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**Role of the Technical Advisory Group & Actions Taken Following from
Previous TAG Recommendations**

Paper for Session 1

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I. Introduction

The Technical Advisory Group (TAG) is the scientific component of the ICP governance system, whose members are scholars, statistical experts and economists with proven experience in theoretical, methodological or implementation aspects related to inter-country comparisons of prices and real values of GDP.

This brief paper is meant to underline the role of the TAG and the ways in which it is expected to discharge its duties, leveraging on the wealth of concepts, methods and procedures developed under the previous program as well as the recommendations of the interim TAG that was put in place when the formal ICP 2005 TAG completed their duties.

II. Role of the TAG

As per its Terms of Reference shown in annex, the role of the TAG is to address technical issues related to the conceptual soundness and methodological relevance of the ICP. Its main functions are to:

- Advise the ICP Global Office on aspects related to theoretical, conceptual and methodological frameworks, as well as standards and norms underlying processes to be implemented at national, regional or global level. Proposals to the TAG can emanate from the ICP Global Office that may seek TAG's guidance on specific problems concerning price survey methods, the compilation of National Accounts aggregates for the ICP, or index formulae for the computation or the aggregation of basic PPPs. Members of the TAG can also submit specific issues of actual interest for the program for discussion by the TAG, with a view to making recommendations to the ICP Global Office.
- Undertake research activities on issues deemed necessary to improve existing methods, explore better approaches, adapt ICP procedures to changing circumstances, or provide expert answers to challenges and queries on ICP methods or results.

Requests for technical advice can also be submitted by regional coordinators, national coordinators or other members of the ICP Governance system through the ICP Global Manager. The latter should be used as the sole conduit for submitting requests to the TAG for coordination and consistency sake.

The TAG's role described above will be expanded to include the implementation of new or revised methodology.

The TAG will review the issues presented to it and take actions deemed appropriate to make expected recommendations to the Global Office. These actions can include:

- Further discussions among all TAG members;
- Establishing an ad hoc committee or assign one of its members to do a more in-depth review of the issue;
- Recommending to the Global Office a research proposal for additional work on the issue.

The Technical Advisory Group meets physically as the need arises. Further discussions and follow-up meetings are conducted through an electronic discussion forum.

The TAG will build on lessons learned from the 2005 program and the recommendations emanating from the interim Technical Advisory Group (iTAG), and it will provide technical guidance on the improvements and innovations that will be introduced in the new round.

III. Lessons learned from the 2005 program

In a paper on “Lessons Learned from ICP 2005” being submitted to the present meeting, Fred Vogel provides an exhaustive summary of the ICP assets earned from the previous round. They cover seven main categories:

- Item lists – regional specifications for household consumption products; household consumption specifications for the ring exercise; global specifications for health, education, government compensation, machinery and equipment; global specifications for housing quantities.
- Specific methodologies – Basket of Construction Components—a new method needing a serious evaluation to overcome shortcomings caused by data collection difficulties and lack of understanding about required weights.
- Linking the regions; ring methodology used to link the regions into the global comparison.
- Knowledge base - the ICP Handbook that provides the theoretical and methodological framework for the ICP; the ICP Operational Manual which supplements the Handbook; various research papers on a wide spectrum of ICP issues.
- Data processing – A family of software tools was developed to rationalize, automate and streamline various ICP processes (Structured Product Description; developing product specifications, data validation, analysis, etc.).
- Policies on data confidentiality, access by researchers. Procedures were agreed upon to maintain data confidentiality, yet also provide researchers access to unpublished data for more in-depth analysis.
- Capacity Building—experience gained by the global, regional, and national organizers on defining prices, price collection, analysis, and improving national accounts provides an improved foundation for moving forward.

While a lot was achieved in the previous program, the amount of work ahead remains daunting. It includes actions aimed at finalizing or implementing recommendations of the ICP Interim Technical Advisory Group.

IV. Recommendations of the ICP Interim Technical Advisory Group

The iTAG recommended a series of measures which the Global Office has started implementing as shown below:

1. Core Product List. Initiatives should be taken in early 2009 to develop a core product list that would be used for linking the regions in the ICP 2011. A Core List would replace the use of a select set of Ring countries used in ICP 2005. However a modified Ring-country approach may be used as an alternative if some countries do not price the Core list adequately. For the Core Product approach to be successful, countries in each region and the Eurostat-OECD must provide

average prices of core items to the Global Office. The Core list should be based on the 2005 Ring list as a beginning but should provide a better balance of the shares of high and low quality products than did the Ring list for 2005. At present this work must begin without the Western Asia or ECLAC regions having a secretariat in place.

