



# COMMITMENT TO EQUITY: DIAGNOSTIC QUESTIONNAIRE

*Nora Lustig*

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The *Commitment to Equity* (CEQ) project is designed to analyze the impact of taxes and social spending on inequality and poverty, and provide a roadmap for governments, multilateral institutions, and nongovernmental organizations in their efforts to build more equitable societies.

The CEQ uses incidence analysis<sup>1</sup> and a specially designed diagnostic questionnaire to address three questions:

- How much redistribution and poverty reduction is being accomplished in each country through social spending, subsidies and taxes?
- How progressive are revenue collection and government spending?
- Within the limits of fiscal prudence, what could be done to increase redistribution and poverty reduction in each country through changes in taxation and spending?

In particular, the diagnostic questionnaire is designed to assess how aligned fiscal policies are with supporting a minimum living standard and human capital accumulation, as well as with reducing inequality. The objective is to evaluate efforts based on whether governments: i. collect and allocate enough resources to support a minimum living standard for all; ii. collect and distribute resources equitably; iii. ensure that spending is fiscally sustainable and that programs are of good quality and incentive compatible; iv. collect and publish relevant information, as well as are subject to independent evaluations.

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JEL Codes: H22, D31, I32, I38

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<sup>1</sup> For the methodological details of the incidence analysis, see Lustig and Higgins (2013).

## 1 THE DESIGN OF THE CEQ DIAGNOSTIC QUESTIONNAIRE

The purpose of the CEQ diagnostic questionnaire is to identify the main causes and constraints/successful fiscal interventions that prevent a country from achieving/enable a country to achieve a universal minimum standard of living and lower inequality in ways that are consistent with macroeconomic and microeconomic efficiency. A diagnostic questionnaire follows a logical sequence to identify or discard factors that may be either obstacles or crucial to achieving a particular objective or essential to understanding a specific phenomenon. Diagnostic exercises usually rely on a combination of predictions from theory, rigorous empirical evidence, practical knowledge and what we call “common sense.” The diagnostic approach has been widely used to identify the binding constraints for economic growth.<sup>2</sup> CEQ is one of the first attempts to apply it to a social equity goal. In broad terms, one would like to know whether a government: i. has enough resources and allocates them well enough to meet social equity policy objectives; ii. has appropriate policies and programs and collects and distributes resources equitably; iii. ensures spending is fiscally responsible and that programs minimize distortions and negative incentives; iv. collects and publishes relevant information, as well as subjects itself to independent evaluations. For simplicity, these criteria are called: resources, equity, quality and accountability and they are defined as follows:

### *Resources*

- Assess whether government revenues and redistributive spending are potentially sufficient with what would be required for supporting a minimum standard of living.<sup>3</sup>

### *Equity*

- Assess whether the actual level and allocation of redistributive spending as well as the range, design and implementation of programs and policies are consistent with supporting a minimum standard of living.

### *Quality*

- Assess whether the design and implementation of programs and policies<sup>4</sup> to support a minimum standard of living are broadly consistent with macroeconomic and microeconomic efficiency and whether the programs and policies implemented have high social returns as well as are cost-effective, of high quality and incentive compatible.

### *Accountability*

- Assess the degree of accountability and transparency with respect to programs and policies designed to support a minimum standard of living.

In sum, CEQ is among the first frameworks to comprehensively assess social policy—or, rather, public policy with social equity objectives—and to make the assessment comparable across countries and able to be translated into a performance index. CEQ is based on extensive research and expert opinion that give it high content validity.<sup>5</sup> In particular, the diagnostic framework and indicators for CEQ are selected according to existing analysis of what is constituted as essential to achieving significant reductions in poverty and

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<sup>2</sup> Hausmann et al. (2006) and Hausmann et al. (2008).

<sup>3</sup> For definitions, see section 6.

<sup>4</sup> Throughout this section, “programs” refers to programs designed to support a minimum standard of living and “policies” refers to policies designed to support a minimum standard of living.

<sup>5</sup> For more on content validity, see Morra Imas and Rist (2009, p. 294) and Adcock and Collier (2001).

inequality through fiscal policy. The following sections present the diagnostic framework and questionnaire. Section 6 includes the definitions of variables and indicators.

While CEQ may have some similarities to international benchmarking exercises such as the World Economic Forum’s “Global Competitiveness Report”<sup>6</sup> and the World Bank’s “Doing Business Indicators,”<sup>7</sup> there is an important difference. First, it relies on an in-depth tax and benefit incidence analysis rather than on mainly secondary sources and/or perceptions and opinions. Second, international benchmarking exercises such as the Global Competitiveness Index classify as “positives” areas where a country performs better than the average for the reference group and as “negatives” those areas where it underperforms. As noted by Hausmann et al. (2008), however, it is quite possible that over-performance in some areas by a particular country may actually mean underperformance vis-à-vis its own optimal or desirable outcome. In contrast, CEQ is based on a diagnostic framework that allows us to identify the binding constraints (or the crucial contributing factors) to achieving a goal regardless of whether the indicator in question is above or below the average for the group of reference. For example, a government may be allocating a larger share of GDP to redistributive spending than the average for its reference group and yet the amount spent may be insufficient to ensure a minimum living standard for its population. In this case, CEQ will classify it as a “negative” and will attempt a systematic search for the fundamental cause of why, if resources are potentially sufficient, the after net transfers poverty gap is still greater than zero.

