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LEARNING BRIEF

Measuring Government Business Incentives Schemes (GBIS):

Towards a set of minimum standards and measures

planning, monitoring & evaluation

Department:
Planning, Monitoring and Evaluation
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RATIONALE

The Policy Framework for the Government Wide Monitoring and Evaluation (GWM&E) System, published in 2007 by the Presidency, emphasised the importance of monitoring and evaluation in realising a more effective government. The appropriateness, availability and quality of programme performance information through a robust management system is an iterative process that requires efficient and practical monitoring, evaluation, research and learning system. Multi-sectoral interventions such as the GBIS require a centralised monitoring and evaluation (M&E) framework that can consolidate and aggregate data from multiple incentives into a coherent impact assessment.

CONTEXTS

The South African government is committed to developing the economy, creating employment, and attracting foreign investment. Investment incentives are used to mitigate against the cost or uncertainty of doing business in South Africa, and to upgrade or sustain production and employment, especially in priority sectors as set out in the NIPF, the NDP, the 9 Point Plan, and the post-COVID Economic Reconstruction and Recovery Plan (ERRP).

The South African government sees business incentives as an important mechanism to raise competitiveness, address historical inequalities and increase the participation of historically disadvantaged groups in the economy. Investment incentives are viewed according to their typology or the nature of the outcome they are trying to achieve. The following types of investment incentives are typical of the South Africa incentives landscape:

1. Direct financial incentives: Including grants; loans at low interest.
2. Indirect fiscal incentives: including tax rebates and tax holidays.
3. Other non-fiscal incentives: including regulatory and administrative concessions; and subsidised or reduced service costs.

BACKGROUND

Measuring performance is not that easy; because researchers and practitioners agree that making the link between the use of incentives and direct economic impacts is difficult at best, and it has been argued that neither the concept nor the measurement of efficiency and effectiveness of public spending is straightforward. Estimations of impact are often made based on an assumption of a causal link. As estimating techniques become increasingly sophisticated and as policy makers begin to implement systematic policies on what will trigger the consideration of an incentive investment, economic developers will become more comfortable that they are standing on firmer ground in claiming credit for economic and fiscal impacts.

Across the international literature on government business incentives schemes there is a growing focus on how best to measure the longer term economic and social impacts of these schemes. The Organisation for Economic Cooperation and Development (OECD) notes that pressure to demonstrate success has been growing in the past few years, because of tighter budgets and increasing transparency expectations over public spending[1]. It is evident that the polity, society, and economy of every country is unique, so it is challenging to compare South Africa's GBIS directly with other countries. What is perhaps more relevant are the incentives monitoring and evaluation experiences and lessons being drawn both at country (and often sub-national) level as well as within multilateral agencies such as the United Nations (UN), World Bank, the International Finance Corporation (IFC), the (OECD) as well international agencies such as the Global Impact Investing Network (GIIN) that are focused on the measurement of impact.

The OECD is clear that monitoring and evaluation (M&E) is essential for ensuring that any activity attains its objectives, and does so in the most efficient way possible, in terms of quality and time. M&E systems also help increase transparency and accountability in the use of resources, in particular of public character. The OECD stress that governments should ensure that tax incentive policies provide value for money, through effective evaluation linked to the upfront assessment of reforms and new initiatives and argues that provision for an evaluation should be an integral part of every incentive policy. Public spending is often subject to reporting requirements and parliamentary scrutiny and taxpayer funded interventions tend to have in-built evaluation mechanisms in place in OECD countries.

USE OF BUSINESS INCENTIVES BY GOVERNMENTS

Business incentives are used as tools by government across the world to intervene directly in local markets. Every country is unique in terms of its socio-economic context so while South Africa can look for lessons from the experience of other countries in applying incentives, these need to be tailored to South Africa's unique economic reality. There are common lessons and principles that do emerge from country case studies, and these can continue to inform the review of South Africa's system of business incentives and the ways in which they are measures. M&E is institutionalized and managed to inform and provide feedback to decision-making processes. A mechanism is in place for following up on recommendations.

