

International Comparison Program
Status Report to the Executive Board
August 21, 2003

Summary

1. This report outlines the status of activities since the last meeting of the Executive Board in February 2003. It indicates areas where additional work is needed and highlights the priorities that require the Board's immediate attention and guidance. The International Comparison Program has been launched via workshops with national and regional coordinators—a total participation of 160 countries (including OECD EU countries) is currently anticipated. While considerable progress has been made, the successful implementation of the data collection effort is in jeopardy for lack of resources and the Board's attention is first drawn to timetable and fund-raising issues:
 - 1.1. The **timetable** is extremely tight and is still adversely affected by inadequate funding and staffing at the global and regional levels. The sequential preparation of item specifications is complex, involves coordination with many players, and will necessitate more workshops than originally planned. The amount of time available for data collection in 2004 will be dictated by the length of time to prepare these specifications. Final 2004 national account data for weighting and per capita measures will not be available until 2006 and thus final PPPs and per capita estimates will not be available until the late 2006.
 - 1.2. The response to the **fund-raising** efforts has not met expectations. Without additional funding, the program cannot be carried out as planned without serious detriment to the quality and timeliness of its results. This is where the Board's immediate attention is needed. Currently, the program faces a shortfall of US\$8.3 million, not including the additional resources needed for the sequential nature of the product specification and price collection that has had to be implemented. A detailed budget table will be provided at the meeting. The extension of the program into 2006 could increase the shortfall up to US\$10 million. The Global Office is working with its regional counterparts to firm up the cost estimates.
2. Second, significant strides have been made in several key areas since the Board's first meeting:
 - 2.1. Chapters 1, 5 and 6 of the ICP Handbook are in final revision following comments of the Technical Advisory Group (TAG) and other readers. Chapters 2, 3 and 4 are now on www.worldbank.org/data/icp and describe the governance of the ICP, define the

155 Basic Headings which form the basis for the items to be priced, and provide the concepts underlying the price collection.

- 2.2. A new international product coding system has been developed in cooperation with the IMF. One or more *Structured Product Definitions* (SPDs) have been prepared for each food, clothing and footwear basic heading that contain all of the price determining characteristics.
- 2.3. The ICP Toolpak software, supporting data collection at the country level, has been tested in twelve pilot countries. The Toolpak will also aid the preparation of PPPs and the aggregates at the regional and global levels and is expected to be ready by the end of October 2003.
- 2.4. An electronic system is being developed to streamline the preparation of final product specifications using the SPD coding structure. This system will be designed to interface with the Toolpak.
- 2.5. Coordinators have been recruited for the Ring Comparison exercise and recommendations have been made for the methodology to be used and countries to be included.
- 2.6. The Technical Advisory Group (TAG) has been named and chartered. The TAG had its first meeting on 19-21 May in Washington D.C. to address a range of pressing technical issues prior to the onset of the surveys in April 2004.
- 2.7. A seminar on the purchasing power of the poor took place, and a small taskforce consisting of five senior experts has been established to help the Global Office determine both what can be done in the short term and what needs to be done concurrently to integrate poverty PPPs into the mainstream of the ICP.
- 2.8. Three global workshops for regional coordinators have been held and have covered: the preparation of the list of products to be included in the price surveys; the requirements for national account expenditures at the basic heading level; and the detailed work plan and timetable for regional and global activities up to the beginning of the surveys in April 2004
- 2.9. Workshops have been held in the regions bringing together heads of National Statistical Offices as well as statisticians working on the Consumer Price Index and National Accounts in their respective countries. It was agreed that the CIS does not need a workshop at this stage, as it has a well functioning program in place, and has recently completed an ICP round in 2000. Regional Advisory Committees have been established in Africa, Asia, Latin America, and Western Asia.

2.10. Only Africa and Western Asia have set up fully staffed ICP units at the writing of this report. Other regions are relying on consultants and some staff time, due primarily to lack of funding to support regional coordination efforts.

