

I n t e r n a t i o n a l C o m p a r i s o n P r o g r a m

TECHNICAL ADVISORY GROUP MEETING

Minutes



Technical Advisory Group Meeting

October 1-2, 2009

Washington DC

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TECHNICAL ADVISORY GROUP MEETING
1, 2 October 2009
World Bank Headquarters, Washington DC

Introduction

1. The first meeting of the Technical Advisory Group (TAG) for the 2011 ICP was held at the World Bank Headquarters, Washington DC, on 1 and 2 October 2009 (the agenda is in Annex A). The TAG meeting followed on immediately from a Regional Coordinators' meeting and so the Regional Coordinators were invited to attend the TAG meeting as observers. A list of TAG members attending the meeting is shown in Annex B.
2. Shaيدا Badiie (Director, DECDG, World Bank) opened the meeting by welcoming the TAG members, both those new to the group and those continuing from the 2005 ICP, as well as the observers from the ICP Regional Offices and from the Global Office team in the World Bank in Washington. She reflected briefly on the 2005 ICP round, mainly covering organisational and operational issues that could provide some lessons for the 2011 round (these were covered in detail later in a presentation by Fred Vogel, Global Manager of the 2005 ICP).

Measuring health services

Presentation

3. Stephen Lim, from the Institute for Health Metrics and Evaluation (IHME) at the University of Washington in Seattle, presented details of a new research project that is now under way at IHME. The aim is to develop an approach that will enable health outputs to be measured and directly compared. It will be based on identifying a production function for health services, which will allow outputs to be compared, so bypassing the need for using input measures with their associated productivity problems.
4. The first stage of the program will be to collect data from a handful of countries for a sample of health services. The broad types of data being sought are at a relatively aggregated level (total costs, wages, other intermediate inputs etc.) so that unit costs can be calculated for deriving production functions. Quality adjustments will be applied where possible. The current timetable is for pilot testing a questionnaire in mid 2010 followed by data collection between September 2010 and March 2011, which means it will not be possible for any new methodology coming from the research to be used in the 2011 ICP. However, the Global Office will maintain an active interest in the project because of its potential for use in future ICP rounds.
5. During the 2011 ICP, the Global Office will continue using the input methods (based on wages of selected health occupations) used in previous ICP rounds. The Global Office will also assess the need for productivity adjustments to be applied to the wages inputs in each region.

Objectives of the meeting

Presentation

6. Michel Mouyelo-Katoula outlined the objectives of the meeting. He stressed that the ICP is an **I**ntegrated **C**ollaborative **P**artnership between international organisations and national statistical offices to work together to accomplish the goal of generating PPPs and related statistics for most countries in the world for reference year 2011. The 2005 ICP covered 146 countries and as many as 47 additional countries could participate in the 2011 round. At a minimum, 160 countries will be involved given the Caribbean countries will be included in the 2011 round.
7. Michel outlined the strategies, methods, survey instruments, validation framework and data quality framework to be used. He also set out the overall timetable, which included the timing of survey data availability, a detailed national accounts timetable (which requires data to be available much earlier in the process than was the case for the 2005 round) and data and metadata transmission.
8. The starting point of the process will be to identify what went well in the previous round, what needs to be improved (and how) and to determine the key areas of research with work to start on the issues likely to have most impact on the estimates in the 2011 ICP.
9. A key issue is for the TAG to agree on the best ways of enhancing the consistency between the prices underlying the values in the national accounts and the prices collected for calculating the PPPs (e.g. rents, motor vehicles, and construction). Upgrading methods in some of the comparison-resistant components is also a high priority, as is improving the consistency of the basic heading values both within countries and across regions. A practical step being taken is to identify ways to improve the GDP expenditure estimates and to supply them earlier in the process so that they can be used in editing prices. Regions and countries will be strongly encouraged to work collaboratively to ensure the greatest possible consistency is achieved between the national accounts and the PPPs derived from the prices collected. The basic heading expenditure values from the national accounts will also be used in editing the prices collected during 2011. Identifying global pricing strategies will assist in validating the prices collected during 2011.
10. The main areas of work identified were:
 - a) Main price survey
 - b) Compensation of government employees (including the possible need for a productivity adjustment)
 - c) Public health services
 - d) Private health services
 - e) Pharmaceutical products
 - f) Public education
 - g) Private education
 - h) Housing
 - i) Equipment
 - j) Construction
 - k) Expenditures on GDP

11. The Manual describing the procedures used to collect prices and how to use national accounts data for editing prices will be updated. A new section in the ICP Handbook will describe the different price bases used in the national accounts and the need to ensure consistency between different parts of the accounts and across countries.
12. The success of the 2005 round has resulted in a broader range of users emerging. One aim is to engage with users at an early stage in the 2011 ICP. Important external users include the World Health Organization and the European Commission, while a key use within the World Bank is poverty analysis. A PPP users' conference is being considered for "Global Statistics Day" (20/10/2010).
13. One of the spin-offs from the 2005 round has been the increased interest by developing countries in improving their national accounts estimates. Statistical capacity building is one issue that the Global Office will focus on during the 2011 ICP; further aims are to explore partnerships with universities and statistical training centres.
14. Finally, as part of the process of assessing the ICP, a data quality assessment framework (DQAF) is proposed to provide a checklist that will enable the validity of the ICP outputs to be determined systematically. A first draft is available for comments by TAG members.

