

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

February 18-20, 2015 Washington DC

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**Background**

The World Bank has recently 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) What is the contribution of specific fiscal interventions to the overall impact? (iii) Who benefits from and pays for public services (e.g., education, health, etc.)? (iv) How much additional fiscal and redistributive effort is required to end extreme poverty and equalize opportunities?

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 Economics Department 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.

Developed by Nora Lustig and her team at Tulane University, 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.<sup>1</sup> 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.

Over the past two 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

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<sup>1</sup> Launched in 2008, the Commitment to Equity (CEQ) project is an initiative of the Center for Inter-American Policy and Research (CIPR) and the Department of Economics, Tulane University, the Center for Global Development and the Inter-American Dialogue.

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 an audience that includes policymakers and World Bank staff. The first day of the course will be aimed at policymakers, 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 day will be aimed at economists and practitioners who wish to understand the nuts and bolts of the analysis. 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. Given the limited computer availability, the third day will repeat the same material as the second day, participants should sign up to only one of these. Participants for the second day or third day 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 highly recommended; earlier versions do not have some features used by the CEQ STATA commands.

## Learning Event on the Commitment to Equity Methodology Agenda

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### DAY 1: Analytical and Empirical Foundations of the Commitment to Equity Assessments

Wednesday, February 18th

Room MC C2-131

- 8:30 – 9:00 am**      **Breakfast**
- 9:00 – 9:30 am**      **Welcome and Introductions**  
**Carlos Silva- Jauregui**, Lead Economist, Poverty Global Practice, The World Bank (TBC)
- 9:30 – 10:30 am**      **Session 1: Introduction to CEQ**  
Description of project and an overview of results  
**Nora Lustig**, Tulane University  
**Chair: Carlos Silva- Jauregui**, Lead Economist, Poverty Global Practice, The World Bank (TBC)
- 10:30-10:45pm**      **Coffee**
- 10:45-12:00pm**      **Session 2: Theoretical Highlights in Fiscal Incidence Analysis**  
What is Fiscal Incidence Analysis; How to Measure the Impact of Fiscal Policy on Inequality and Poverty: A Review of Analytical Foundations and Theoretical Advances  
**Nora Lustig**, Tulane University  
**Chair: Shubham Chaudhuri**, Practice Manager, Macro & Fiscal Management, The World Bank
- 12:00 – 1:30 pm**      **Working Lunch**  
**Session 3: Experiences with implementing CEQ**  
**Chair: Ana Revenga**, Senior Director, Poverty Global Practice, The World Bank  
**Introduction: Nora Lustig**, Tulane University  
**Ethiopia: Ruth Hill**, Senior Economist, The World Bank  
**South Africa: Catriona Purfield**, Lead Economist, The World Bank  
**Indonesia: Jon Jellema**, Consultant, The World Bank  
**Luky Alfirman**, Director for Center of Macroeconomic Policy, Ministry of Finance, Republic of Indonesia
- 1:30 - 3:00pm**      **Session 4: 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.  
**Nora Lustig**, Tulane University  
**Sean Higgins**, Tulane University  
**Chair: Blanca Moreno-Dodson**, Macro & Fiscal Management, The World Bank (TBC)
- 3:00-3:15pm**      **Coffee**
- 3:15 - 4:00pm**      **Session 5: Fiscal Incidence Analysis in Practice: Construction of income concepts and its components (cont)**  
Methods to calculate the incidence of indirect taxes, indirect subsidies, usage of education and health.  
**Gabriela Inchauste**, World Bank  
**Sean Higgins**, Tulane University  
**Chair: Christina Malmberg Calvo**, Poverty Global Practice, The World Bank (TBC)
- 5:45 – 6:00 pm**      **Wrap-Up**  
**Nora Lustig**, Tulane University

**DAY 2 or 3: Fiscal Incidence Analysis in Practice: The Master Workbook and Ado files**

**Thursday, February 19<sup>th</sup> or Friday, February 20<sup>th</sup> <sup>2</sup>**

**Room J B1-089**

<b>8:30 – 9:00 am</b>	<b>Breakfast</b>
<b>9:00 – 9:15 am</b>	<b>Introduction</b> Nora Lustig, Tulane University
<b>9:15 – 11:00 am</b>	<b>The Master Workbook: Sections A, B, C and D</b> Nora Lustig, Tulane University Sean Higgins, Tulane University
<b>11:00 – 11:15am</b>	<b>Coffee</b>
<b>11:15 – 11:45 pm</b>	<b>The Master Workbook: Descriptive Statistics, Disaggregated Tables and Ado files</b> Sean Higgins, Tulane University
<b>11:45 – 1:00 pm</b>	<b>CEQ Stata Training Part I: Cleaning and Preparing Data</b> Participants will follow along with sample data provided. Teams may chose to use their own data, but must have it cleaned and prepared prior to the course. Sean Higgins, Tulane University Jon Jellema, Consultant World Bank OR Lidia Ceriani, Consultant World Bank
<b>1:00 – 2:00 pm</b>	<b>Lunch</b>
<b>2:00 – 3:15pm</b>	<b>CEQ Stata Training Part II: Constructing income concepts</b> Constructing income concepts and component variables, generating a table of descriptive statistics using these variables. Sean Higgins, Tulane University
<b>3:15 – 3:30pm</b>	<b>Coffee</b>
<b>3:30 – 4:45pm</b>	<b>CEQ Stata Training Part III: Completing the Master Workbook</b> Using CEQ Stata commands to complete the Master Workbook disaggregated tables and export results directly to Excel. Sean Higgins, Tulane University

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<sup>2</sup> Please note that the material presented on Feb 20<sup>th</sup> is identical to what will be presented on Feb 19<sup>th</sup>. We have added one more session to accommodate excess demand. Participants should sign up for only one of these. Note that STATA 13 is required to follow along.