Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Thao Trang Do
Advisor:	Miroslav Palanský
Title of the thesis:	The Role of Offshore Companies in Public Procurement in the EU

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

This thesis uses a gravity model to estimate how much public procurement we can expect to be awarded to companies owned from each foreign country and then assesses which countries supply disproportionate amounts of public procurement to European countries. To do so, it uses a recently published data set on public procurement across Europe which has so far not been analyzed in this context. The main finding of the thesis is that there are jurisdictions that supply procurement of amounts that cannot be explained solely by economic activity. She then argues that these flows are set up in order to avoid taxation, and uses her estimates to identify the most important tax havens for public procurement of EU member states. She finds that there are jurisdictions that offer low to no corporate tax rates and at the same time supply significant amounts of public procurement, virtually all of which cannot be explained by the gravity model.

Overall, I believe that Trang has done an excellent job in writing her thesis. Her work is very timely and constitutes an important contribution to the current debates over how to fight tax havens. In particular, she argues that public procurement is one of the areas in which it is relatively easy for governments to fight against the harmful practices of tax havens.

Trang has worked on her thesis consistently and actively over a long period of time and has discussed her research extensively with me as well as other academics. I am happy to report that, should Trang successfully defend her thesis in front of the committee, I suggest the grade "A".

Contribution

Trang's thesis adds to the growing literature on tax havens and leverages recently published state-of-the-art data to provide an empirical view of the role of offshore companies in EU public procurement. She identifies a number of tax havens that play a disproportionately important role in the ownership chains of companies that supply European public procurement and, for the first time, estimates how much money is at stake. Her preferred estimate of EUR 67 billion of procurement annually flowing through tax havens provides the empirical basis for an important argument – that EU countries could use regulations to ban companies owned via tax havens from competing in public procruement auctions, effectively likely forcing many of them to abandon their tax haven operations. I believe that this is a plausible argument and I hope that Trang will continue to work on this research to ultimately publish her work in an academic journal and potentially influence the policy debate.

Methods

A gravity model is at the core of this thesis – it is used to estimate the expected flows of public procurement to each country. The model is calibrated on countries that are not associated with tax haven-like practices and Trang then uses the resulting coefficients from this model to estimate the „excess" (or unexplained by usual economic variables) procurement for each foreign country. She explores a number of models, from a simple baseline OLS model to an appropriately designed Poisson Pseudo Maximum-Likelihood Estimator and provides robustness checks for many of the somewhat arbitrary choices that she was forced to make during the analysis. I do see some space to improve the methodology of the thesis (for example in better explaining the role of zeros and distant

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jurisdictions in this particular setting), however, overall I am happy with the way the analysis is carried out.

Literature

The literature review in this thesis is relatively thorough and is composed of three parts – corporate income tax evasion, tax havens, and public procurement. I believe that this part of the thesis could be linked more closely to the analysis done later in the thesis, however, most of the relevant research is cited and reviewed.

Manuscript form

The thesis is well-structured and carefully edited. Trang has also done a great job in drafting the manuscript – the text is very well readable. Tables and figures are informative, neat and carefully thought out.

Summary and suggested questions for the discussion during the defense

For the defense, I suggest discussing the potential of the results. In particular, I would be interested in what Trang thinks about the potential regulations that would ban companies with links to tax havens from competing in tenders. Would such regulations be fair to all companies?

Second, what about the EU member states that act as tax havens? Should their companies be somehow restricted from entering into tenders of foreign countries?

Third, I see some potential in better presenting the results of the thesis – could Trang think of other ways to convicingly show how large is the scale of the issue? For example, how do the results of this thesis align with other efforts to identify the most important tax havens and quantify their contribution?

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SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
Contribution	(max. 30 points)	30
Methods	(max. 30 points)	29
Literature	(max. 20 points)	18
Manuscript Form	(max. 20 points)	20
TOTAL POINTS	(max. 100 points)	97
GRADE	(A – B – C – D – E – F)	A

NAME OF THE REFEREE: Miroslav Palanský

DATE OF EVALUATION: May 30, 2019

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Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	*Average*	*Weak*
30	*15*	*0*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	*Average*	*Weak*
30	*15*	*0*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	*Average*	*Weak*
20	*10*	*0*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	*Average*	*Weak*
20	*10*	*0*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F