Lessons learned from the 2005 ICP

Presentation

15. Fred Vogel, Global Manager for the 2005 ICP, presented this session on the lessons learned from that round.
16. Completely new governance arrangements, including an Executive Board, Regional Boards and the TAG, were introduced in the 2005 round and proved very effective. Some fine tuning could be useful in the 2011 round but it would not be necessary for the TAG to be involved in this process. Close links were maintained between the Global Office and the various regional offices in coordinating the development of product lists, workshops and data validation, all of which are critical in ensuring the overall quality of the outputs. Partnering arrangements between some national statistical offices (Australia, Canada, France, Russia, and the UK) and regions also worked well and similar arrangements could be usefully employed in the 2011 round.
17. One of the legacies of the 2005 round is a comprehensive set of building blocks, including the product specifications in each region for household consumption, the ring product specifications, and global specifications for housing quantities (for estimating real expenditures on rent), health, education, compensation, equipment, and construction. An important editing tool for the 2011 results will be the data base of basic heading PPPs and expenditures for 2005 for each region, as well as the ring results and the global results.
18. The ICP Handbook and the ICP Operational Manual already contain very useful information and will be even better when updated. A suite of software tools is available, as are written policies on data access and data confidentiality, which should provide an important input when these processes are being updated and refined.
19. Steps that led to significant improvements in data quality included the systematic process to define product specifications, multiple price collections, data review workshops, and extensive use of the Dikhanov and Quaranta Tables for data analysis and validation.

20. Areas needing improvement are how best to determine representativity and defining a national average price, particularly separately classifying urban and rural prices, which is a critical issue for poverty analysis and needs to be resolved well before price collection commences. However, it will not be an easy task. For example, there is no consensus on the definition of rural, even within countries let alone across different countries; in practice, there are different economic, demographic and political definitions. In addition, boundaries are hard to define and the different uses of data lead to a blurred line between urban and rural areas. For data collection purposes the issue is simply the scope of data collection to capture price variation across each country but poverty analysis provides a complication because of the need for separate urban and rural prices.
21. The Structured Product Descriptions (SPDs) provide a systematic means of identifying the price-determining characteristics of products. It is important to include all such characteristics for every price collected, including outlet type, outlet size, outlet location so that the representativity of each product can be assessed.
22. Household expenditure surveys are critical for poverty analysis but they can also be useful as a guide in developing the survey framework because they provide details of the distribution of expenditures across country by category and the distribution by income class. The survey framework should be fully documented.
23. One of the most contentious components in the 2005 round was housing rentals. A range of methods had to be adopted to cover this component, including a mix of price and quantity approaches to obtain real expenditures, including a reference PPP approach that was designed to be neutral in its effect on the PPP for household final consumption expenditure. There was also an obvious lack of consistency between the national accounts values and the real expenditures for rentals, which will need some detailed research to resolve for the 2011 round. It will also be important for Regional Coordinators to strengthen the housing component of the national accounts in countries in their regions.
24. The product lists for investment on equipment and construction were global rather than regional (as was the case with the household final consumption expenditure lists). The specifications should be harmonised with those for the OECD-Eurostat PPP Program. In addition, all countries should provide the data required to calculate the component cost approach (i.e. import prices, relevant taxes, exchange rates etc). The basket of construction components (BOCC) approach used in the 2005 round proved to be less effective than had been hoped, particularly because of the problem of obtaining suitable weights at all levels of the aggregation. It needs to be evaluated against alternatives such as the bills of quantities (BOQ) used in the OECD-Eurostat Program, the CIS basket of components approach, and the inputs approach (to be discussed at the TAG meeting). Having overlaps for linking between regions is a critical element in determining which approach to adopt.
25. The need for a productivity adjustment in some regions for the compensation comparisons in government final consumption expenditure arose at a very late stage in finalising the 2005 results. Alternatives need to be considered. For example, would more intensive data validation or multiple collections lead to improved data quality and so eliminate the need for a productivity adjustment. If not, alternative methods of calculating the adjustment should be considered, as should the potential benefits of dividing each of the regions affected into two or more sub regions.
26. The major emphasis in the 2005 round was on price collection and insufficient attention was paid to the national accounts until relatively late in the process. It is important to make the national accounts the centre of the ICP framework and to establish a process to determine official GDP and population numbers for the ICP; for example, in many cases the national

coordinators, the World Bank and the IMF had different numbers in their databases for GDP and population. The editing procedures for the national accounts should also be improved.