## 2 DIAGNOSTIC FRAMEWORK

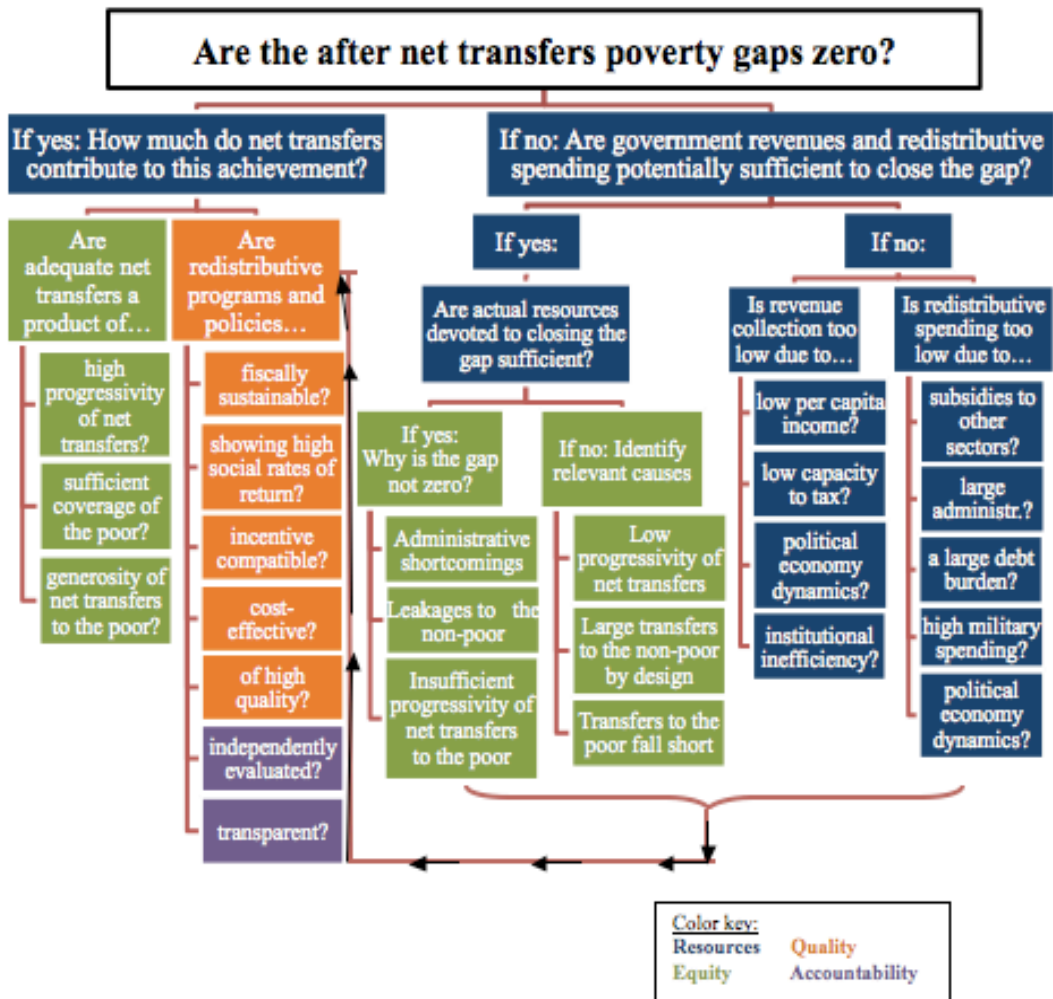
In order to understand the diagnostic framework, it is best to visualize it as a diagnostic tree as in Figure 1. Let us consider the first objective of the welfare state: supporting a minimum living standard for all. If that objective were met, the disposable income poverty gap ratio measure with an agreed upon poverty line would equal zero. If it is zero, two situations may arise: the market income (income before net transfers) poverty gap ratio is very low to begin with—that is, the country is an equity success story—or, if it isn’t, the state made substantial effort to reduce the poverty gap through fiscal policy. Of course, if a country is already successful before fiscal policy, the direct impact of fiscal policy becomes irrelevant (unless it makes things worse). Understanding the causes for this kind of success is very important but CEQ would not be the appropriate instrument. Instead, if the country’s success is determined by direct fiscal policy, CEQ will help unveil which specific interventions account for success and why. Likewise, if the government is not successful in supporting a minimum living standard after taxes and transfers, CEQ will help identify the causes of failure and policy actions to improve the government’s performance.

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<sup>6</sup> [www.gcr.weforum.org](http://www.gcr.weforum.org).

<sup>7</sup> [www.doingbusiness.org](http://www.doingbusiness.org).

FIGURE 1 - CEQ: DIAGNOSTIC TREE



Suppose that, as in most developing countries, the disposable income poverty gap ratio is not zero. There are a number of reasons why that might be the case. In searching for the causes, we follow a logical sequence that will help us to identify the contributing factors and binding constraints. The first reason why the poverty gap is not zero might be that the government either collects too little revenue and/or spends too little for redistributive purposes. We can check that by comparing total revenues and total redistributive spending (defined below) with the *before* net transfers poverty gap (that is, the poverty gap estimated with market income). If it turns out that either or both are the cause, the next step is to check whether this is so because the country is too poor, the government’s capacity to tax is too low or public spending is mainly on other items (military expenditures or debt servicing, for example).

In middle-income countries like most of the countries in Latin America, insufficient total fiscal resources or redistributive expenditures are not likely to be a cause for the disposable income poverty gap not being equal to zero. Even if enough resources are spent on redistributive programs and policies, redistributive spending allocated *to the poor* might not be enough to close the poverty gap. There are at least four—not mutually exclusive—causes for this. First, redistributive spending is regressive or not progressive enough. Second, regardless of how much is allocated to the non-poor—and, even if what is allocated to the poor is potentially sufficient—the poverty gap may not be zero because the safety net system does not cover the

universe of the poor;<sup>8</sup> third, the per-poor person transfer might be lower than required; fourth, transfers among the poor might not be sufficiently progressive.<sup>9</sup>

In turn, the reasons mentioned above may be the result of several factors. The safety net system may benefit the non-poor or leave out some poor households intentionally. For example, “universal” social security systems often do not include agricultural workers and housekeepers. Cash transfers to the poor can exclude households without children, individuals who are below the age of 65, or undocumented migrants. Second, the design of programs may have unintended effects. For example, the participation costs may be too high for the poorest of the poor, or the eligibility cut-off and amount transferred might not be adjusted for differences in prices across regions within a country. Third, in practice the programs may leave out eligible individuals and include non-eligible individuals due to corruption, clientelistic politics or honest mistakes.