Action taken: A draft global core list was developed and sent to all regional coordinators to seek their initial comments which will be taken into account to develop a revised version that will go through a thorough review process involving the countries, the regional coordinators and the Global Office

2. National Accounts. The ITAG recommended the establishment of a Joint Working Group with representatives from the WB, IMF, EU, OECD and the African national accounts working group to develop a strategy for the improvement of national accounts data used by ICP. It was recommended that the group should also include a national accounts expert and an expert on Household Expenditure Surveys from the WB. It is also recommended that the Working Group be established as soon as it is practical with the aim to produce Recommendations for the ICP 2011 by Fall 2009.

Action taken: The Joint Working Group is being established. OECD, ESCWA, the African Development Bank and Eurostat have already agreed to participate in the group. Some initial reference documents are also being prepared which will be submitted to the Group for review. This includes the National Accounts Framework for ICP and Guidelines for the implementation of National Accounts activities for ICP.

3. Construction. The ITAG recommended that ongoing Bank research on improving the BOCC approach for obtaining construction PPPs continue; this includes investigating complementarities with the Bill of Quantities Approach of the EU-OECD followed up by meetings of the Bank and Eurostat experts in 2009 or 2010. The ITAG also recommended a systematic study of the treatment of traditional housing/own account construction in developing countries within the ICP, and identifying the basic components and systems (SPDs) for this type of housing.

Action taken: A research paper on the BOCC was prepared and made available to the TAG as a room document. The Global Office has also prepared a concept note on the need for an alternative method to be developed. The concept note recalls major approaches that have been used over the years to collect price data for international construction price comparisons. These have been based on input prices, output prices, intermediate prices, and some combination of the above. It proposes an approach based on input prices weighted to represent national construction output, the weighting being based on input-output tables.

4. Dwelling Rents. ITAG recommends that research continue on improving estimates of parities and quantities for dwelling rents, including early development of a questionnaire for housing stock in all countries that includes better quality indicators. The Joint Working Group on national accounts needs to address the issues arising when dwelling expenditures depart substantially from reasonable indicators of quantities and house rents, as they did for many countries in 2005.

Action taken: A research paper was commissioned and is being submitted to the meeting. It suggests how the ICP 2005 guidelines on housing should be revised for ICP 2011. It mainly addresses two separate issues with regard to housing:

- How should the expenditure weights be estimated so that they are more reliable and more comparable across countries than was the case for ICP 2005?
- What price and/or quantity information should be requested from countries in order to estimate PPPs?

5. National Average Prices and Representative Items.

National Annual Average Prices: Because in principle national annual average prices are imbedded in the national accounts, it is recommended that national annual average prices remain the standard in all countries even when only urban prices are collected. The ITAG recommends that a paper describing best practices would be compiled, using the already existing material in the ICP Handbook. This should involve an analysis of household expenditure survey data in order to improve guidelines on the scope of price collection to obtain national prices. Guidelines should also be provided regarding the respective definitions of “urban and rural”.

Representative Items: The process of obtaining the core list of items involves iterations starting with an initial list and updating it with the responses of regions. The ITAG recommends beginning with a reduced list of perhaps 300 Ring items in an SPD format that would be circulated to the regions. Regions would then be expected to add items to the list that are more common in lower income market baskets and in their particular countries, drop items that are not suitable, or suggest modifications in the specifications. It is not clear in advance whether this process will involve a balance in the core list of representative items and items available but not representative; a mid-course evaluation will likely be necessary.

Action taken: ITAG’s recommendation on the preparation of a core list of items is being implemented. While reviewing the list, countries will be instructed to add items to the list that are more common in lower income market baskets and in their particular countries, and drop items that are not suitable.

6. Education. The EU-OECD has adopted the output approach for 2011 where student numbers adjusted for quality by standardized tests up to the secondary level. Initial research on extension of this approach to other regions has begun and ITAG recommends that further work be undertaken to fully assess the availability and comparability of data across countries and regions. For ICP 2011 it is recommended that quantitative indicators of education, like number of students, number of teachers and educational infrastructure be brought together by the GO in all countries in 2011 ICP.

Action taken: The Global Office seeks to collaborate with the Education Policy and Data Center (EPDC) to develop an output based approach.

7. Health. The EU-OECD is developing a direct output approach with the aim to implement this in 2011. However, it is unlikely that this method could be applied in other regions in 2011, so the issue of productivity adjustments of salaries for health and general government remains. Ongoing research is taking place on this question and it is recommended that further research be launched to recommend how to bridge results with the EU-OECD, who will not make productivity adjustments in 2011. To this end it is recommended that medical quantitative measures like physicians and hospital bed-days be collected for all ICP 2011 countries.