27. To the extent possible, the methods used in each region and for the global comparison should be consistent. For example, in the 2005 round, some regions used different methods to calculate PPPs at the basic heading level and at the aggregated levels (CPD/EKS*, and EKS/Iklé respectively). Linking was via a ring comparison in most regions but a single-country bridge (Russian Federation) was used to link the CIS into OECD-Eurostat. Asia and Africa adjusted their compensation (prices) for government employees for productivity differences but other regions did not do so.
28. Critically, some of the regions used a basic heading split that differed from the global set of basic headings, which greatly complicated calculating global results. It is essential that the structure of basic headings is consistent across regions so that any more detailed basic headings than those specified by the Global Office can be aggregated directly to each of the global ones.
29. Some reference PPPs differed across regions. While this is not a vital difference, it would be useful to coordinate proposals to use reference PPPs, particularly in ensuring the consistency of those to be used for similar basic headings.
30. The global linking and estimation process was not sufficiently transparent. The Regional Coordinators tried to ensure that the best method was used for each region but it is not clear that the outcome was best for the global comparison. The TAG should consider this problem in sufficient time for any alternatives to be tested prior to choosing the most effective solution.
31. There was a tremendous spirit of cooperation built up between regions and countries last time, which was one of the key reasons for the success of the 2005 round. However, some processes could be improved. For example, agreements with regions and countries should more explicitly define the requirements for submitting regional and ring data to reduce the chances for misunderstandings to arise. An issue that arose towards the end of the 2005 round related to data access and sharing within and between regions and the Global Office. It would be useful to more explicitly define the policies on data access and sharing and the provision of data for research purposes.
32. The ring comparison did not work as well as had been hoped and the TAG will have to determine a new methodology for linking. The consistency of the methodology for deriving the regional results should be investigated (e.g. different methods were used in different regions for obtaining basic heading PPPs and also in aggregating to broader aggregates in 2005).
33. The OECD-Eurostat PPP Program has been conducted regularly for several decades and various aspects, including some methodologies, are set by European legislation. The ties between the ICP and the OECD-Eurostat PPP Program should be strengthened if possible.
34. Although the 2011 ICP will not be using the ring comparison to link regions it is useful to look at the lessons from the 2005 ring comparison. In effect, the ring process was similar to having an additional region in the ICP but it was undertaken without the necessary resources to manage it as a region. Whatever linking process is used, it will be important to consider the resource implications at the outset.
35. Finally, it is critical that the Global Office and the regional offices recognise the costs imposed on NSOs by the ICP and to understand that there is a limit on what the NSOs can do at any one time. Country statistical practices are fixed to a large extent by the requirements imposed by the government in each country, which will have a large influence in determining the data that can be collected.

Discussion

36. The differences between urban and rural prices can differ significantly from country to country. Typically, rural prices are lower than urban prices on average but with some variations. For example, housing rents are generally a lot lower in rural areas, as are prices for food grown locally. On the other hand, prices for fuel can be higher in rural areas than in urban as can the prices for processed food. Such differences are relatively unimportant for time series prices indexes because they tend to be fairly consistent in their direction but they can be very important in spatial comparisons.
37. Regional price differences tend to be greater in larger countries than in smaller ones and the extent of the differences depends on the size and economic diversity of the country (e.g. there is no regional problem in Hong Kong). They are likely to be more important in developing countries than in developed ones. However, when calculating national average prices for the national accounts the weight of rural prices in developing countries would be much lower than the rural population share. The main importance of the rural prices is in poverty analysis.
38. The TAG agreed that it would be useful to separately identify urban and rural prices for their potential use in calculating poverty PPPs, in editing the prices collected and in producing the best possible estimates of national average annual prices.
39. The TAG briefly discussed the consistency of GDP data in different databases. The ICP should be using the latest available national accounts data for each country when the ICP results are being finalised. Checking the estimates provided by each country of GDP and its major aggregates against the data in the UNSD, World Bank or IMF databases is a useful edit and any discrepancies should be checked with the countries concerned. The Regional Offices should also emphasise to countries the importance of their GDP estimates comprehensively covering all activity within the SNA's boundary of production (in other words, the GDP estimates should be "exhaustive"). The Global Office should consider how to deal with those countries whose national accounts are not exhaustive and which do not have the capability (e.g. finance or skills) to improve their accounts for the ICP. For example, the national accounts for some African countries have no imputed values for housing rents. As a result, their GDP estimates will be understated compared with similar countries that do impute rents for owner-occupied dwellings. Also, the PPPs for aggregates such as household final consumption expenditure and GDP will be distorted if the real expenditures for these rents are imputed using quantity data on housing to directly calculate the real expenditures because the identity that value = price times quantity will no longer hold in practice for either housing rents or any broader aggregates, such as GDP, containing housing rents. A suggestion was made that the best possible PPPs and real expenditures for rents should be published, which would break the break the above accounting identity. However, the TAG did not agree because of the implication that the country national accounts estimates should be changed to equal the price times quantity figures.
40. The TAG agreed that the ICP results should be based on the GDP estimates provided to the Global Office by each country, although countries should be asked to explain any discrepancies between the national accounts data supplied for the ICP and the equivalent data held in the databases of international organisations.
41. The TAG agreed with the ITAG recommendation that the "core list" approach should be used instead of the "ring comparison" to link the regional household final consumption expenditure to obtain global estimates of PPPs and real expenditures. However, an item should be on the research agenda on how to handle linking through the core list because different methods could result in different outcomes. In effect, the core list approach is a ring-type approach but potentially including every country in every region as a ring country. The TAG recognised that the core list approach could result in distorted comparisons if countries priced products that were not representative of their expenditures. Analysis of the 2005 ICP results showed that the

issue of representativity is not well understood by countries because the effect of including a representativity parameter in the CPD calculations at the basic heading level (i.e. using CPRD) was random rather than the prices for non-representative products being higher than those for representative products, as would be expected in theory. The Global Office will have to make a concerted effort to overcome this problem. The Regional Offices should encourage countries to integrate ICP products (including those in the core list, where appropriate) into their CPIs. The OECD and Eurostat compile basic heading PPPs using CPD and EKS as well as EKS* to identify any potential problem areas. In general, there is little difference overall but big differences are sometimes observed in basic headings that have only a few products priced.