In the literature, the share of poor who do not receive benefits of safety net programs are called errors of exclusion and the share of non-poor who are beneficiaries are called errors of inclusion. However, we consider that it is useful to classify the “errors” of exclusion and inclusion into two groups: intentional and unintended errors of exclusion and inclusion. For simplicity, we shall call the intentional exclusion of the poor and inclusion of the non-poor as exclusion and leakage by design. The unintended errors will be called errors of exclusion and errors of inclusion. The latter could be caused by unintended failures in design or implementation of programs such as higher than anticipated participation costs, deficient information systems, clientelistic politics or corruption, underestimation of geographic isolation, higher than expected administrative costs, unanticipated leakages, lack of accrediting documentation among potential beneficiaries, or self-exclusion, among other factors.

### 3 CEQ DIAGNOSTIC QUESTIONNAIRE

*Policy Objective:* Government makes substantial fiscal efforts to support a minimum standard of living and build the human capital of the poor in ways that reduce overall inequality and are broadly consistent with fiscal sustainability and economic efficiency

*Criteria:* resources, equity, quality and accountability

**Step 1:** Calculate basic indicators to determine whether goals are achieved (see section 6).

**Step 2:** After calculating the basic indicators, are the after net transfers income and human capital poverty gaps<sup>10</sup> (poverty gaps, from now onwards) zero?

If yes: => proceed to Step 3.

If no: => proceed to Step 5.

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<sup>8</sup> Transfers could bring a portion of the poor way above the poverty line, for example, yet leave out some of the poor by design.

<sup>9</sup> Of course, another reason may be that direct taxes are not sufficiently progressive.

<sup>10</sup> For definitions of net transfers poverty gaps see section 6 of this handbook.

**Step 3:** If poverty gaps are zero (i.e., poverty is eradicated), which of the following factors explain this success?

- a. High economic growth and/or equitable (pro-poor) economic growth.
- b. Fiscal resources are sufficient and equitably collected and distributed. (To comment on this item, complete section E2 below)

**Step 4:** If the poverty gaps are zero, sections E2-E5 are designed to assess the contribution of the progressivity of net transfers, coverage of the poor, size of net transfers to the poor, and progressivity of net transfers among the poor, respectively, to achieving the goal of closing the poverty gaps. => Proceed to E2.

**Step 5:** If the poverty gaps are not zero, is it because total government revenues fall short and/or because the government does not allocate sufficient budgetary resources for redistributive spending purposes? => Proceed to R1

**RESOURCES:** Assesses whether government revenues and redistributive spending are potentially<sup>11</sup> sufficient with what would be required for supporting a minimum standard of living.

## R1. Revenue Collection Effort

**R1.1** Does the government collect sufficient combined resources to close the: i. before net transfers income poverty gap (market income poverty gap); ii. before net transfers human capital gap; and, iii. before net transfers overall poverty gap, both in normal times and in the event of systemic shocks?<sup>12</sup>

**R1.2** Are total revenues and tax revenues (as a percent of GDP) consistent with the country's GDP per capita?<sup>13</sup>

If the answer to R1.1 is yes, => proceed to question R2. If not, => proceed to R1.3.

**R1.3** Explain why the government does not collect sufficient combined resources to close the i. before net transfers income poverty gap (market income poverty gap); ii. before net transfers human capital gap; and, iii. before net transfers overall poverty gap. Is it due to:<sup>14</sup>

- a. Low per capita income?
- b. Low capacity to tax/raise revenues? In turn, is the low capacity to tax due to:
  - i. Political economy dynamics?
  - ii. Institutional inefficiency?
  - iii. Other (specify)?
- c. Other (specify)?

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<sup>11</sup> For definitions, see Section 6.

<sup>12</sup> During systemic shocks a government may choose to use reserves or contingency funds. This should be counted as part of the total resources to smooth the impact of adverse systemic shocks.

<sup>13</sup> The answer to this question will depend on benchmarks that can be provided upon request.

<sup>14</sup> Throughout the questionnaire, the answers to a question such as "Is it due to...?" should be explained. For example, if political economy dynamics are identified as a cause for low capacity to tax, identify which dynamics and why.



## R2. Redistributive Spending Effort

**R2.1** Does the government allocate sufficient budgetary resources for redistributive spending purposes to potentially close the: i. before net transfers income poverty gap (market income poverty gap); ii. before net transfers human capital gap; and, iii. before net transfers overall poverty gap, both in normal times and in the event of systemic shocks?

**R2.2** Are total government spending and social spending (as a percent of GDP) consistent with the country's GDP per capita?<sup>15</sup>

If the answer to R2.1 is yes, => proceed to Step 7 (Equity section). If not, => proceed to R2.3 and then to Step 6.

**R2.3** Explain why the government does not allocate sufficient budgetary resources for redistributive spending purposes to potentially close the: i. before net transfers income poverty gap (market income poverty gap); ii. before net transfers human capital gap; and, iii. before net transfers overall poverty gap, both in normal times and in the event of systemic shocks. Is it due to:

1. Subsidies to other sectors
2. Overblown administration?
3. A large debt burden?
4. High military spending?
5. Political economy dynamics?
6. Other (specify)?

