Learning Event on the Commitment to Equity Methodology
Commitment to Equity Institute, Tulane University and The World Bank

July 11-13, 2016 Washington DC

Background

The World Bank has embarked on an effort to focus its work on two goals: ending extreme poverty and promoting shared prosperity. The goal of "shared prosperity", measured as the income growth of the bottom 40 percent of the population in every country, recognizes that progress requires both income growth and improvements in equity. In this context, an important concern is how to make the Bank's focus on the bottom 40 percent effective through its lending and nonlending activities. An analysis of the distributional impact of fiscal policy can guide the Bank in its engagement with its member countries.

Common questions that are of interest to both policy-makers and development partners include: (i) What is the impact of taxes and transfers on inequality and poverty?(ii) Are the poor impoverished by the fiscal system? (iii) What is the contribution of specific fiscal interventions to the overall impact? (iv) How progressive is public spending on education and health? (v) How effective is the fiscal system in reducing inequality and poverty? (vi) How much additional fiscal and redistributive effort is required to end extreme poverty and equalize opportunities? (vii) What is the impact on inequality and the poor of fiscal policy reforms?

To help governments answer all of these questions and given the World Bank's efforts to focus on ending extreme poverty and promoting shared prosperity, the World Bank has partnered with the Commitment to Equity Institute at Tulane University to implement their diagnostic tool to identify the main constraints that prevent effective poverty and inequality reduction via tax and benefit policies in a set of countries across different regions of the world. [1]

The diagnostic tool—the *Commitment to Equity Assessment*—relies on a comprehensive fiscal incidence analysis designed to assess how taxation and public expenditures affect income inequality, poverty, and different socioeconomic groups. Assessing both sides of the fiscal ledger will give a clear picture of which groups are net beneficiaries of the fiscal system. Assessing the incidence of taxes is important because those who actually bear the burden of taxes (economic incidence) can be quite different from those who are legally liable to make payments to tax authorities (statutory incidence). Establishing the incidence of government expenditures is equally important as public spending benefits households to different extents. While conducting tax and benefit incidence analyses separately provides important insights, their combination makes for a powerful tool. Fiscal incidence analysis strives to determine the overall impact of the budget on inequality and poverty, and to identify the net contributors/ receivers of the entire fiscal system.

[1] Launched in 2008, the Commitment to Equity (CEQ) project is designed to estimate the impact of fiscal policy on inequality and poverty. In May 2015, Tulane University created the Commitment to Equity Institute. The Institute has received the generous support of the Bill & Melinda Gates Foundation. For more information, visit www.commitmentoequity.org.

Over the past three years, the Bank has partnered with Tulane University to conduct a set of country-level studies to examine the distributional effects of individual programs and policy measures—and the net effect of each country's mix of policies and programs. These studies are only a subset of a larger research effort led by Tulane in collaboration with other institutions in a multitude of countries. The result has been a substantial increase in the available evidence on fiscal incidence in developing countries. These assessments are invaluable, as they provide policy makers, multilateral institutions, and nongovernmental groups the evidence base necessary to determine what changes in tax and spending policies will lead to greater equality and poverty reduction.

Objective

In practice, fiscal incidence analysis is quite complex given the limitations in existing information, the importance of taking into account behavioral responses, and the ambiguity surrounding the definition of certain concepts. The objective of this workshop is to present the Commitment to Equity methodology, along with early evidence from recent studies.

Over the course of three days, the event will target World Bank staff. The first day of the course will be aimed at Bank economists and task managers aiming to undertake similar analyses. The day will feature presentations on theory and the methodological building blocks for the analysis. It will stress the strategic thinking in putting the pieces together and focus on the conceptual decisions that need to be made along the way. The second and third days will be aimed at economists and practitioners who wish to understand the nuts and bolts of the analysis, including an overview of the quality control protocol. It will feature hands-on training with examples from existing studies aimed at helping teams implement the approach using household survey data and fiscal administrative accounts. Participants for the second and third days should have a good command of STATA skills as most of the day will involve a variety of hands-on exercises using this software along with sample data. A STATA 13 license is required; earlier versions do not have some features used by the CEQ STATA commands.

Bibliographical Materials

Lustig, Nora, editor, *Commitment to Equity Handbook. A Guide to Estimating the Impact of Fiscal Policy on Inequality and Poverty,* CEQ Institute, Tulane University, forthcoming.

Handbook and other materials are available through the following shared dropbox link. (Note: You do not need to have access to dropbox to be able to download and save the contents in your computer).
https://goo.gl/ZWG9uW.