3. These topics are elaborated on in the following sections.

Timetable

4. A detailed timetable is in Annex 1. The timetable is extremely tight considering the amount of work required to prepare the specifications for products to be priced and the degree of coordination required at the global, regional and national levels.
5. Resource and timing constraints have required that the specifications for the list of products for the price surveys be prepared for subsets of the basic headings under the overall GDP. Current efforts are focused entirely on food, clothing, and footwear with a goal to begin pricing these items in April 2004. The next goal is to have the remaining household consumption items ready for pricing by July 2004. Data collection for government services, construction, housing, and capital goods will not take place until the end of 2004.
6. Work is underway with the World Health Organization and the International Labor Organization to provide specifications for health services and employment compensation, respectively. Terms of Reference have been written and consultants are being contracted to prepare global specifications for construction. A more realistic assessment of the regional and global activities suggests that the timetable previously submitted to the Board with the end date of December 2005 would need to be modified. A primary reason is the time and attention being paid to the preparation of the specifications of the products to be priced. The program is likely to be extended until mid 2006 in Africa and Latin America, and to the third quarter of 2006 in Asia. Although the cost of the of activities in 2006 is relatively lower than those of 2004 and 2005, there are budgetary implications both at the regional and global level that need to be addressed.

Organizational and Financial Issues at Regional and Global Levels

7. A total of 160 countries have expressed their intentions to take part in the ICP 2004 round: 49 will participate in the Africa region, 26 in Latin America and the Caribbean, 23 in Asia, 13 in Western Asia and 13 in the CIS, while 42 countries will price the OECD/Eurostat list. Six countries will price more than one list. Annex 2 lists the countries in each regional exercise. The global program is run in close collaboration with, and substantial support from, the managers of the OECD and Eurostat programs. The OECD and Eurostat programs are, however, run independently from the global ICP formal management structure, and will not necessarily abide by the decisions of the Executive Board. Seventeen ring countries, including three OECD members, have been selected.

8. An additional consultant has recently been recruited to the Global Office, which now comprises three regular staff and three part-time consultants. An additional part-time consultant is being recruited and approval has been granted to hire an office assistant but, with anticipated staff movements, the office will still be below full complement. Progress remains to be made in the setting up and staffing of regional ICP units. The African Development Bank (AfDB), and the UN Economic Commission for Western Asia (ESCWA) are the only two regional implementing agencies that have set up fully staffed ICP units at the writing of this report. The Economic Commission for Latin America and the Caribbean (ECLAC) has organized an interim team consisting of two senior staff, one research associate and a senior consultant. The Asian Development Bank (ADB) has signed a contract with the Australian Bureau of Statistics (ABS) for technical assistance, and has engaged consultants and some staff time to fulfilling its regional coordination role. The primary reason behind the delay in setting up ICP units in Asia and Latin America is the lack of funding to support regional coordination efforts.
9. In general, the response to fund-raising efforts has not met expectations. It has become clear that unless some arrangements for additional funding are made, the program cannot be carried on as planned without serious detriment to the quality and timeliness of its results. This is where the Board's urgent attention is called for. Currently, the program faces a shortfall of US\$8.3 million, not considering the additional resources needed for 2006. Africa is the only region where adequate funding has been secured to implement the proposed round in 2004. Nonetheless, in response to the request of member countries to broaden and deepen the capacity building component of the program in the areas of price and national accounts, AfDB has step up its fund-raising effort.
10. Asia has the largest shortfall (\$2.5 million). The Global Office faces a gap of \$1.8 million, whereas ECLAC has a deficit of \$1.6 million. The ring comparison, CIS, and ESCWA in total have a shortfall of \$2.3 million. Tables 1 and 2, to be distributed at the meeting, provides currently available funds by source and the cost structure as well as the shortfall by regions respectively. The Global Office is working with its regional counterparts to firm up the estimates.
11. The continuation of the ICP as a reliable and sustainable program depends primarily on the willingness of regional and international development agencies to mobilize additional resources. As the body ultimately responsible for the successful implementation of the ICP, the Executive Board is urged to bring this promptly to the attention of the leaders of the major international institutions that are signatories to the Millennium Development Goals.