**Step 6:** If the poverty gaps are not zero and the government's total fiscal revenue and/or redistributive spending are not sufficient to close the poverty gap, poverty reduction might still be lower than it could be with the given redistributive spending. Sections E2 (progressivity of net transfers), E3 (coverage of the poor by safety net system<sup>16</sup>), E4 (generosity of net transfers to the poor) and E5 (progressivity of net transfers among the poor) are designed to identify policy actions that could further reduce poverty even when existing resources are insufficient. => Proceed to E2.

**Step 7:** If the government allocates sufficient budgetary resources for redistributive spending purposes, why is the poverty gap not zero? There could be several reasons: the share of redistributive spending going to the poor is insufficient; coverage of the poor is not universal; generosity of net transfers to the poor is too low; progressivity of transfers among the poor is too low. => Proceed to the Equity section.

**EQUITY:** Assesses whether the actual level and allocation of redistributive spending as well as the range, design and implementation of programs and policies are consistent with supporting a minimum standard of living.

## E1. Allocation of Redistributive Spending to the Poor

**E1.1** Is the proportion of redistributive spending allocated to closing the before net transfers poverty gaps (on anti-poverty programs, basic education, basic health care, etc. as specified in public sector budget) sufficient, both in normal times and in the event of systemic shocks?

<sup>15</sup> The answer to this question will depend on benchmarks that can be provided upon request.

<sup>16</sup> Safety net system here can include redistributive programs not included under social spending.



**Step 8:** If the goal of closing the poverty gaps is not achieved because the share of redistributive spending allocated to the poor is insufficient, E2 seeks to assess whether net transfers are not sufficiently progressive (in particular, because net transfers to the non-poor are too large). If the goal is not achieved but the share of redistributive spending allocated to the poor is sufficient, E2 seeks to assess the progressivity of the system. In either case, => proceed to E2.

## E2. Progressivity of Net Transfers

**E2.1** Are net transfers to the non-poor too large? To answer this question, estimate the amount and proportion of net transfers that reach the non-poor (based on household surveys and public sector budget). Is what remains insufficient to close the poverty gap?

**E2.2** How equalizing/unequalizing is the distribution of net transfers and of specific programs and taxes?<sup>17</sup> To answer this question, calculate the incidence of specific programs,<sup>18</sup> policies, taxes,<sup>19</sup> and overall net transfers by: i. quantiles;<sup>20</sup> ii. poor vs. non-poor; and iii. other groupings. Calculate the Kakwani index of progressivity and the redistributive effect of all taxes individually and combined and all the flagship programs and policies individually and combined. Calculate the Reynolds-Smolensky index for all taxes individually and combined.

- a. What is the progressivity of the tax (revenue-raising) system, total government spending, redistributive spending and net transfers overall?
- b. What proportion of transfers for specific programs, total monetary transfers, policies (for example, education and health spending) and overall (the sum of all monetary and in-kind transfers) accrues to: i. the non-poor; ii. the middle range;<sup>21</sup> and iii. the richest 20, 10, 5, 1 and 0.1 percent?<sup>22</sup>
- c. What is the average size of per capita net transfers going to: i. the non-poor; ii. the middle range; and iii. the richest 20, 10, 5, 1 and 0.1 percent?
- d. How much of cash transfers (individually for flagship programs and combined for all cash transfers) goes to i. the bottom 20% and ii. the bottom 40% of the income distribution? This should be expressed in absolute terms (the value of transfers in local currency units), as a proportion of total cash transfers, and as a percent of GDP.
- e. Which programs and policies are: i. progressive in absolute terms? ii. “neutral” in absolute terms; iii. progressive in relative terms; iv. neutral in relative terms; v. regressive?
- f. What proportion of total redistributive spending is allocated to programs that are: i. progressive in absolute terms? ii. “neutral” in absolute terms; iii. progressive in relative terms; iv. neutral in relative terms; v. regressive?
- g. Are income tax revenues and taxes on wealth (as a percent of GDP) consistent with the country’s GDP per capita?<sup>23</sup>

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<sup>17</sup> Note that E3.1 asks for a list and description of all redistributive programs and policies. It might make sense to complete E3.1 before E2.2.

<sup>18</sup> Some surveys do not include questions directly asking about specific program benefits that a household might have received. There are three methods to determine whether a household received transfers from a specific program and quantify the benefits. See the “Definitions” subsection of Technical Definitions of Variables.

<sup>19</sup> Indicate whether the tax data is included in the survey or if it must be imputed, and if so, how it is imputed.

<sup>20</sup> Quantiles ideally should be centiles. If that is not feasible, use the smallest feasible quantile (by 5 percent, deciles and quintiles).

<sup>21</sup> The boundaries for middle range should be given by the non-poor that are not in the top 10 percent.

<sup>22</sup> The feasible level of disaggregation will depend on the representativeness of the surveys used for the calculations.

<sup>23</sup> The answer to this question will depend on benchmarks that can be provided upon request.

- h. What proportion of taxes is paid by: i. the non-poor; ii. the middle range; iii. the richest 20, 10, 5, 1 and 0.1 percent?
- i. Which taxes and revenue-raising mechanisms are: i. progressive; ii. neutral in relative terms; iii. regressive in relative terms; iv. “neutral” in absolute terms; v. regressive in absolute terms?
- j. What proportion of taxes/government revenues is: i. progressive; ii. neutral in relative terms; iii. regressive in relative terms; iv. “neutral” in absolute terms; v. regressive in absolute terms?
- k. Do government spending patterns significantly reduce inequality in access to and quality of services (including inequality between genders, ethnic/racial groups, socioeconomic groups and geographic locations)?
- l. What proportion of flagship program and policy beneficiaries is: i. non-poor; ii. middle range; and iii. rich?<sup>24</sup>
- m. What proportion of i. the non-poor, ii. the middle range and iii. the richest 20, 10, 5, 1 and 0.1 percent are flagship program and policy beneficiaries?
- n. What impact has each flagship program and policy (individually and combined) had on inequality (as measured by the Gini coefficient)?
- o. What is the simulated impact of each flagship program and policy (individually and combined) on inequality (as measured by the Gini coefficient), if there were perfect coverage and no leakages according to the program’s eligibility rules?
- p. How does the impact of each flagship program and policy (individually and combined) compare to the *simulated* impact on inequality, assuming perfect coverage and no leakages according to the program’s eligibility rules?
- q. Which programs and policies have the greatest benefits to the non-poor by design: formal sector insurance schemes, price subsidies, etc.?
- r. Which programs and policies have the greatest benefits to the poor by design?
- s. Which socioeconomic groups receive the bulk of net transfers going to the non-poor for specific programs, policies, taxes and overall? Possible groups include the near poor, low-income urban workers, corporatist unions, rent-seeking elites, etc.
- t. Which socioeconomic groups do not pay their “expected” share of taxes?