Learning Event on the Commitment to Equity Methodology
Agenda

DAY 1: Analytical and Empirical Foundations of the Commitment to Equity Assessments
Monday, July 11 , Room I 2-250

8:30 – 9:00 am **Breakfast**

9:00 – 9:15 am **Welcome and Introductions**
Gabriela Inchauste, Lead Economist, Poverty and Equity GP, The World Bank

9:15 – 10:15 am **Session 1: Introduction to CEQ**
Description of project and an overview of results.
Nora Lustig, Director, CEQ Institute

10:15-10:30pm **Coffee**

10:30–12:00pm **Session 2: Theoretical Highlights in Fiscal Incidence Analysis**
What is Fiscal Incidence Analysis: measuring the impact of fiscal policy on inequality and poverty; measuring fiscal impoverishment; measuring marginal contributions; measuring effectiveness
Nora Lustig (Director) and Ali Enami (Research Associate), CEQ Institute
Readings: Chapters 6, 7 and 14

12:00 – 2:00 pm **Lunch**

2:00 - 3:30pm **Session 3: Fiscal Incidence Analysis in Practice: Construction of income concepts and its components**
What is Fiscal Incidence Analysis: A Practical Guide: methods to generate income concepts and how they are used. Methods to calculate the incidence of direct taxes, direct transfers; addressing differences between administrative accounts and survey data. Methods to calculate the incidence of education and health spending.
Sean Higgins, Director of Data Center, CEQ Institute
Readings: Chapters 3 and 5

3:30-3:45pm **Coffee**

3:45 - 4:30pm **Session 4: Fiscal Incidence Analysis in Practice: Construction of income concepts and its components (cont)**
Methods to calculate the incidence of indirect taxes and indirect subsidies
Gabriela Inchauste, Lead Economist, World Bank
Readings: Chapter 4

4:30 – 5:45 pm **Session 5: The Master Workbook: An Overview**
Nora Lustig, Director, CEQ Institute

DAY 2: Fiscal Incidence Analysis in Practice: The CEQ Master Workbook and Stata Training
Tuesday, July 12, I 2-250

8:30 – 9:00 am	**Breakfast**
9:00 – 10:30 am	**CEQ Stata Training I: Using Consumption vs. Income Data; Preparing Data** Participants will follow along with sample data provided. Teams may choose to use their own data, but must have it cleaned and prepared prior to the course. Income concepts: disposable income (consumption) **Sean Higgins,** Director of Data Center, CEQ Institute
10:30 – 10:45 am	**Coffee**
10:45 – 12:30 pm	**CEQ Stata Training II.a: Allocating fiscal interventions and constructing income concepts** Fiscal interventions: direct cash and food transfers Income concepts: from disposable to net market income. **Sean Higgins,** Director of Data Center, CEQ Institute
12:30 –1:30 pm	**Lunch**
1:30 – 2:45 pm	**CEQ Stata Training II.b: Allocating fiscal interventions and constructing income concepts** Fiscal interventions: direct taxes and contributions to social security, contributory pensions. Income concepts: gross income, market income plus pensions, market income. **Jon Jellema,** Associate Director, CEQ Institute and World Bank Consultant
2:45 – 3:00pm	**Coffee**
3:00 – 5:00pm	**CEQ Stata Training II.c: Allocating fiscal interventions and constructing income concepts** Fiscal interventions: indirect taxes and indirect subsidies. Income concepts: consumable income. **Jon Jellema,** Associate Director, CEQ Institute and World Bank Consultant

DAY 3: Fiscal Incidence Analysis in Practice: The CEQ Master Workbook, Stata Training and Quality Control
Wednesday, July 13, I 2-250

8:30 – 9:00 am	**Breakfast**
9:00 – 11:00 am	**CEQ Stata Training II.d: Allocating fiscal interventions and constructing income concepts** Fiscal interventions: in-kind benefits from public health and education spending. Income concepts: final income. **Jon Jellema,** Associate Director, CEQ Institute and World Bank Consultant
11:15 – 11:30 am	**Coffee**
11:30 – 12:30 pm	**CEQ Master Workbook Section E and CEQ Stata Package** **Sean Higgins,** Director of Data Center, CEQ Institute
12:30 – 1:30 pm	**Lunch**
1:30 – 3:30 pm	**CEQ Stata Training III: Using the CEQ Stata Package** The CEQ Stata package can be used to automatically fill out Section E of the Master Workbook **Sean Higgins,** Director of Data Center, CEQ Institute **Readings: Online Appendix B**
3:30 – 3:45 pm	**Coffee**
3:45 – 5:15pm	**CEQ Master Workbook Section D and Checking Protocol** Completing Section D automatically using results from Section E through pre-programmed Excel formulas. CEQ quality control and checking protocol. **Maynor Cabrera,** Associate Director, CEQ Institute