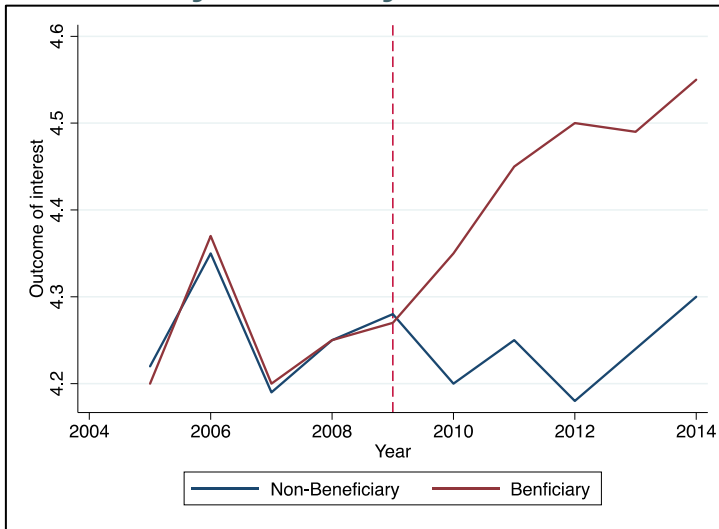
Three key takeaways

- **Correlation $\neq$ Causation**
- Just because beneficiaries employ thousands of employees, does not mean that they started operations and created those jobs *because* of the tax incentive.
 - They may have invested anyway – we saw that FDI trends in the region were pointing in the same direction.
 - Yet the FDI into Tanzania was actually < weighted average of neighbouring countries.
 - Tax incentive might have compensated for lack of other fundamentals (e.g., macroeconomic & political stability, infrastructure etc.).

Three key takeaways

- Finding a counterfactual is difficult, often impossible.
 - In exercise, showed a group of 'comparison' firms.
 - This is one way to examine outcomes of beneficiaries vs non-beneficiaries of incentives.
 - But often the 'cleanest' way to understand the impact of a TE on a given outcome is to carry out (e.g.,) a differences-in-differences estimation, which compares outcomes before and after granting of an incentive vs firms that do not benefit from the incentive: e.g.

Three key takeaways



In practice, data requirements are often nearly impossible to fulfill in the domain of TEs.

Finding comparison groups very difficult.

Three key takeaways

- Distributional analysis can add context to other statistics and findings, allowing for a fuller picture of the effects, costs and benefits of a particular provision.
- High-level, or aggregate, statistics (e.g. the FDI trends in Handout #1, or the average salaries shown in Handout #3) often mask other important information.
 - We saw that FDI trends were rising everywhere in the region
 - We saw that average salaries were pushed up by some outliers at the top end of the distribution.

Other considerations

- Often evaluation is difficult if stated objectives are (i) unclear or (ii) unmeasurable.
- Remember: **difference between evaluation and cost-benefit analysis.**
 - Important to define the scope of what you want to find out.