**E2.3** If the distribution of net transfers is not sufficiently equalizing, is it due to:

- a. “Universalistic” welfare systems (by design, everybody has the right to a benefit and hence benefits going to the poor are too small)?
- b. State-capture by ruling elites?
- c. Distribution rules or patterns among federal and sub-national governments?
- d. Other (specify)?

**E2.4** Are benefits to the non-poor by design (i.e., intentional), or are there errors of inclusion (i.e., unintended beneficiaries receive benefits)? If there are errors of inclusion, are they due to:

- a. Unintended shortcomings in the diagnostic, design, dissemination and/or implementation of existing policies and programs?
- b. Clientelistic politics and/or corruption?
- c. Shortcomings in targeting mechanisms?
- d. A discrepancy between the government’s definition of poverty and the definition used here?
- e. Other (specify)?

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<sup>24</sup> Calculate for the richest 20, 10, 5, 1 and 0.1 percent.

**E2.5** Which programs and policies with large benefits to the non-poor should be kept, and how could they be improved? Which programs and policies should be downsized, reformed or eliminated? In particular:

- a. Which programs and policies with large benefits to the non-poor should be kept, and what are the potential benefits (quantify if possible) of keeping those programs? To what groups would those benefits accrue?
- b. How can existing programs and policies (with or without large benefits to the non-poor) be improved with respect to their progressivity? What are the potential redistributive effect and potential benefits to the non-poor (quantify if possible) of the reforms proposed here?
- c. Which programs and policies with large benefits to the non-poor should be downsized or eliminated? Explain.

**Step 9:** If redistributive spending allocated to the poor is sufficient to close the poverty gaps, E3 seeks to assess whether poverty gaps are not zero because coverage of the poor is not universal. If redistributive spending allocated to the poor is not sufficient to close the poverty gap, E3 seeks to assess what would happen under the hypothetical situation that resources allocated to the poor were raised to the sufficient level; would the range of existing safety net programs cover the universe of the poor? => Proceed to E3

### E3. Coverage of the Poor of Specific Programs and the Safety Net System

**E3.1** List all redistributive programs and policies.<sup>25</sup> Examples of types of redistributive programs and policies are listed in the footnote below, and in Section 6. Be sure to include programs that help the poor cope with the effects of systemic shocks such as natural disasters, economic crises, epidemics, rising food and fuel prices, etc. Also be sure to include newer or recently implemented programs, even in the case of a program that is so recent that it is not captured by the household survey being used. For each program and policy, indicate the type of program (using the examples listed in the footnote as a guideline), provide a brief description of the program, and answer the following questions:

- a. What are the program's target population and eligibility rules? In the case of monetary or in kind transfer programs, also describe any conditions attached to the program, the amount or value of the transfer, etc.
- b. What is the program's budget? Report the budget in absolute terms, as a percent of social spending, as a percent of aggregate market income according to household surveys and as a percent of GDP.

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<sup>25</sup> The list should include all relevant policies and programs even if not all of them will be subject to the detailed analysis included in CEQ. Examples of programs: conditional or unconditional cash transfer programs; workfare or employment (or employment guarantee) programs; programs to protect poor households from the financial impact of illness, disability or death; programs to provide non-contributory health insurance; programs to prevent people from falling into poverty during old age; programs or policies specifically addressed to building human capital and assets of the poor; early childhood development programs for poor children; programs for pregnant and lactating poor women; programs for poor youth at risk; programs to increase school attendance of the poor (e.g., scholarships, school feeding programs, CCTs); programs to improve the poor's nutrition and health (e.g., food coupons, subsidized basic foodstuffs, nutritional supplements, etc.); programs to improve the poor's access to housing; programs to improve the poor's access to energy (e.g., differential prices); programs to improve the poor's access to credit and private insurance; programs to empower the poor; programs to reduce social exclusion and discrimination; programs to support/empower ethnic minorities; programs to empower women; programs to achieve other socially desirable objectives. Examples of policies: tax systems, public education systems, public health systems, pension systems, price subsidies, price support systems, subsidies to specific sectors (e.g., agriculture).

- c. How is the budget distributed? What proportion of the budget is devoted to administrative costs, salaries, capacity building, monetary transfers, services, investment, etc.?
- d. How is the program financed?
- e. What level of government is responsible for the design, implementation and evaluation of the program? If multiple levels of government are responsible, describe the responsibilities of each.
- f. Under what circumstances was the program implemented? For example, was it implemented after a debate among policymakers, by decree, after a pilot study with impact evaluations, etc.?
- g. Is there any other important information with regard to the operational or institutional aspects of the program?

**E3.2** Is coverage sufficient? Estimate the following for each program and policy, or at least for the flagship program(s) and main policies (specify which programs and policies will be assessed), individually and combined:

- a. What is the coverage rate among the poor? Is it close to 100 percent?
- b. What is the coverage rate among relevant sub-groups within the poor (women, children, elderly, ethnic minorities, youth at risk, etc.)? Is it close to 100 percent?
- c. If coverage of the programs combined is not close to 100 percent, what are the characteristics of the excluded (after net transfers) poor?