The ICP Handbook

12. The ICP Handbook establishes a set of principles and operational procedures, and serves both as comprehensive reference material and a step-by-step compilation guidebook for the practitioner in the field. Although the Handbook is behind schedule, due primarily to changes and enhancements to the Structured Product Description (SPD) method, in general the work is proceeding at a satisfactory pace. Priority is given to chapters necessary for preparing the list of products to be priced. As originally planned, it is a “live” handbook, in that it will be revised and enlarged as needed. The status of each of the Chapters follows.

Chapter 1 *Broad overview of the entire ICP.* Written and in final review.

Chapter 2. *Overview of the governance structure of the ICP including Memoranda of Understanding.* Available on the ICP website.

Chapter 3. *Description of the concepts underlying the GDP and the formation of the minimum classification of 155 Basic Headings.* Available on the ICP website.

Chapter 4. *Price concepts, definitions of representivity and comparability.* Available on the ICP website.

Chapter 5. *Presentation of the procedure to prepare product specifications.* This includes a review of the Structured Product Specification process. First draft being revised to reflect changes in procedures being developed.

Chapter 6. *Price collection guidelines including the selection of outlets and other sampling issues to provide annual national prices.* First draft prepared.

Chapter 7. *Price specifications for products and services for both the private and public sectors.* This important chapter covers the government sector. Two versions have been prepared, one providing the conceptual framework, the other a practical description of what is to be done. These are being combined.

Chapter 8. *Capital formation including equipment goods and construction.* Drafted.

Chapters 9 onwards. Aggregation methods, publication procedures. To be drafted.

The Structured Product Description (SPD) Approach

13. The lack of region-specific lists of products based on the market realities of the respective regions was one of the main problems of past ICP rounds. This occurred because the list was initially put together for OECD countries and only slightly modified to serve other regions. Since the ICP is built up of individual regional comparisons that are, at the same

time, components of the global comparison, the challenge is to draw up a list of specifications for each of the regions ensuring harmonization between representivity (regional objective) and comparability across regions (global objective).

14. In close cooperation with, and assistance from, the International Monetary Fund, an international product coding system is being introduced in this round to facilitate the creation of a region-specific, yet globally consistent list of products. This approach involves preparing detailed Structured Product Descriptions (SPDs) for every basic heading that provide an international coding structure based on an array of price determining characteristics, such as package type, variety, size, outlet, etc. The objective is to simplify and standardize the process of defining product characteristics by coding the various price-determining characteristics of products or services within a basic heading. This provides a consistent coding system for the entire world while allowing the flexibility to introduce region specific dimensions. A sample template for a global rice SPD is in Annex 3.
15. Region specific SPDs are being developed based on market surveys in a selected number of representative countries. The consensus is to use tightly specified product descriptions (strict comparability/matching) in the 2004 round of ICP surveys. The approach, however, allows regional administrators and national data collectors to loosen the descriptions by allowing for some variations on some of the characteristics, with the view to balancing the tension between the conflicting objectives of finding exact matches and insuring the collection of an adequate number of price quotes within each basic heading. An example of a global SPD is milk, from which various products can be drawn, for instance, pasteurized, low fat, cow milk, buffalo milk, etc.
16. A processing system is being developed that will retain the coding structure of the Structured Product Definitions through the data collection phases. For the first time, the characteristics of each product priced in the ICP will be coded in a consistent way across countries. Current efforts are to prepare the product lists and specifications for food, clothing and footwear items for data collection to start on April 1, 2004. Data collection for the remaining household consumption items areas will begin on July 1, 2004, after the respective products lists are prepared.

