



International Comparison Program Status and Progress Report Submitted to the Executive Board

**June 11, 2004
Paris, France**

Introduction

1. This report provides a status of the global and regional activities as well as an overview of the progress made on the directions given by the Board at the February 2004 meeting. This report will provide a review of each region's readiness for price collection, a review of materials, including the ICP Handbook, prepared to help the countries prepare for price collection, and the progress made to implement the ICP Tool Pack.
2. The budget and funding situation will be reviewed from the point of view of what will be needed to successfully complete this round of the ICP. The regional coordinators have come to agreement with the countries in their region regarding the Ring Program to link the regions. The Global office has initiated a work plan to prepare the Ring list of product specifications. The Poverty Advisory Group has met and provides recommendations to harmonize needs for poverty data within the framework of the ICP.

Price Collection Surveys

3. The Executive Board at its previous meeting agreed that the regions could begin conducting price surveys during the July-October period on the condition that all countries within a region start price collection at the same time. The following table shows by region and major product category when the lists will be finalized so that price collection can begin. All of the regions except the CIS have decided to begin price collection in October 2004. Even though all regions have the product specifications for food, clothing and footwear prepared, there remains considerable work to be done including finalizing the sampling and survey framework, training price collectors, translating product specifications, and installing the Tool Pack in each participating country and training users.

Table 1. Expected Completion Date for the Preparation of Product Specifications by Major Category by Region, Regional Coordinator Workshop, May, 2004.

| Region | Food, Clothing And Footwear | Furniture and Utilities | Travel and Communications | Recreation and Culture | Restaurant, Hotel, Banking, |
|--------|-----------------------------|-------------------------|---------------------------|------------------------|-----------------------------|
| Africa | Final | July | August | August | To follow |
| Asia | Final | July | July | July | To Follow |
| CIS | Final | Final | Final | Final | To Follow |
| ESCWA | Final | June | August | September | To Follow |
| LAC | Final | July | July | July | To Follow |
| | | | | | |

4. All regions will be able to begin price collection for food, clothing, and footwear in October. They are also intending to finalize the product specifications for the remaining household consumption items (except housing, health, and education) so that price collection for those items can also begin in October. The regions are facing a tight time table to get the remaining product specifications ready for price collection by October, however, that is still the intent.
5. **Annex A** provides a detailed report on activities at the regional level.
6. The CIS region has been asked to begin price collection for the household consumption items in October to remain in step with the other regions.

ICP Tool Pack

7. The ICP Tool Pack has been extensively tested by the Global Office as well as by some of the regional and national coordinating organizations. Installation guides, user manuals, testing steps and training exercises have been prepared. Twenty-three countries in the Asian region have received training in its use. Work is underway to translate the Tool Pack into the UN official languages. French, Chinese, Spanish, and Arabic versions of the Tool Pack will be ready by mid June.
8. Training in June and July has also been scheduled for the Western Asia, African, and Latin American regions. The CIS countries will be trained at the next workshop with a date to be determined.

9. Four national statistical agencies and one regional coordinating agency have tested the Tool Pack independently. A summary of the testers' evaluation reports is provided in **Annex B**.

Budget and Funding Overview

10. The Global budget had a \$4.3m deficit when the Executive Board met in February 2004. Since then, several of the regions have succeeded in raising additional funds. In addition, the World Bank has been able to offset nearly \$1.0m of funds that were to be charged to the ICP Trust Fund. As a result, the deficit has been significantly reduced. The Global office has also disbursed funds to every region for the procurement of computers, translation and other support. Preliminary budget data will be presented at the Executive Board meeting.
11. The African regional office is very optimistic about their funding situation. The AfDB Board of Directors is meeting on ICP matters in early June this year. It is expected that the Board will supplement the funds provided by the World Bank, DFID, Norway, etc with a grant of USD 26 million. The African Capacity Building Foundation will provide a further USD 1 million (agreement to be signed in June with AfDB). The larger objective of the program in the region is to build statistical capacity in Africa. National Accounts in Africa are far below international standards.
12. The Asian region has mobilized USD 1.25 million so far this year which should be able to support the program until mid-2005. In the Western Asia region, the Arab Fund for Economic and Social Development (AFESD) has contributed about USD 345,000 to the budget. A letter of agreement had been signed and transfer of the fund to the ESCWA Regional Office is in process.

Ring Comparison

13. The Executive Board at its previous meeting approved the TAG recommendation that the full Ring Multilateral Comparison be implemented. The Board also approved the selection of the countries shown in Table 2. Since the Board meeting, the regional coordinators have been contacting the proposed Ring countries to seek their concurrence about participating in that part of the comparison. The African region wishes to add Cameroon to the list. The Asian region will be removing Singapore from its list of participating Ring countries.