[1] OECD. (2017) Mapping of Investment Promotion Agencies in OECD countries at https://www.oecd.org/investment/Mapping-of-Investment-Promotion-Agencies-in-OECD-Countries.pdf

WHY EVALUATIONS

There is a difference between monitoring activities and evaluation. Most agencies that implement incentives track their activities as well as factors that can influence their success, yet few actually evaluate the impact of their activities. While monitoring allows for continuous data gathering and control of everyday actions, evaluation can allow strategic insight regarding the overall effectiveness of an agency and its specific programmes and activities. The OECD carries out significant analysis of M&E functions of investment promotion agencies (IPAs), which are expected to provide evidence and documented reports of their results and performance in using public funds to attract investment and generating related economic benefits. This provides useful lessons for the South African context.

In general, investment promotion agencies (IPAs) that have larger budgets tend to engage more in M&E, highlighting the importance of resources. Yet, several small investment agencies – notably Costa Rica – invest heavily in M&E, partly due to the direct support of the top management that see it as a critical strategic decision-making tool. Proper evaluation of interventions requires dedicated resources, gathering comprehensive and accurate data on the specific activities involved by these interventions and the respective beneficiaries, and sound empirical approaches to establish whether and how these activities contribute to the desired outcomes. An OECD-IDB survey of Investment Promotion Agencies (2017) found that most IPAs have monitoring and evaluation units, but that size and resource endowment of such units varies greatly[2].

SETTING STANDARDS

Setting minimum standards for government incentives / grants is a becoming increasingly common, as are databases that allow for cross-country or subnational intra-state comparisons using common sets of indicators. A study of business incentives across US States found that performance monitoring is most effective when it is an ongoing process rather than an ad hoc activity. It noted that rigorous and regular assessment of both financial and nonfinancial incentives—and making those results publicly available—can help maintain the trust of citizens and ensure success. The United Kingdom government on the other hand, has developed ten Government Functional Standards for Grants, including a performance and monitoring standard that requires that government grants should be reviewed annually at a minimum with a focus on financial reconciliation, taking into account delivery

[2] OECD. (2017) Mapping of Investment Promotion Agencies in OECD countries at https://www.oecd.org/investment/Mapping-of-Investment-Promotion-Agencies-in-OECD-Countries.pdf

across the period, resulting in a decision to continue, discontinue or amend funding[3]. These Functional Standards exist to create a coherent, effective and mutually understood way of doing business within government organisations and across organisational boundaries, and to provide a stable basis for assurance risk management and capability improvement.

MEASURING IMPACT

The measurement of the impact of tax incentives is a complex issue. The United Nations (2018) study on the Design and Assessment of Tax Incentives in Developing Countries sets out to provide a reasonable methodology that allows authorities to estimate the net benefit of a tax incentive programme and to improve the design, assessment and administration of such an intervention. The study develops a prototype model that is focused on estimating the economic and revenue impacts of an intended or on-going tax incentive programme. The model is divided into three steps corresponding to three stages of economic and revenue impact of a given tax incentive programme: direct impact, indirect impact and induced impact.

Findings from OECD countries (2018) point to a strong need for agencies that manage investment schemes to demonstrate their relevance and impact. This is required to adjust their services, ensure efficiency, and allow for transparent use of resources. Evaluations include recommendations to continue, modify, or end each incentive, and then the commission also offers its own recommendations. To connect this work to the policymaking process, the Legislature's fiscal committees hold a joint hearing on the evaluations.

[3] HM Government. (2020) Government Functional Standard GovS 015: Grants at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/896348/Government-Functional-Standard-GovS015-Grants-v1.0.pdf

KEY LEARNINGS

There is little evidence from available literature to suggest that incentives in South Africa are designed, managed or reported in a systematic way. It is critical that incentives are fully costed, monitored and evaluated.

- Lack of data, as well as poor quality data, places limitations on the types of evaluations and analysis which can be conducted in respect of government business incentives programmes. This often means an inability to properly assess whether these programmes are achieving their stated objectives and whether they are having a positive effect on the lives of the most vulnerable South Africans in particular.
- It is important for departments that manage incentives to initially develop frameworks with a few indicators, but ensure that accurate, valid and complete data is collected, and indicators are used effectively in decision-making and monitoring.
- Reviews and evaluations are conducted for most incentives, but in many cases these reviews are not sufficiently substantive or are done internally.
- Reporting generally has a strong focus on project outputs and compliance, rather than on beneficiary and economic outcomes.
- Objective 2 of the GBIS Improvement Plan requires an improved reporting system, development of minimum requirements for reporting and development of a comprehensive Monitoring & Evaluation Framework for incentives.
- There is a strong need for Incentives Schemes to demonstrate their relevance and impact. This is required to adjust their services, ensure efficiency and allow for transparent use of resources.
- Harmonising different departmental incentives monitoring frameworks will make it easier to assess the impact of Incentives Schemes in an aggregated way.
- Conducting rigorous comparative analysis of the effectiveness of Incentives Schemes in achieving economic and social target policy outcomes.