If coverage is close to 100 percent, explain what accounts for this success and proceed to E4. If coverage is not close to 100 percent, proceed to E3.3.

**E3.3** If program/policy coverage is not close to 100 percent, what is the cause?

- a. Does the combination of programs, safety nets and social policies jointly cover all the groups in need of assistance? For example:
  - i. The chronic poor.
  - ii. The transient poor.
  - iii. Those in danger of falling below the poverty line after a systemic shock.
  - iv. Those affected by reforms.
  - v. The vulnerable (pregnant and lactating women, the elderly, youth at risk, etc.).
  - vi. The socially excluded.
  - vii. Groups suffering from discrimination.
  - viii. Other (specify).
- b. Do programs and policies leave out some of the poor by design (intentionally)? Who are they (for example, poor households without children or senior citizens, young adults, undocumented migrants, etc.)?
- c. Why are poor people left out by design (intentionally)?
  - i. Political reasons.
  - ii. To leave out “undeserving” groups.
  - iii. Discrimination.
  - iv. To minimize negative incentive effects.
  - v. To ensure fiscal sustainability.
  - vi. Fiscal austerity.
  - vii. Other (specify).
- d. Is there a limit to the number of beneficiaries that can enroll in the flagship programs? If so:

- i. Is that limit below the total number of *eligible* households?
  - ii. Is that limit below the total number of *poor* households?
  - iii. Is there a waiting list of eligible households that are not receiving program benefits?  
If so:
  - iv. How many households are on the waiting list (in absolute terms, as a proportion of current beneficiaries, and as a proportion of eligible households)?
- e. If the poor are left out unintentionally, what explains the errors of exclusion/shortcomings in targeting?
  - i. Inadvertent gaps in the range of programs and policies.
  - ii. Unintended shortcomings in the design, dissemination and/or implementation of programs.
  - iii. Unintentional consequences of rules regarding the distribution of resources among subnational governments.
  - iv. Administrative weaknesses.
  - v. Clientelistic policies and/or corruption.
  - vi. Geographic isolation of certain poor groups.
  - vii. Lack of accrediting documentation.
  - viii. Lack of infrastructure.
  - ix. Other (specify).
- f. Do safety net programs designed to protect the poor during systemic shocks (economic downturns, escalating food prices, natural disasters, etc.) exist? Do programs and policies have the capacity to increase the number of beneficiaries in the event of systemic shocks?

**E3.4** Does the government make efforts to increase access of traditionally excluded or discriminated-against groups (afro-descendants, indigenous people, youth at risk, women, etc.) to:

- a. Antipoverty programs?
- b. Education?
- c. Affordable health care?
- d. The labor force?
- e. Equal pay?
- f. High-quality jobs?
- g. Other (specify)?

**E3.5** What groups are more likely to be poor before and after transfers?<sup>26</sup> In particular:

- a. What groups are more likely to be poor before net transfers?
- b. What groups are more likely to be excluded (or not receive sufficient transfers to escape from poverty) from transfer programs?
- c. What groups are more likely to escape poverty due to fiscal policy (i.e., of the before transfers poor, they are more likely to no longer be in poverty after transfers)?
- d. Based on what groups are more likely to escape poverty due to fiscal poverty, what implications does this have for the intergenerational cycle of poverty (quantify if possible)?

**E3.6** What impact has each flagship program and policy had (individually and combined) on the headcount index, poverty gap ratio, and squared poverty gap ratio?

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<sup>26</sup> E3.5 should be analyzed using probit regressions. See Section 6.

- a. In addition, what is the simulated impact of each flagship program and policy (individually and combined) on the headcount index, poverty gap ratio, and squared poverty gap ratio, if there was perfect coverage and no leakages according to the program's eligibility rules?
- b. How does the impact of each flagship program and policy (individually and combined) compare to the *simulated* impact on the headcount index, poverty gap ratio, and squared poverty gap ratio, assuming perfect coverage and no leakages according to the program's eligibility rules?

**E3.7** Which programs and policies should be implemented or reformed to increase coverage of the poor? In particular:

- a. What existing programs and policies should be reformed to increase overall coverage of the poor? Explain how they should be reformed. What are the potential benefits to the poor and increases in coverage of the poor (quantify if possible) of the reforms suggested here?
- b. What existing programs and policies should be reformed to increase coverage of excluded sub-groups of the poor or underrepresented groups? Explain how they should be reformed. What are the potential benefits and increases in coverage of these sub-groups (quantify if possible) of the reforms suggested here?
- c. What new programs or policies should be implemented to increase overall coverage of the poor? Explain the ideal design of such programs. What are the potential benefits to the poor and increases in overall coverage of the poor (quantify if possible)?
- d. What new programs or policies should be implemented to increase coverage of excluded sub-groups of the poor or underrepresented groups? Explain the ideal design of such programs. What are the potential benefits and increases in coverage of these sub-groups (quantify if possible)?
- e. What programs or policies cover such a low proportion of the poor that they should be eliminated? Explain.

**Step 10:** If redistributive spending allocated to the poor is sufficient to close the poverty gaps, E4 seeks to assess whether the size of transfers to some of the poor is not large enough to bring them out of poverty. If redistributive spending allocated to the poor is not sufficient to close the poverty gaps, E4 seeks to assess what would happen under the hypothetical situation that resources allocated to the poor were raised to the sufficient level; would the size of transfers to some of the poor remain too small to bring them out of poverty?

## E4. Generosity of Net Transfers Among the Poor

**E4.1** Do net transfers per beneficiary to the poor fall short of what is needed to close the poverty gaps? To answer this question, estimate the average net transfers to the poor (per poor person) and the average poverty gap. How do they compare?