Table 2. Ring Countries as Approved by the Executive Board—February 2004

| | | | | |
|---------------|-----------------|----------|------------------|-----------|
| Africa | Egypt | Kenya | Senegal | S. Africa |
| | Cameroon | | | |
| Asia | Hong Kong | Malaysia | Singapore | Sri Lanka |
| CIS | Kazakhstan | Russia | | |
| Eurostat/OECD | Estonia | Japan | Slovenia | UK |
| W. Asia | Oman | Jordan | | |

| | | | | |
|-----|--------|-------|--|--|
| LAC | Brazil | Chile | | |
| | | | | |

14. The Executive Board is asked to approve the above list of countries plus Cameroon and minus Singapore. The next step is to send them formal letters of invitation signed by the Chair of the Executive Board and the Global Manager of the ICP.
15. The Ring list of product specifications will be prepared by the Global Office. All countries are to submit their regional specifications for food, clothing, and footwear by August 1, 2004. The specifications are to be translated into English before they are sent to the Global Office.
16. The Ring list will be prepared using the software developed to manage the preparation of the Structured Product Definitions (SPDs) and the finalization of the Product Specifications (PSs). All regions are expected to format their product specifications into the SPD format if not done already for the preparation of the regional list.
17. A paper is being prepared presenting aggregation methods for the Ring comparison as well as proposing how the regions will be linked. This issue will be resolved by the TAG when it meets on September 22-24, 2004.

Review of Product Specifications

18. The Global office did an extensive review of the Asian food, clothing, and footwear product specifications which were finalized in February. There was an issue with the level of detail in the specifications and the number of specifications. A preliminary list of specifications for the same products was available at the same time for the African region along with examples from the other regions.
19. The TAG was asked to provide its assessment of the Asian and African specifications as well. The Chair of the TAG, Alan Heston met with the regional coordinators at the recent workshop and summarized the TAG input.
20. It was agreed by both the TAG and the regional coordinators that the price collector should be given exact details of the products to be priced. The Asian region reported that as a result of the TAG input, it has reviewed the specifications for every product and added more detailed price determining specifications. The region also added more products to the list to be priced.
21. The number of products to be priced was also discussed with Alan Heston making the point that there is a trade-off between a large list of products with gaps in the country-product price matrix vs a smaller list with fewer gaps.
22. As a result of the review of product specifications, the Global office has requested that all regions submit their preliminary product specifications for review before they

conduct their finalization workshop. The regions will also be asked to provide a table showing by product and by country whether it is representative, comparable but not representative and not comparable to provide an assessment of the number of products to be priced.

23. Following the first price collection in October, regions will be directed to provide a review of the products priced by country and the variability of the prices to get an assessment of the level of detail and number of products. If necessary, adjustments can be made before the next price collection.

ICP Handbook

24. The following new chapters of the ICP Handbook are now accessible from the ICP website: Editing and Validation (Chapter 7), Government Services (Chapter 8), Capital Formation (Chapter 9), and Basic Heading Parities (Chapter 10). Chapters 8, 9, and 10 are in draft form for discussion purposes and being updated as recommended by the TAG. Chapter 7 contains a worked example using live data in the Tool Pack format and provides a step-by-step review of the editing process at the country level through the analysis provided by the Quaranta tables.
25. As recommended by the TAG, a chapter on housing is being written to reflect the structure of housing services in developing countries.

Operational Manual—Practical Guide on Implementation of the ICP

26. In the last Executive Board meeting, it was suggested that although chapter 6 of the ICP Handbook addresses conceptual issues adequately, it does not provide step-by-step guidance on practical issues. A comprehensive operational guide was commissioned and prepared. This work was financed by ICP-Africa and coordinated by the Global Office. Its purpose is to provide a more detailed account of the practical issues, though it remains subordinate to, and derives its principles from, the ICP Handbook.
27. The material covers institutional, organizational and operational aspects of the implementation of ICP and focuses on equipping national coordinators with the necessary knowledge and skills to implement the program.
28. **The institutional framework** specifies the institutions that directly or indirectly carry out the ICP survey. It explains the roles and responsibilities of the national coordinator as outlined in Memoranda of Understanding and provide guidance on preparing a national plan of action.
29. **The organizational component** explains how those who are to carry out the survey – the planners, operational directors, supervisors and data collectors – will be recruited and what is expected from them. It will help people responsible for national accounts, prices, wages, capital formation and household survey methodologies coordinate their activities. This section includes Detailed Project Planning Flowchart, outlining a list of

activities that each country must perform in order to ensure its adequate participation, and a “readiness” chart and states what each country must have in its possession before it can engage in the first schedule price collection. The project plan is conceived from the point of view of the regional coordinator, the national coordinator; the field operation supervisor, and the price collector.