Data Collection and Processing Software (CPI/ICP Tool-Pack):

17. For the ICP, the most crucial yet complex tasks are data collection, data editing, and national average prices calculation. Additionally “data” issues were identified by the 1998 Ryten Report as being at the center of problems with previous rounds of the ICP. Thus the development of data collection, verification and processing software has been accorded high priority as one means of improving the reliability of the program. In this context, an integrated CPI/ICP Tool-Pack has been developed. The beta version has been deployed and tested in twelve countries. Valuable comments and recommendations on how to

enhance and simplify the system have been made. Incorporating these changes has introduced additional cost (around US\$90,000) and has resulted in the delay of the release time by six months. The final version is expected to be ready by the end of October 2003, ahead of the November regional training workshops.

The Ring Comparison

18. The Ring Comparison exercise aims to link PPPs across the different regions by identifying a subset of countries within each region that will price two product lists. One list of products will be for the regional comparison and will contain items representing the region. The other list of products will represent items in common across multiple regions.
19. The Technical Advisory Group made preliminary recommendations regarding the countries to be included in the Ring Comparison. Two consultants have been hired to coordinate the Ring Comparison: Kathleen MacDonald (formerly with the US Bureau of Labor Statistics and working out of the Global Office) and Derek Blades (formerly with the OECD and working out of Paris). Their initial meeting resulted in some slight changes to the TAG recommendations concerning choice of Ring countries. The Ring countries pending Executive Board approval follow:

Regions	Proposed Ring Countries (Alternates)
Latin America	Chile, Ecuador, Brazil
Africa	South Africa, Senegal, Tunisia
Asia	Malaysia, Thailand, Philippines
West Asia	Jordan, Oman
CIS	Russia, Kazakhstan
Eurostat/OECD	US (Australia), UK, Slovenia (Estonia)

20. Previous rounds of the ICP employed a bridging concept to connect the different regions. For example, individual countries were used to price two regional lists to bridge the two regions. Therefore, it is also recommended that this procedure also be used for this round to provide a measure of the effect of the linkage methods. This could also be a fall back solution if funds are not available to support the Ring comparison. The recommendations for this linkage follow:

- (i) Japan and Korea: price the Asian list. They are OECD members and will have priced that list;
- (ii) Mexico: price the Latin American list. It is also an OECD country;
- (iii) Egypt: price both the African and Western Asia lists;
- (iv) Russian Federation: price the CIS and OECD lists;

(v) It has been pointed out that to use this approach for a full global comparison, it will also be necessary to bridge Africa and Western Asia to one of the other regions. This could be accomplished by having a Western Asia country also price the OECD list.

(vi) Mongolia has expressed an willingness to participate in both the Asian and CIS comparisons.

Technical Advisory Group (TAG)

21. The TAG had its first meeting in Washington, D.C. on 19-21 May 2003. The group is expected to physically meet once or twice a year. Regular discussion is encouraged through a password protected electronic media organized solely for TAG members' use. TAG members are as follows:

Edwin Dean, formerly US Bureau of Labor Statistics:	Chair
Silke Stapel, Eurostat:	Vice Chair
Erwin Diewert, Department of Economics, University of British Columbia:	Vice Chair
David Roberts, OECD	
Paul McCarthy, Australian Bureau of Statistics	
Kim Zieschang, IMF	
Serguei Sergueev, Statistik Austria	
Alan Heston, Department of Economics, University of Pennsylvania	
Prasada Rao, School of Economics, University of Queensland	

22. Messers Rao and Diewert were unable to attend the first meeting, at which the following issues were discussed:

22.1. The ICP Handbook: The TAG endorsed the general outline of the Handbook.

22.2. Structured Product Description: The TAG agreed that the SPD approach introduces important improvement in the ICP. The group provided valuable guidelines and recommendations to the procedures and timetable suggested by the Global Office.

22.3. The Ring Comparison: The TAG overwhelmingly agreed on the necessity of the ring comparison to ensure the overall quality of the ICP results. It endorsed the proposal of the Global Office that the exercise be organized using the "matched-product-approach" in this round. Later rounds of the ICP may involve hedonic techniques. It was agreed that ring countries should be representative of their regions in terms of price and expenditure structures.