Monitoring and evaluation in is essential for understanding the relative effectiveness of various incentive programmes and their overall contribution to socio-economic development. The effectiveness of individual incentive programmes should be evidenced in a number of immediate sector level outcomes. It follows, if the immediate outcomes (firm-level investment) are realised through a combination of different business incentives, then the business incentives system, at the aggregate level, should result in increased economic productivity, expanded production and employment and enhanced economic inclusion. The ability to provide a systematic M&E framework for doing this is critical for an understanding of the individual and aggregate impact of business incentives.

RAPID ASSESSMENT FINDINGS

A comprehensive evaluation was conducted in 2017 to review the South African GBIS terrain and to provide recommendations for strengthening the system as a whole. Included in the evaluation was an assessment of monitoring, evaluation and reporting systems in place to track incentives. The evaluation findings pointed to M&E systems that were often focused on administrative compliance, were fragmented, and lacking in ability to determine at outcome level the actual economic and equity effects that these incentives were designed to achieve. The costs of poor-quality data are both social and economic. Lack of data and poor-quality data have the potential to affect the performance of incentives and could lead to loss of funds or revenue. The unavailability of good quality data makes it difficult to undertake quantitative gender and social inclusion analysis of incentives without collecting primary data. A systematized and centralized M&E database for all incentives schemes has the potential to create synergies across government departments in terms of analysis, as well as in terms of identifying clusters of interventions across departments that together could yield significantly stronger results than single interventions on their own.

SPECIFIC EVALUATION CONSIDERATIONS

- The absence of rigorous implementation and summative evaluations suggests that these important activities are not being valued or not budgeted for.
- There is currently little available evidence on the performance and impact of incentives programmes.
- Incentives can have costs in the form of forgone revenue, increased demand on government services, and unintended negative effects throughout the economy – it is critically important therefore that important policy and economic factors should be considered when evaluating new or existing incentives.
- Not enough independent evaluations are being undertaken as a method for informing the future design or reengineering of incentives.
- Embedded monitoring and evaluation as a core part of its policies and ensures that these are done with annual review reports and an impact assessment.
- Monitoring and evaluation need to be strengthened but also streamlined.
- More regular analysis of information from the field interventions of incentives programmes is lacking.
- While overall M&E system are generally aligned to the objectives of incentives schemes, evaluation activities (such as impact evaluations) beyond regular compliance monitoring is not occurring.
- While the R&D incentive is acknowledged by recipients as useful, the national R&D data indicate that the overall impact of the incentive is unclear.
- Evaluating the effect of activities requires identifying a counterfactual, i.e., determining how beneficiaries (i.e., assisted firms) would have behaved, if they had not been assisted via the incentive.

Rigorous impact evaluations require application of econometric techniques that control for other factors that may affect the outcome variable of interest to best identify the true effect of the incentive.

RECOMMENDATIONS

- Where government is serious about accurately measuring and monitoring the performance and impact of incentive schemes, the collection of relevant data must be prioritised.
- Incentives implementing departments, together with DPME, must establish the scope of a GBIS M&E system, define its purpose and agree on a minimum set of reporting standards and indicators.
- Ensure that incentives are transparent, with eligibility criteria, contact details, and approval forms/ procedures published online.
- The planning process could be strengthened not only by feeding more information into it from the monitoring and evaluation system, but also by assessing proposed policies.
- Comprehensive data collection for the purposes of measuring performance and impact of incentive schemes should be integrated into the design of the scheme to ensure accuracy and completeness.
- Women's access to incentive programmes should be prioritised to effectively help address their historical and continuing economic marginalisation.
- The departments implementing incentives schemes should monitor impact in terms of gender and social inclusion as a standard feature of evaluations of their interventions.
- Design and activate a GBIS portal housed in DPME to support Incentives schemes in uploading data into a standardised set of reporting fields.

An M&E system (or framework or approach) is understood as 'a series of policies, practices and processes that enable the systematic and effective collection, analysis and use of monitoring and evaluation information'.[1]

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