42. Rather than build up the global estimates from those for individual countries, a proposal was put forward to calculate global PPPs and then split them to lower regional and country levels (i.e. adopt a top down approach). However, the TAG considered that regional fixity (as required by the OECD and Eurostat) would prevent such a process being adopted in practice.
43. An alternative to the current regional approach could be to group countries on the basis of their economic similarity. Having a core product list in 2011 should enable detailed research to assess the feasibility of such an approach.

Summary of outcomes

44. The TAG agreed that:
 - It would be useful to separately identify urban and rural prices for their potential use in calculating poverty PPPs, in editing the prices collected and in producing the best possible estimates of national average annual prices;
 - The ICP results should be based on the GDP estimates provided to the Global Office by each country, although countries should be asked to explain any discrepancies between the national accounts data supplied for the ICP and the equivalent data held in the databases of international organisations;
 - The ITAG recommendation should be adopted for the “core list” approach to be used instead of the “ring comparison” to link the regional household final consumption expenditure to obtain global estimates of PPPs and real expenditures (however, an item should be put on the research agenda on how to handle linking through the core list because different methods could result in different outcomes).

Global linking and aggregation

Presentation

45. Yuri Dikhanov presented this session, and commenced by saying that compiling the global results for the 2005 ICP was more complicated than it should have been. It involved a two-stage process, with the results for each region other than the CIS being linked via the ring countries. Fixity had to be applied to the countries in the Eurostat comparison and also the non-EU OECD countries. As a result, a decision was made to apply fixity to each region. In effect, the regions were treated as “super countries” and linked using the relationships supplied by the ring countries. The country results in each region were then redistributed but with regional fixity applied. The process caused some problems with the consistency of basic headings across countries. The linking process was further complicated by some regions not having basic headings consistent with those defined by the Global Office. In the 2011 ICP, it is critical that basic headings are harmonised across all regions. The implication is not that all regions have to use 155 basic headings; rather, it means the basic headings for each region should not

cut across the basic headings defined by the Global Office. For example, the OECD and Eurostat are likely to have around 220 basic headings, with the extra ones being more detailed splits of the 155 basic headings defined for the ICP.

Discussion

46. The Global Manager said it is important that the basic heading classification should not be the source of any problems. The Global Office will review regional requirements and take into account any constraints before finalising the 2011 basic headings, although it is anticipated that no significant changes from those used in the 2005 ICP will be required.

Outcome

47. The Global Office will present a paper to a future TAG meeting containing recommendations on the basic heading classification for the 2011 ICP.

The national accounts framework for the 2011 ICP

Presentation

48. Paul McCarthy presented the paper prepared for this session. He said it is important that all countries recognise that the ICP is a joint exercise between national accountants and prices statisticians, even though most of the very time-consuming work in the ICP involves collecting prices. PPPs are useful only when combined with other data, either national accounts to estimate real expenditures or exchange rates to provide a price level index (PLI). Any errors in the national accounts data will be directly reflected in the real expenditures derived.
49. One of the issues the TAG needs to consider is the version of the System of National Accounts (SNA) that should be used for the 2011 ICP given that the 2008 SNA is now available. However, there appears to be little choice other than the 1993 SNA because only a handful of countries will have implemented the 2008 SNA by 2011. In addition, it will be easier to adjust 2008 SNA-based GDP estimates back to a 1993 SNA basis rather than the other way around.
50. Other issues covered in the presentation were:
 - How (and why) the ICP classification differs from the standard SNA classification;
 - The different price bases used in the national accounts (basic, producers' and purchasers' prices);
 - The differences between the types of output defined in the SNA (market output, output for own final use, and non-market output);
 - Valuation methods, including valuing non-monetary transactions;
 - Commodity-flow analysis and supply-use tables and their potential uses in the ICP;
 - The uses of basic headings and the importance of countries allocating expenditures to all basic headings;
 - The balance between comparability and representativity;
 - The need for the national accounts to be "exhaustive" (i.e. include estimates for the non-observed part of the economy);

- Some of the major problem areas that previous ICP rounds have encountered in the national accounts.

Discussion

51. The first issue discussed was financial intermediation services indirectly measured (FISIM). It will not cause a problem for pricing because the Global Office is going to recommend that a reference PPP be applied to FISIM in all regions, as was the case in the 2005 ICP. The key point for Regional Coordinators to note is that the 1993 SNA allows two different methods of treating FISIM in the national accounts; either allocating it entirely as the intermediate consumption of a “nominal industry” or allocating it across its uses, including final consumption, exports (and imports) as well as intermediate consumption of enterprises. In OECD countries, the effect of allocating FISIM was to raise the level of GDP by about 2 to 3 per cent. The TAG agreed that, in the interests of comparability of real expenditures on GDP, all countries should be encouraged to provide GDP estimates with FISIM allocated across final uses.
52. A question about the implications of the different treatment of changes in the terms of trade in the benchmark ICP and in the extrapolated estimates (as part of volumes in the former and as part of prices in the latter) led to a discussion on the shortcomings of the treatment of net international trade in the ICP. A reference PPP (exchange rates) has traditionally been used because of the difficulties involved in matching internationally traded products for countries to price. The TAG agreed that the current method is less than satisfactory and so this issue should be put on the research agenda, although it was recognised it is unlikely that a practical solution will be found in time for it to be implemented in the 2011 round.
53. The final issue discussed was the impact of data revisions on the ICP results and how to handle them in both the benchmarks and in any backcast series. In general, the major impact of any revisions is likely to flow directly through to the real expenditures with little effect on the PPPs. In any case, it would be impossible to recompile benchmark PPPs when national accounts expenditures are revised. For the 2011 ICP, the Global Office will advise Regional Coordinators of the final cut-off date for the GDP estimates that are used in the final results, although it is recognised that many countries may have only provisional GDP estimates at that time.