- 22.4. Price Data Collection: The TAG agreed, first, that national average prices should be requested, and that countries be asked to clarify how they obtained these and what geographical collection took place, or how spatial adjustment factors have been estimated. It stressed Regional Coordinators should be consulted on how best to ensure that countries take this into account and what guidelines would assist in this process and assessment.
- 22.5. GDP Expenditure Classification: In line with the suggestion of the Global Office, the TAG recommended to adopt the OECD minimum classification of 155 basic headings (BH) in all regional comparisons for the 2004 ICP round. Countries, however, have the freedom to disaggregate the classification further if re-aggregation to the minimum 155 BH level is maintained (i.e. the re-aggregation should be additive). The TAG stressed that special attention should be given to improving the comparability of practices in such areas as the classification of final expenditure.
- 22.6. Poverty PPPs: The TAG is of the opinion that no special pricing for poverty purposes should be attempted in this ICP round because the necessary resources are unlikely to be available. It stressed that such an attempt would over-burden the data collection work. The TAG felt that a significant part of the deviation of the PPPs for the poor from the average PPPs arises from differences in expenditure patterns. It was emphasized that it would be possible to meet much of the criticism of the poverty measurement and comparison work if basic heading parities were re-weighted by expenditures for poverty purposes. Members of the TAG suggested that quality improvements in the ICP data in general, and the use of SPDs, would help significantly in producing better poverty data.
- 22.7. Own-account production: The TAG recommended that own-account production should be included, on a basis comparable to other expenditure estimates, in the derivation of expenditure weights. To ensure that countries have made estimates of own-account production, countries should be asked about such estimates, at least for basic headings for which the share of own-account production is potentially high. The request for these explanations should be made when countries provide their expenditure weight data.
- 22.8. Implementation of the Program: Members of the TAG raised concerns about the lack of adequate funding and stressed that the success of the program hinges on the ability of the sponsors to mobilize resources, both to help finance the cost of data collection and staffing of regional and global offices. The TAG suggested that the Executive Board be informed of the urgent need for a full complement of staff to be recruited for work in the Global Office in Washington and also of the need to address

funding shortages to ensure that the full scale ICP surveys can be implemented as originally planned.

Purchasing Power of the Poor (PPPs for the Poor)

23. A crucial step in the process of compiling regional and global poverty estimates, and used by the Millennium Development Goals, is the conversion of the dollar per day international poverty line into local currency units of the countries included in the analysis. This conversion is made using consumption PPPs. Over the last few years, the PPP data used in the derivation of global and regional poverty estimates have attracted considerable attention. With the increased attention has come a closer scrutiny of the quality and appropriateness of the use of consumption PPPs for poverty analysis. It is widely acknowledged that the absence of PPPs reflecting the expenditure patterns of the poor proves to be a pressing hindrance to international poverty measurement and monitoring. Integration of poverty-focused PPPs into the main stream of ICP work is seen as crucial.
24. The integration process will of necessity be gradual and would be conditional on progress in basic national statistical infrastructure. A special seminar in July 2003 was organized to discuss the results of two pilot studies commissioned by the Global Office. The first study was conducted by Professor Prasada Rao and represents a step toward integrating poverty-specific PPPs into the mainstream work of ICP surveys. Professor Rao's study was aimed at examining the nature and extent of price data necessary for the construction of poverty-specific PPPs. He basically said that it is necessary to know who were the poor, what they purchase, where they purchase it, how much they pay, and the quantities.
25. The second study, which was undertaken by Professor Angus Deaton, addressed the feasibility of constructing PPP index numbers of prices using unit values from household surveys. In other words, unit values are derived prices obtained from quantities and purchases recorded in household expenditure surveys. In particular, it investigated (a) whether unit values can work at all as a replacement for (or as a supplement to) the standard methods of collecting price quotes; (b) the extent to which there is evidence that the poor pay different prices from the rich, or (c) whether the real issue is not different prices, but different weights. The conclusion was that for items where unit values could be calculated from household expenditure surveys, this was a source of price information that should be explored for ICP and poverty issues.
26. A Poverty Analysis Group (PAG), consisting of five experts, was formed to help chart the future direction of the work. They were, Angus Deaton, Erwin Diewert, Alan Heston, Dipankar Coondoo and D.S. Prasada Rao. In short, the immediate and pressing challenge facing the ICP team is what can be done in the short term as part of the implementation program of the next ICP round in 2004. The task force had several recommendations regarding overall poverty assessment issues. Some ICP related issues are:

