Merit Based Transfers & Posting

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In collaboration with E&T Department, Punjab, Pakistan
Previous Project

- Recall: Success of Performance Pay Project (2011-13)
  
  **Increase in Total Tax collected***

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>50%</td>
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<tr>
<td>Revenue Plus</td>
<td>40%</td>
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<tr>
<td>Flexible Bonus</td>
<td>30%</td>
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<tr>
<td>Comparison Group</td>
<td>20%</td>
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</tbody>
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Revenue Scheme – 46% increase in revenue in two years compared 28% for business as usual (comparison) group; RO: 33-50%

Little Political Costs (no detectable difference in assessment accuracy or taxpayer dissatisfaction)
But Optimal HR policy is often both pecuniary AND non-pecuniary incentive mechanisms

What could non-pecuniary benefits be in this context?
- Promotion (Yes – but limited opportunities)
- Social recognition (Yes – but not clear how this dilutes over time)
- Non-monetizable benefits (Yes – but not always systematically available)

Transfers & Posting
- Lots of room (frequent movements)
- Tax-circles quite different (location; size – largest 50 times smallest)
- Desirable (tax staff care a lot about their postings)
Several Challenges in introducing a Merit-Based Transfers & Posting System

Design Challenges:

- Measuring performance objectively
- Relative comparisons – how to define feasible comparison groups
  - Large good because allows adjusting for noise/gives more choice
  - But large makes it less feasible/puts more hardship on people; may also dilute “tournament based incentives”

Administrative/Political:

- Transfers often based on administrative considerations
- Political highly sensitive

Finance:

- Easy – No need for direct payments
Merit-Based Transfers & Posting System

Scheme: – Make groups (of ten) circles

- Inspectors face performance tournament within group
- By end of year choose circle within group in order of performance rank

July 2013 Pilot (to establish credibility): – Two groups of ten circles (two different city)

- Ranked on past performance
- Implemented all transfers successfully
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This Past Year
- 150 circles (groups of 10) – 15 groups of ten circles:
  - Type A – rank on recovery
  - Type B – rank on assessment value/tax base
- Why two types?
  - One is more about flow (recovery) and the other is stock (tax base)
    - could have very different effects

This past July
- Successfully made transfers for the 150 circles
  - Around 60 transfers made (a few cases pending but should be done by end of month) – most have taken charge
  - Greater fraction of people who move (60%) get better places
- Special Thanks to Director General and Secretary E&T !!
Merit-Based Transfers & Posting System

Current Year (FY14-15)

- Of the 150 circles
  - Half continue similar scheme next year – second chance
  - (get to compare their choices to those who ended this year)
- Add another 70 circles to same scheme

New Central Allocation scheme:

- Central allocation: Post people based on their abilities to specific circles (e.g., post “best” people in largest? fastest growing? greatest potential?)
- Design being finalized with department

Two big questions we hope to be able answer

1. Can Merit-Based T&P be an effective and feasible way to incentivize
2. How best to allocate staff?