Summary of outcomes

54. The TAG agreed that:
 - The 1993 SNA should be the basis for national accounts estimates in the 2011 ICP;
 - In the interests of comparability of real expenditures on GDP, all countries should be encouraged to provide GDP estimates with FISIM allocated across final uses;
 - The current method of using exchange rates as a reference PPP for net international trade is less than satisfactory and so this issue should be put on the research agenda.

National accounts guidelines for the 2011 ICP

55. Michel Mouyelo-Katoula presented this session. He focussed mainly on a flow chart of the national accounts activities and their relationship to the price collection activities for the 2011 round. In summary, the national accounts activities are:
 - a) Review the GDP classification;

- b) Develop product lists using the basic headings as the building blocks;
 - c) National accountants should identify the major products in their country in each basic heading;
 - d) National accountants should identify data sources for these products;
 - e) Prepare a matrix of data availability for these major products (shows product(s) by basic heading);
 - f) Implement a commodity-flow approach based on the products identified above;
 - g) Match prices collected in the price surveys with the prices (could be unit values) from the national accounts;
 - h) Use the national accounts data to help edit the survey prices;
 - i) Create a metadata flow chart for the 2005 GDP expenditures;
 - j) Update this metadata flow chart to cover the years from 2006 to 2010;
 - k) Produce preliminary national accounts estimates for 2006 to 2010 to identify and resolve potential data problems;
 - l) Develop an early metadata flow chart for the 2011 national accounts;
 - m) Compile expenditures on GDP and the main uses for 2006 to 2011;
 - n) Compile simplified supply-use tables (SUTs);
 - o) Carry out national accounts work for the comparison-resistant components;
 - p) Develop 2011 GDP expenditures at the basic heading level.
56. Michel also listed the basic data validation procedures that each region should apply for the national accounts data:
- Compare GDP expenditure with those in the UNSD national accounts database;
 - Completeness checks (non-zero values);
 - Arithmetic basic checks (e.g. components add to totals, discrepancies are explicitly shown);
 - Check that FISIM is allocated;
 - Check that net expenditures abroad are allocated across household final consumption expenditure (if not, then use the procedure provided by the Global Office to make the allocation).
57. The following check should be applied to the price data:
- Implement price tracking through the national accounts for major products;
 - Verify the average price changes from 2005 to 2011 for similar products;
 - Check the consistency of PLIs across basic headings within a country.
58. The final stage will be to check the economic likelihood of the basic heading results:
- Verify per capita basic heading real expenditures;
 - Verify basic heading shares of GDP.

Discussion

59. The first question was about the implications of having large variations within basic headings in a cluster of countries (with the clustering based on the similarity of their economies). The Global Manager explained that it is an important editing check. The outcomes will be a correction to the expenditures if an error is found or an explanation as to why the data appear to be implausible if they are in fact correct. Regional Coordinators should identify outliers and discuss them with the countries involved. If the data are correct then these basic headings should be classified as outliers.
60. The ultimate aim would be to have countries use SUTs to produce their basic heading values. However, this will not be possible in many cases and so a fall-back is to have a commodity-flow analysis for major products. Most developing countries have the production-based measure of GDP as the benchmark (or the only estimate in many cases) rather than the expenditures on GDP as required by the ICP. The problem with commodity-flow analysis is that the pricing basis changes as the product moves through the different parts of the economic process. For example, a product sold at the “farm gate” will be valued at basic prices but the ICP requires the values at the end of the production and distribution chain to be based on purchasers’ prices. However, this process will also provide a good consistency check.

Outcome

61. Paul McCarthy was asked to write a short paper for the TAG on the method proposed for allocating net expenditures abroad across the components of household final consumption expenditure.

Process for building the core and regional product lists

Presentation

62. Nada Hamadeh described the process for developing the core and regional product lists. It is based on the lessons learned in the 2005 ICP and involves an iterative process. The first step is for the Global Office (GO) to reduce the 2005 Ring list using the Core List generator, then send this draft Core List to the Regional Coordinators (RCs) for a "desk" review to suggest deletes, additions, or changes. The GO will use this information to update the Core List and return it to the RCs. The RCs will merge the Core List with the regional list and send the merged list to their countries for review and comment. . Each country will have to review the product descriptions specified and classify each as “representative” or “available but non-representative” or “not available”. The lists will then be reviewed by RCs, followed by the GO, to ensure that sufficient countries will be able to price sufficient products in each basic heading for robust linking. The aim is to have any individual product priced by a number of countries in each of at least three regions. . At this stage, about 300 or so products are expected to be included in the core list but this is not fixed; as many as are needed for linking purposes will be included. Clearly, products in the core list will need to have consistent codes in all regions.
63. The starting point for the regional product lists will be the lists from the 2005 round. Products will be updated to remove those that are no longer in existence and to include new products that have emerged during the past 6 years. Once again, it will be an iterative process with countries providing feedback to the Regional Coordinator. Each Regional Coordinator will determine whether the regional list needs to be developed on the basis of sub-regional lists to ensure the best possible overlap of representative products in the final regional list.

64. A detailed timetable was also presented, which is designed to have the Core and regional lists finalised for pilot testing by mid 2010.