- i. A policy issue about whether PPPs for actual vs. household consumption should be used; and
 - ii. A need to examine national accounts consumption expenditure distributions provided for the ICP to determine whether they are consistent with classifications coming from the Household Expenditure Surveys.
27. The global office has taken the PAG input into consideration and has concluded that the SPD process to code product specifications can be used to support estimating poverty specific PPPs. Additional resources will be required to prepare product specific PPPs. Annex 5 provides an overview of the data requirements.

Summary of Progress of Regional Programs

28. More detailed reports received from each region are presented under Annex 4.
29. Africa: The program in Africa is progressing well. The African Development Bank, the primary implementing agency, has created a strong ICP unit staffed with six senior experts, five research associates, and one administrative support. An integrated work plan has been developed to address both the immediate objective of data collection and the longer terms goal of statistical capacity building. Forty-nine countries have indicated their intentions to take part. The countries have selected national coordinators and have prepared national implementation plans.
30. Asia Pacific: The Asian Development Bank is receiving technical assistance from the ABS. The Regional Advisory Board has met and a workshop for the country practitioners took place in late July. Resources and statistical capabilities indicate that not all countries will be able to cover full GDP nor provide national prices easily. The region is making very good progress in developing the regional product list.
31. CIS: The region has a work plan in place and will soon start updating the product list used for their 2000 comparison. The region has considerable experience with the ICP. The primary issue is that they will need funding support. The 2000 comparison was a joint effort between Russia Goskomstat and the statistical committee of the Commonwealth of Independent States (CIS). The region will require funding assistance. It has been recommended that within the region the Bureau of Economic Analysis (a foundation with experience organizing and managing World Bank Projects) manage and coordinate the use of these funds.
32. Western Asia: Significant strides have been made in Western Asia, including the establishment of a regional Executive Board, and the creation of a strong ICP team consisting of three regular full-time staff and a senior ICP consultant. Thirteen countries, including Iraq have indicated their intentions to take part. The first regional workshop was conducted in Beirut, 24-27 June 2003. A strategy paper has been developed to expedite and support the participation of Iraq. A budget shortfall of US\$530,000 needs to be addressed.

33. Latin America and the Caribbean: A meeting of the first of the sub-regions in early July outlined the activities necessary at country and regional level to ensure the ICP's success. The ICP's finances in the region are shaky and no stable machinery for regional coordination has as yet been found. Statistics Canada and IADB may be able to offer support and assistance but this is not yet confirmed.
34. OECD /Eurostat: The region prepares annual PPPs based on a rotating set of surveys that cover the GDP over a three year period. These countries also carry out high quality CPIs. PPPs at the basic heading level will be provided for all countries in the region with 2004 as the reference year. The Eurostat and OECD experts have provide significant technical input into the global program, and have been actively involved in the decisions regarding the handbook, training of regional coordinators, and sharing software and documentation for data collection and analyses.

Other issues

35. One important issue is whether each country will collect price comparison data that cover the full GDP. Another issue is the willingness to prepare national prices vs. prices that mainly reflect major cities. The Regional and Global coordinators will need to work closely with the countries in making these decisions. To some extent this is driven by available resources and statistical capabilities. These are significant issues, especially when they involve countries like China.
36. Other issues involve Iran and Mongolia. Mongolia is an ADB member country, but in the past participated with the CIS comparison. Mongolia has offered to participate in both comparisons. It is recommended that they do so.
37. Iran is not an ADB member country, but is a member of ESCAP. The ADB has agreed to allow Iran participate to in its regional meetings, however it cannot provide financial support to non member countries. The ESCAP is providing assistance with travel expenses
38. There are similar issues relating to Iraq which will also be discussed in further detail.