If net transfers per beneficiary to the poor do not fall short of what is needed to close the poverty gaps, explain what accounts for this success and proceed to E5. If they do fall short, proceed to E4.2.

**E4.2** Does the design of programs and policies intentionally keep net transfers below sufficient levels? If yes, why?

- a. Scarcity of resources.
- b. To minimize negative incentive effects.
- c. To ensure fiscal sustainability.
- d. Fiscal Austerity.
- e. Other (specify).

**E4.3** Do net transfers to the poor fall short due to unintended shortcomings in program and policy allocation rules or budgetary decisions? If so, are they due to:

- a. Administrative costs?
- b. Rules regarding the distribution of resources among national and subnational governments?
- c. Not adjusting the magnitude of transfers in the face of systemic shocks?
- d. Other (specify)?

**E4.4** Do net transfers fall short because the tax, fees and/or co-payments burden or other factors (such as transportation or labor opportunity costs) on the poor lower the real value of net transfers?

- a. What would the poverty gap be if the poor paid zero direct and indirect taxes, fees and co-payments?
- b. Which revenue-raising categories within the tax, fees and co-payments system place the highest burden on the poor?
- c. Which revenue-raising categories should be downsized, reformed or eliminated to decrease the tax, fees and co-payments burden on the poor? Why and how?

**E4.5** Which policies and programs should be implemented or reformed to increase the size of net transfers to the poor who remain in poverty? In particular:

- a. What existing programs and policies should be reformed to increase the size of net transfers to the poor who remain in poverty? Explain how they should be reformed. What are the potential benefits to the poor and decreases in poverty (quantify if possible) of the reforms suggested here?
- b. What new programs or policies should be implemented to increase the size of net transfers to the poor who remain in poverty? Explain the ideal design of such programs. What are the potential benefits to the poor and decreases in poverty (quantify if possible)?

**Step 11:** If redistributive spending allocated to the poor is sufficient to close the poverty gaps, E5 seeks to assess whether the progressivity of transfers among the poor is such that some do not escape poverty. If redistributive spending allocated to the poor is not sufficient to close the poverty gaps, E5 seeks to assess what would happen under the hypothetical situation that resources allocated to the poor were raised to the sufficient level; would the progressivity of transfers still prevent some of the poor from escaping poverty?

## E5. Progressivity of Net Transfers Among the Poor



**E5.1** Are net transfers among the poor sufficiently progressively distributed? In particular:

- a. What is the distribution of benefits among the poor? Estimate the squared after net transfers poverty gap ratio, after transfers poverty gaps among the poor by quantile and benefits incidence curves among the poor by quantile.
- b. If net transfers among the poor are not sufficiently progressive, is it due to:
  - i. Administrative weaknesses?
  - ii. Mistakes in the design, dissemination and/or implementation of existing programs?
  - iii. Clientelistic policies and/or corruption?
  - iv. Rules regarding the distribution of resources among national and subnational governments disadvantage areas with the poorest of the poor?
  - v. The poorest of the poor suffer from systemic shocks more frequently, are hit harder by systemic shocks and/or are more likely to suffer systemic shocks, and the program or policy does not adjust the magnitude of transfers in the face of systemic shocks.
  - vi. Other (specify)?

**E5.2** Are the tax, fees and/or co-payments burdens or other factors (such as transportation or labor opportunity costs) on the poor higher for the poorest of the poor?

- a. What would the squared poverty gap ratio be if the poor paid zero direct and indirect taxes, fees and co-payments? How does this compare with the (after transfers)<sup>27</sup> squared poverty gap ratio otherwise?
- b. Which revenue-raising categories within the tax, fees and co-payments system place a higher burden on the poorest of the poor?
- c. Which revenue-raising categories should be downsized, reformed or eliminated to decrease the tax, fees and co-payments burden on the poorest of the poor? Why and how?

**E5.3** Which policies and programs should be implemented or reformed to increase the progressivity of net transfers among the poor? Why and how?

- a. What existing programs and policies should be reformed to increase the progressivity of net transfers among the poor? Explain how they should be reformed. What are the potential benefits to the poorest of the poor and increases in progressivity among the poor (quantify if possible) of the reforms suggested here?
- b. What new programs or policies should be implemented to increase the progressivity of net transfers among the poor? Explain the ideal design of such programs. What are the potential benefits to the poorest of the poor and increases in progressivity among the poor (quantify if possible)?

**Step 12:** Proceed to the Quality section.

**QUALITY: Assesses whether the design and implementation of programs and policies<sup>28</sup> to support a minimum standard of living are broadly consistent with macroeconomic and microeconomic**

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<sup>27</sup> If an individual program or policy is being analyzed, “after transfers” refers only to the transfers from that program.

<sup>28</sup> Unless specified otherwise, throughout this section, “programs” refers to programs designed to support a minimum standard of living and “policies” refers to policies designed to support a minimum standard of living.

efficiency and whether the programs and policies implemented have high social returns as well as are cost-effective, of high quality and incentive compatible.

## Q1. Macroeconomic Efficiency

**Q1.1** Is spending on programs consistent with broader goals of macroeconomic stability and growth? In particular:

- a. Are the costs of programs likely to be kept within reasonable bounds and not to become explosive? This analysis should be based on the current budgetary size of the program and projections of the future eligible population, based on demographic estimates and the probability of eligible poor families escaping the intergenerational poverty cycle.
- b. Are contributory and non-contributory social insurance systems sustainable?

**Q1.2** Does the government fund their spending on programs with non-distortionary taxes and not with windfalls from exceptional conditions (commodity price booms, proceeds from privatization, etc.), inflation tax, unsustainable (domestic or external) debt or by cutting resources available for other programs that benefit the poor and vulnerable?