Discussion

65. The SPD process was introduced in the 2005 ICP after the development of product lists had commenced and it gradually evolved as the process of developing product lists continued. While it worked very well overall, the outcome was that the SPDs were regional specific rather than being completely consistent. However, the Global Office assured the TAG that names and descriptions of products will be harmonised across regions wherever possible, as will the price-determining characteristics and the format in which they are recorded. Large changes are not expected. Countries have been encouraged to include ICP products in their CPI product lists to the extent possible and this initiative will also continue.
66. One TAG member suggested that developing the product lists should start with the difficult products (services etc.) and then finish with the food products. The number of food specifications in the 2005 ICP seemed to be too large and the Global Office should closely examine the 2011 lists to ensure that only essential products are included. A number of TAG members agreed that outlet type, location, and urban/rural should be recorded. It should be recognized that rural households make some purchases in urban markets. This suggests outlets be coded as urban, urban serving rural, and rural. However, this should be recorded as part of the price collection process. Also, the spread of outlet types and location should be part of the survey framework design in each country to ensure that price samples are self-weighting to the extent possible.
67. A short discussion on the problems of distinguishing representative products in practice led the TAG to agree that a new definition of representativity is needed, which would focus on the practical issues associated with identifying representative products. The TAG agreed also that a product having a high market share would be representative but this is not a necessary condition because products with a relatively low market share but which are actively competing on price in their segment of the market could also be representative.

Summary of outcomes

68. The TAG agreed that:
- A new definition of representativity is needed, which would focus on the practical issues associated with identifying representative products;
 - A product having a high market share would be representative but this is not a necessary condition because products with a relatively low market share but which are actively competing on price in their segment of the market could also be representative.

Education

Presentation

69. George Ingram and Babette Wils from the US Academy for Educational Development (AED), Washington DC attended the TAG meeting to provide details of some of the research they are doing that may be relevant for the ICP.
70. Babette Wils gave a short presentation. She compared the three alternative methods that have been used in calculating PPPs:

- The Eurostat method, which is based on standardised pupil days, adjusted for quality differences between countries using results from the OECD's Programme for International Student Assessment (PISA);
 - Recording prices paid for tuition in private schools;
 - Input costs (teachers' wages etc.), with a productivity adjustment in some regions.
71. It is not possible to use the Eurostat method for the ICP because there is no world-wide equivalent of PISA on which to base a quality adjustment. The prices for tuition in private schools could be affected by government subsidies paid for various aspects of costs (including capital costs of the schools themselves) and so result in distorted price comparisons. The adjustments for productivity differences in the 2005 ICP were very large and change the basic data significantly.
72. The differences in quality across countries is the key issue in obtaining comparable data. Even if PISA results were available world-wide, there would still be unmeasured quality differences because "soft skills" are excluded from PISA. The quality of education depends on teacher training, class size, time actually spent learning in class, and family background (e.g. children from illiterate families do not learn as quickly or as well as children who are less disadvantaged).
73. The AED will examine the feasibility of developing quality adjustments based on a range of factors to apply to an output indicator for education.

Discussion

74. The TAG agreed that, given the intractable nature of measurement problems over many years, that we should not be too ambitious, and that any methodology developed for the 2011 ICP has to work for both public and private schools.
75. The TAG discussed the need to consider quality factors (e.g. teacher training, teacher absenteeism, learning outside the school system, availability of text books) to apply to an output indicator such as the number of pupil years taught. In the short term it may be necessary to simply use an output indicator such as number of pupil years with no quality adjustment. The only obvious alternative is to use input costs with productivity adjustments, as was used for government final consumption expenditure on education in the 2005 round.
76. The AED suggested the possible use of household surveys that include details about parents' educational attainment, nutrition, and children's access to text books etc. However, it can be difficult to reconcile data from different sources and it is not clear how much of consumption expenditure on education actually results in learning by students in some countries. In addition, discrepancies arise between enrolments (as recorded in government statistics) and attendance (measured in household surveys). The Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ) has data available for 17 African countries on students' educational attainment (similar to the OECD's PISA). A method would have to be found to link the SACMEQ results to those from PISA.
77. Angus Deaton proposed a method that would involve taking government expenditure on education in a base country in each region and scale it by the proportion of children attending school in each country in that region. Angus undertook to write a brief paper on his proposal.
78. George Ingram concluded the AED's input by saying that, despite having a large amount of data available, the AED does not have all the expertise needed to resolve world-wide comparison issues. He proposed to progress in two steps. The first will result in an interim proposal for the 2011 ICP followed up by a better proposal for the following round.

Summary of outcomes

79. The TAG agreed that any methodology developed for the 2011 ICP has to work for both public and private schools.
80. Angus Deaton undertook to write a brief paper on a possible method for use in the 2011 ICP.

Rents for owner-occupied dwellings

Presentation

81. The issues involved in obtaining rent PPPs and real expenditures for owner-occupied dwellings were well documented during the 2005 ICP. Derek Blades has produced a paper setting out the issues and posing the following questions for the TAG's consideration:
 - Is it useful to circulate a questionnaire on country methodologies for rents?
 - When is it appropriate to use the existing SNA guidelines for imputing rents for owner-occupiers? Should the rules adopted for ICP 2005 be retained?
 - Should we encourage the user-cost method to estimate total expenditure on rents?
 - Should we also recommend user-cost as a means of estimating rents for specific types of dwellings?
 - If yes to the previous two questions, can two workshops be held in each region to explain the method and review results?
 - Improvements to the quantity method would require greater involvement by the Regional Coordinators in checking and editing replies and following up non- and partial-response. Is this feasible?