30. **The operational guide** specifies the various stages of the survey, from the definition of objectives all the way through to the provision of results. The focus will be on developing a survey framework covering practical issues related to sampling designs. This includes geographical stratification and sampling of outlets, weighting structure by regions, number of price quotations required for each item to ensure a reliable average price, etc. The guide contains suggestions on how to harmonize ICP price data collection as much as possible with the CPI price collection. It goes on in detail about how to supplement the CPI samples with several examples.

Policy for Inter-Country Data Analysis

31. An issue discussed with the regional coordinators was the use of the inter-country comparison tables that are available at the regional level in the Tool Pack. These tables, coined the Quaranta tables after the originator, are part of the Tool Pack analysis system and are used to evaluate the quality of country level average prices at the Basic Heading level. Tables 3 and 4 display how data at the Basic Heading will be compared between countries. The issue is whether these tables should be shared with the participating countries. The Board’s concurrence is sought that the regional coordinators share these tables with the countries when they are reviewing the final prices and PPPs. The regional coordinators need to ensure that the participating countries understand how their data will be seen by other countries.

Table 3. Example of Quaranta Table in the Tool Pack Showing Exchange Rates, Preliminary PPPs and Measures of Data Quality and Variability.

| Quaranta Table Summary of PPPs by country for Basic Heading | | | | | | | |
|---|--------------------|-------------------------|-------------------|----------------|---------|-----------|--|
| Basic Heading—fresh or chilled vegetables | | | | | | | |
| Country | Exchange Rate (XR) | PPP (National currency) | PPP/XR (NC/PPP %) | Weight/ 100000 | # Items | # Items * | CV PPP price ratios all products |
| x | 1.000 | 0.73033 | 73.0 | 669.2 | 2 | 2 | 39.5 |
| y | 1.000 | 1.68306 | 168.3 | 482.1 | 3 | 3 | 65.0 |
| z | 9.121 | 7.42036 | 81.4 | 570.5 | 3 | 3 | 31.2 |
| Country average | | | | 574.0 | | | 31.2 = CV of 112,155, and 69 which are ppp price ratios for each item |

Table 4. Comparison of Country level Prices for a Specific Item Along with Measures of Variability, and Exchange Rate Price vs PPP price.

| Product 1 Fresh Mushrooms, whole, prepacked, 250-500g. Reference Quantity= 500g (limits for exchange rate and PPP price ratios = 80% to 125%) | | | | | | | | | |
|--|-------------------------|----------------|------|-------------------|-------------------------|-------|----------------|-------------|-------|
| Country | National Currency Price | # times Priced | CV | Exchange rate XRP | XR Price Ratio XRP/GM % | limit | PPP Price PPPr | PPPr/GM Pri | limit |
| x | 5.86 | 5 | 5.4 | 5.86 | 111 | | 8.03 | 152 | >125 |
| y | 5.23 | 8 | 11.9 | 5.23 | 99 | | 3.11 | 59 | <80 |
| z | 43.92 | 6 | 14.9 | 4.81 | 91 | | 5.92 | 112 | |
| Geometric Means | | | | 5.29 | | | 5.29 | | |
| CV of PPP price ratios | | | | | | | | | 35.5 |
| Average CV of PPP price ratios across all products in Basic Heading | | | | | | | | | 45.7 |
| $S_{pr} = \sqrt{\frac{\sum (PR_i - GM)^2}{n-1}}$ | | | | | | | | | |

Poverty

32. The Poverty Advisory Group met in Washington on May 25, 2004 to discuss and build consensus on a short term strategy to generate poverty PPPs in the 2004 round of surveys and what can be done concurrently to bring poverty-focused PPPs into the mainstream work of ICP over the long term. In attendance were professors Angus Deaton, Erwin Diewert, Alan Heston, and Prasada Rao.
33. Professor Prasada Rao presented a paper commissioned by the Asian Development Bank that highlighted the main issues and proposed concrete steps to be taken.
34. The PAG stressed that one important contribution that can be made to poverty work by the ICP is to examine the results of using national PPPs by basic heading and re-weighting these using expenditure shares of the lower quintiles of the expenditure distribution of countries where poverty is prevalent. It was noted that it may not be possible to develop such expenditure distributions for all poor ICP countries. In such cases expenditure distributions of the very poor in a representative country from the same region and/or with similar level of economic development could be used.