**Q1.3** Does the government have fiscal space to implement counter-cyclical policies? If yes, does it use it?

**Q1.4** In the face of fiscal austerity, is spending on the poor relatively protected from cuts?

## Q2. Microeconomic Efficiency

**Q2.1** Does the range of anti-poverty programs include those we know have the highest social rates of return (for example, programs which increase the human capital of poor children, reduce the incidence of crime, create local forward and backward linkages, make credit constraints for the poor non-binding, etc.)?

**Q2.2** Do the programs' actual social rates of return meet expectations?

**Q2.3** Are programs and policies incentive compatible? In particular, are negative incentive effects on labor supply, investment in human capital, saving, fertility, informality, private transfers, migration, etc. small?

**Q2.4** Are programs cost-effective? In particular:

- a. Are leakages (in terms of beneficiaries and benefits) to non-intended groups small compared with international averages?
- b. Are operational costs as a percentage of the total budget within the range of international averages?

**Q2.5** Are programs and policies of high quality? In particular:

- a. Are independent evaluations of programs positive?
- b. Are the results of independent program evaluations used to change the programs' design, implementation and resource allocation (including salaries of service providers)?
- c. What is the quality of social services for the poor in relation to the average quality of social services in the country and in relation to international standards?
- d. Does the government employ competent staff and pay competitive salaries for the design, implementation and evaluation of antipoverty programs and social services for the poor?
- e. Do programs designed to support a minimum standard of living have adequate and clear eligibility criteria and, when applicable, an "exit" strategy?

**Q2.6** Are the mechanisms for allocation of resources and selection of beneficiaries sufficiently robust to protect the program from political manipulation and corruption?

- a. Does a register of beneficiaries exist that can be audited and evaluated?
- b. Does beneficiary selection depend on objective indicators that cannot be manipulated, such as numeric scores (i.e. a means test or proxy means test) or poverty mapping?
- c. Is the only justification for removal from the program if conditions are not fulfilled or if the beneficiary is no longer within the target population (for example, a child graduates from school)?
- d. Do transparent mechanisms exist to transmit complains and offer suggestions?
- e. Can public officials be held accountable by judicial mechanisms?

**Q2.7** Is the tax and subsidy system broadly non-distortionary (in terms of productive and allocative efficiency)?

**Q2.8** Are negative incentive effects of the tax system (and other revenue sources) on labor supply, investment in human capital, saving, fertility, informality, private transfers, migration, etc. small?

**Q2.9** Is the tax productivity for direct and indirect taxes consistent with OECD standards?

**Q2.10** Are negative incentive effects of programs not addressed to the poor (subsidies to industry and agriculture, for example) on labor supply, investment in human capital, saving, fertility, informality, private transfers, migration, etc. small?

**Step 13:** Proceed to the Accountability section.

**ACCOUNTABILITY: Assesses the degree of accountability and transparency with respect to programs and policies designed to support a minimum standard of living.**

## A1. Evaluation Systems

**A1.1** Does the country have credible mechanisms to do evidence-based program evaluations?

**A1.2** Are independent evaluations an administrative or legal requirement of all programs and policies implemented by the government?

**A1.3** In the case of in-kind transfers, are there independently validated indicators of quality for government services?

**A1.4** Is the tax system subject to independent evaluations to determine the efficiency and equity of various types of taxes?

## A2. Adequacy and Transparency of Information Systems

**A2.1** Are the information sources to monitor poverty trends adequate? In particular:

- a. Are the coverage, frequency and design of household surveys adequate to make reliable, comparable, national estimates of poverty?
- b. Does the government make metadata and microdata from household surveys available?
- c. Does metadata comply with the international standard for metadata documentation?

**A2.2** Does the country have credible mechanisms for external validation of poverty measures?

**A2.3** Is information to monitor progress on poverty reduction, evaluation methods and evaluation results made available to researchers, policy experts, the business community, civil society and policymakers outside the executive branch?

**A2.4** Is information on the cost and budget of public services and programs publicly available? In particular:

- a. Is information on the costs (administrative costs in particular) of services and flagship program(s) publicly available?
- b. Is information on the (itemized) budget allocated to specific schools, health care facilities, etc. posted in visible places so users can see it?

**A2.5** Does the government perform and publish incidence studies? In particular:

- a. Does the government collect information to do incidence studies of taxes and government spending, and make the information available?
- b. Is it a legal requirement for the government to provide incidence analysis to the legislatures during the budget approval process?
- c. Does the government disclose its methods to do incidence analysis to researchers, policy experts, business community, civil society and policymakers outside the executive branch?
- d. Does the country have credible mechanisms for external validation of government incidence studies?

**A2.6** Does the government make income tax files available in the same way as most advanced OECD countries?

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# WHAT IS CEQ?

Led by Nora Lustig (Tulane University) and Peter Hakim (Inter-American Dialogue), the Commitment to Equity (CEQ) project is designed to analyze the impact of taxes and social spending on inequality and poverty, and to provide a roadmap for governments, multilateral institutions, and nongovernmental organizations in their efforts to build more equitable societies. CEQ/Latin America is a joint project of the Inter-American Dialogue (IAD) and Tulane University's Center for Inter-American Policy and Research (CIPR) and Department of Economics. The project has received financial support from the Canadian International Development Agency (CIDA), the Development Bank of Latin America (CAF), the General Electric Foundation, the Inter-American Development Bank (IADB), the International Fund for Agricultural Development (IFAD), the Norwegian Ministry of Foreign Affairs, the United Nations Development Programme's Regional Bureau for Latin America and the Caribbean (UNDP/RBLAC), and the World Bank. <http://commitmenttoequity.org>



**COMMITMENT  
TO EQUITY**

The CEQ logo is a stylized graphical representation of a Lorenz curve for a fairly unequal distribution of income (the bottom part of the C, below the diagonal) and a concentration curve for a very progressive transfer (the top part of the C).