Discussion

82. Erwin Diewert opened the discussion by mentioning a few of the issues associated with estimating dwelling rents. The imputed rent estimates are distorted if there is a narrow rental market in a country (e.g. one that is orientated mainly towards expatriates, such as embassy staff). He also noted that the user cost methodology may not give the same answer as the imputed market rent methodology because research has shown that user cost is equivalent to market rents only at the lower end of the market, with market rents being only about half of user cost at the top end of the market. The key question is what countries do in calculating their dwelling rent estimates in their national accounts. Quality adjustment is another tricky issue to consider. Characteristics such as size of the dwelling and size of the block on which it is built are important but these are not sufficient to explain all quality differences.
83. The TAG agreed that it is important that any solution should maintain the identity that value = price times quantity. However, past experience has shown that this can result in distorted estimates, with real expenditures being affected if the PPPs are based on prices collected for the ICP and the PPPs being adversely affected if the quantity approach is adopted to directly calculate real expenditures. Adjusting for quality differences is critical if the quantity approach is used. Detailed stratification would also assist in overcoming the quality problem but data availability has proven to be a constraint in the past.
84. No single method can be used because of data availability (or unavailability) problems. In Africa, many countries do not make any estimates for the value of rents for owner-occupied

dwellings. It will be necessary to identify some fall-back for these countries in the 2011 ICP because the inconsistencies in the treatment of rents adversely affected the 2005 results. Two issues are involved – the first is the quality of the national accounts estimates themselves, while the second is how best to make comparisons for the ICP.

Outcome

85. The Global Manager said that regions other than OECD/Eurostat will have to build up estimates of rents for owner-occupied dwellings for those countries that do not include such estimates in their national accounts. The Global Office and Regional Offices will provide assistance to improve these estimates, including explicitly identifying the price and volume elements in their national accounts so they can be used for ICP purposes as well.

Construction

Presentation

86. Yuri Dikhanov presented details of a proposed new methodology for comparing construction projects in the 2011 ICP. The possible alternatives for international price comparisons are:
- Input prices;
 - Output prices;
 - Intermediate prices;
 - Some combination of the above.
87. Each of the methods has trade-offs between what is desired conceptually (output price comparisons) and what can be achieved in practice. Comparable input prices are the most straightforward to collect, but they suffer from being based on prices paid by contractors to their suppliers rather than on the prices paid by the purchasers of the finished construction. It is difficult and costly to obtain directly comparable output prices, and often the best that can be collected is contractors' estimates, which are not "real" prices, being based on an expert view of the costs involved in a range of projects. Intermediate prices are available from price books, tenders, etc. but they depend on the pricing approach of particular contractors and the circumstances of particular projects.
88. Problems arose in implementing the "basket of construction components" (BOCC) approach in the 2005 ICP. As a result, alternatives are being investigated. The bills of quantity (BOQ) approach adopted by the OECD and Eurostat is not suitable for the ICP because it is so costly to implement. A consultant has been engaged to develop a new methodology. It is based on input prices weighted to represent national construction output for different types of construction (residential building, non-residential building and civil engineering).
89. At this stage of the method's development, the inputs cannot be aggregated to the three basic heading and so further work is needed on the distribution of resources across the basic headings. Some practical issues need to be resolved (data collection, sources, organisational issues). It will be necessary to work out a transition to purchasers' prices because the basic data are input costs not output prices. Methods being examined include developing input construction shares by basic heading for individual countries or for groups of similar countries. The availability, reliability and compatibility of input-output tables internationally needs to be assessed. An advantage of the proposed method is that a relatively small number of materials and products will represent entire industries.

Discussion

90. The TAG's reaction was that the proposed approach was a step back from the BOCC method used in the 2005 ICP. Problems include how to allow for productivity differences and overheads (including profits) between countries. However, the TAG acknowledged that the BOQ approach would be too costly. The reason for introducing the BOCC approach in the 2005 ICP was that the BOQ approach had been used in the 1980, 1985 and 1993 ICP rounds and it was not only costly to implement but very difficult as well because of the need to cater for huge variations in the types of projects that were representative in all countries.

Outcome

91. The TAG will consider this topic again at its next meeting when the new methodology has been developed further.

Productivity adjustment for government wages

92. This topic was held over to the next TAG meeting because of lack of time to consider it properly.

Possible research topics to be considered by the TAG

93. The final issue considered by the TAG was the research agenda. The Chair presented a list of topics, to which the TAG added several more items during its discussion. The consolidated list is as follows:

1. *The treatment of owner-occupied housing*

- Alternative theoretical approaches to owner-occupied housing including rental-equivalence, user costs, direct quantity measures.
- The problems associated with measuring quality differences (a problem for rental housing as well as for owner-occupied dwellings when doing cross-sectional comparisons).
- Housing is a composite good, consisting of a land component and a structures component.
- How to design a survey to collect the characteristics of dwellings (ideally for hedonics).

2. *The treatment of financial services*

- What is the right deflator to convert nominal financial services into real services?
- What information is required?

3. *The measurement of government outputs*

- Health.
- Education.
- Other government services; productivity adjustments.