Action taken: The ICP Global Office is collaborating with the Institute for Health Metrics and Evaluation on developing and implementing a new methodology of

health sector comparisons. We aim to address the lack of valid, comparable and reliable data on the costs of health care. The strategy will focus data collection on aggregate-level data (e.g. total costs/ budgets and intermediate outputs such as outpatient visits) for a range of service delivery platforms. Econometric models will be used to determine the setting-specific marginal cost of increasing intermediate outputs for each of the service delivery platforms.

8. Backcasting. The ITAG recommends that a one day workshop be held to discuss alternative proposals for backcasting. A high-level statistician/econometrician, who is familiar with panel data and time series methods would be invited to offer comments on the methods proposed. Because plans already exist to move the 2005 ICP forward in several regions and because there will be need to reconcile the 2011 ICP with 2005, this workshop should be planned in 2009 and scheduled for 2010.

Action taken: None.

9. Poverty. It is recommended poverty measurement remain an important consideration in improving the ICP 2011 in those regions where it relevant. Specific attention should be given to reconciling differences in the distribution of consumption expenditures from the national accounts, those from Household Expenditure Surveys and those used in CPIs, particularly for countries with a significant share of the population in poverty.

Action taken: Not yet. This will be done along with work to improve the national scope of the prices –para 5.

10. Equipment. The ITAG recommended establishing a global product list that has sufficient overlap with the Eurostat-OECD equipment list to enable linking the two comparisons without the need for a “ring” comparison. The ITAG supported ongoing research on the 2005 equipment sample intended to identify the circumstances when use of an adjusted exchange rate might be used as the PPP for equipment.

Action taken: The Global Office has prepared an initial Global core list of equipment items using its core list generation tool. The list will be reviewed through an interactive process requiring the close collaboration of the ICP Global Office, the Regional Coordinators, and National Coordinators. It will then be submitted to an equipment expert who will: compare the Eurostat-OECD and the ICP lists to highlight differences and similarities and make concrete proposals in terms of defining common items that will be priced under each of the two PPP programs; update the list and make sure that it contains common items with Eurostat-OECD as well as other items deemed relevant for pricing in non Eurostat-OECD countries in the world; address the issue of price determining factors; prepare a note on Global Pricing strategies for equipment products.

11. Documentation. The ITAG recommends that more thorough documentation of ICP 2005 be undertaken. In addition the ITAG recommends that the GO begin in 2009 to support the use of and training in a programming language such as SAS or Stata that meets international standards for transparency and use. Adoption of this recommendation would require that data files meet standard protocols well understood by researchers and that flow charts and similar documentation on how these regional files are used to obtain global results.

Action taken: This recommendation will be implemented throughout the course of the program. So far, the Global Office has finalized a very detailed documentation on the processing of ICP 2005 results.

V. Annex. Terms of Reference of the Technical Advisory Group

The International Comparison Program is extremely complex because it involves the data collection for the estimation of average prices consistent with national accounts, national accounts prepared following international standards, and the computation of index numbers. All must recognize the underlying requirement that methodology be comparable across countries; this is a challenge because of the different economic structures and statistical capacity of the participating countries.

The purpose of the Technical Advisory Group (TAG) is to provide input to the Global Office and regional coordinators to:

- Resolve methodological problems inherent in the program regarding the estimation of regional Purchasing Power Parities and PPP-deflated GDP expenditures,
- Link the regional PPPs to obtain global results;
- Adopt data access policies;
- Prepare regional and global reports.

The members and the Chair of the TAG will be appointed by the ICP Executive Board and will serve for the duration of the round. The communications with the TAG will be between the Global Manager and the Chair of the TAG. While the TAG will have a core membership of experts in various topics, the TAG Chair and the Global Manager can include additional experts as needed for specific problem areas.

The scope of the TAG will be increased to also include the activities and responsibilities of the poverty Advisory Group which was a subset of the previously formed TAG.

Specific roles and responsibilities of the Technical Advisory Group follow.

- Review the methodology used for the ICP 2005, identify problem areas, and recommend actions resolve them. The TAG may propose additional research or analysis if needed to solve the problems.
- Provide input on problems coming from unforeseen circumstances.
- Provide input where methodology differs between regions to improve the comparability. This includes the difficulty to compare components of the GDP such as dwelling rents, government expenditures, and construction.
- Review the ICP Handbook and operational manuals and provide input about the scope of the content and its adequacy for use by the regional and national coordinators.
- Review ICP methodology to ensure it provides PPPs that can be used for both deflating the Gross Domestic Product and for the estimation of poverty PPPs.
- Review and evaluate research activities undertaken by the Global Office.
- Provide the Global Manager with a review of the global results before publication.
- Abide by the confidentiality requirements of the World Bank.