35. The PAG discussed the question of special pricing for the poor. The early conclusion of the TAG that the ICP should not attempt any pricing at outlets where the poor were supposed to make their purchases, was again reinforced by the PAG. However, there was support for recording rural and urban average prices for countries with large rural populations. Africa, in particular, has introduced a number of Product Descriptions of items that are thought to be important for the poor, like day-old bread or used clothing. The lack of weights for such items was noted by the PAG. It was felt that the inclusion of such items parities would have no harmful effects on the estimation of heading parities.
36. It was recommended that the work on unit values in 8 pilot countries should continue as a pilot project involving several directions relevant to both poverty work as well as ICP methods. The countries in the pilot program include India, Indonesia, Pakistan and Bangladesh (Deaton), Ethiopia and Kenya (Rao) and Guatemala, Mexico and Brazil (Heston). It was agreed that the PPPs based on unit values for a large number of food items could provide a check on ICP pricing for a number of items important in the budgets of the poor.
37. The poverty work and the expenses of the advisory group are fully financed by the World Bank, outside of the ICP budget.

Technical Advisory Group Issues

38. The Technical Advisory Group will be meeting in Washington DC September 22-24. The issues they will be asked to review include actions taken as a result of previous TAG recommendations as well as bringing the Ring methodology to closure. A summary of TAG issues follows:
- **Government:** The TAG recommended Chapter 9 (Government) be revised. One of the recommendations was that it cover issues concerning a direct measure of output in the education, health, and general government headings. Michael Ward is working on these issues with a revised Chapter 9 due in July.
 - **Housing:** A chapter on Housing is being prepared as recommended by the TAG. Derek Blades is engaged in this effort. A worksheet has been prepared and sent to all participating countries to obtain information about the structure of dwelling markets, and methods for estimating rental services in rental markets.
 - **Regional Comparisons.** The TAG has been asked to recommend to the regions either the desired procedure for the estimation of PPPs at the Basic heading level, or guidelines on how to make the determination. The inter country data validation tables (Quaranta) include Basic Heading parities. Therefore, the method to be used by each region needs to be determined before they prepare for data validation

- **Ring Comparison:** The Global Office has developed a work plan to prepare a Ring list for a multilateral comparison as recommended by the Executive Board. The Global Office and regions have been contacting the proposed Ring countries to seek their concurrence. Several of the countries, however, expressed concern that they are being asked to do something without knowing how the linking will actually be done. Therefore, conclusions regarding the Ring comparison need to be reached on:
 - Estimation of PPPs at the Basic Heading Level
 - Aggregation above the Basic Heading
 - Linking the Ring to the regions

- **Construction:** Consultants have been engaged to consider a "basket of construction components" approach and have made site visits to several African countries. The goal is to prepare SPD based construction sector methodology. The consultant, Ken Walsh presented his findings to the regional coordinators who reacted positively to the findings. A paper is being finalized and will be provided to the TAG for their review and recommendations.

- **Machinery and Equipment:** The TAG recommended that exchange rates be used for basic headings dominated by imports. A questionnaire has been sent to all countries seeking input on available data and procedures followed to prepare their national accounts.

Advocacy and communications

39. In response to the Executive Board's directive to create a platform for developing a clear understanding of ICP activities and its significance, the Global Office is planning an advocacy and communication effort. The objective is to help develop deeper relations and improved dialogue with international donor organizations and national policy makers and keep them committed to the Program and to create awareness among media practitioners and academic circles as well as the general public.
40. An effort will be made to use the media to increase the profile and visibility of the ICP via write ups in the international press, articles in academic publications and articles in relevant international newsletters, periodicals and publications (targets World Bank research newsletters, ADB Asia Economic Monitor, UNSC newsletter,, UN ESCAP newsletter, Statistical Institute Asia and Pacific newsletter, etc). A forum could also be organized inviting relevant government officials, media practitioners, think tanks, academicians, etc to create awareness about the ICP program. The same could be followed in the other regions. It was suggested that the World Bank meeting in September, where all foreign ministers are coming together, could be used to promote ICP activities. Press releases will also be sent to the media prior to the commencement of price collection.

41. On the third level, marketing material will have to be prepared for national statistical offices and brochures/flyers will have to be written for price collectors to give to store managers and shopkeepers as they start collecting prices. The AFDB will send some material from their documents to be incorporated in the marketing material.

Draft materials are being prepared and will be shared at the Board meeting. The goal is to have the material prepared before the inception of price collection.

42. **ICP Newsletter:** The ICP News keeps partners and stakeholders well informed about ICP's work- in-progress, upcoming events, learning tools, etc. The second issue has been published and is on the ICP website.

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