4. *Problems associated with the review of survey frameworks*
 - How should urban and rural be defined?
 - The aggregation of rural and urban prices; spatial aggregations.
 - Problems when there is high inflation within the reference year.
 - Calculating weights, representativity and poverty PPPs.
5. *The treatment of exports and imports*
 - Can anything be done to improve the present methodology in the short run?
 - How big are the problems (rough estimates)?
6. *The adjustment of household consumption data for net purchases abroad*
7. *The representativity problem*
 - Yuri Dikhanov's solution: price only representative products.
 - CPD versus EKS (and CPRD versus EKS*)
8. *Aggregation issues*
 - Problems at the basic heading level; can we just use the core prices that will be collected by all countries and the previous CPD methodology?
 - Higher-level aggregation methods.
9. *Pricing construction*
10. *Poverty issues*
 - Examine work done on poverty PPPs based on household expenditure survey weights rather than on national accounts weights.
 - Systematically compare prices underlying the ICP PPPs and the unit values for similar products obtained from household expenditure surveys.
 - Include in a longer-run research agenda.
11. *Produce paper on problems with the ring comparison in 2005*
 - Examine the implications of linking regions via the core list.
12. *Backcasting*
 - Handling revisions.

Discussion

94. The discussion was mainly about additional topics to be included in the list of research topics circulated by the Chair and they have been included in the above list. Other issues raised were establishing a closed website so TAG members could more readily access documents and whether the TAG should consider a separate research agenda for poverty PPPs.

95. The TAG was asked to suggest topics for the 20/10/2010 statistical users' conference and also suggest names of those who should be invited to attend.

ANNEX A

Agenda

Technical Advisory Group Meeting Agenda

October 1-2, 2009
World Bank, Washington DC

Rooms: Day 1 – MC4-800
Day 2 – MC2-800

Chair: Erwin Diewert, The University of British Columbia

Day 1: October 1, 2009 – Room MC4-800	
Session 1	Introductory Session
8:30 – 9:00	<i>Registration, Coffee & Breakfast</i>
9:00 – 9:15	Welcome & Opening Remarks Shaïda Badiee, Director, DECDG
9:15 – 10:00	Role of the Technical Advisory Group & Actions Taken Following from Previous TAG Recommendations Erwin Diewert, The University of British Columbia & Michel Mouyelo-Katoula, ICP Global Manager
10:00 – 10:15	<i>Coffee</i>
10:15 – 11:00	Achievements of the ICP 2005 Round & Objectives of the ICP 2011 Michel Mouyelo-Katoula & Fred Vogel, World Bank
11:00 – 12:45	Making ICP Computation Transparent: Regional, OECD-Eurostat & Linking to the Globe Michel Mouyelo-Katoula & Yuri Dikhanov
12:45 – 14:00	<i>Lunch (hosted by DECDG)</i>
Session 2	National Accounts <i>Chair:</i> Angus Deaton, Princeton University
14:00 – 15:30	<i>Defining the National Accounts Framework for ICP Work</i>
15:30 – 17:00	<i>Guidelines for the Implementation of ICP Related NA Activities</i>

Day 2: October 2, 2009 – Room MC2-800	
Session 3	Research Activities Aimed at Improving ICP methodologies
<i>9:00 – 12:00</i>	Towards the Harmonization of Methods to Compute Regional PPPs & Global Linking Factors
	Housing (Quantity Approach, Rental Method & Reference PPPs)
	Health services
	Public & Private
	Education services [<i>Public & Private</i>]
	Review of Methods for Construction PPPs
<i>12:00 – 12:45</i>	Productivity adjustment [Yuri M. Dikhanov]
<i>12:45 – 1:00</i>	The Way Forward & Closing

ANNEX B

List of participants

TAG members attending:

Chair: Erwin Diewert (University of British Columbia)

Deputy Chair: Fred Vogel (World Bank)

Alan Heston (University of Pennsylvania)

Angus Deaton (Princeton University)

Francette Koechlin (Organisation for Economic Co-operation and Development)

Jim Thomas (US Bureau of Labor Statistics)

Kim Zieschang (International Monetary Fund)

Luigi Biggeri (University of Florence)

Mick Silver (International Monetary Fund)

Prasada Rao (University of Queensland)

Paul Konijn (Eurostat)

Paul McCarthy (World Bank)

Tom Langer (Statistics Norway)

Apologies:

Bart Van Ark (The Conference Board)

Louis Marc Ducharme (Statistics Canada)

Martin Ravallion (Research Group, World Bank)

Sergey Sergeev (Statistics Austria)

Regional Coordinators:

Abdulaye Adam, African Development Bank

Luc Mbong Mbong, African Development Bank

Chellam Palanyandy, Asian Development Bank

Luis Gonzalez, ECLAC

Sylvan Roberts, ECLAC

Giovanni Savio, ESCWA

Majed Skaini, ESCWA

Vasily Kouznetsov, ROSSTAT

World Bank participants:

Shaida Badiie (Director, DECDG, World Bank)

Misha Belkindas (Manager, DECDG, World Bank)

Michel Mouyelo-Katoula (ICP Global Manager, World Bank)

Yuri Dikhanov (ICP Global Office, World Bank)

Nada Hamadeh (ICP Global Office, World Bank)

Olga Ackadag (ICP Global Office, World Bank)

Virginia Romand (ICP Global Office, World Bank)

Seong Heon Song (ICP Global Office, World Bank)

Other participants:

George Ingram (US Academy for Educational Development)

Babette Wils (US Academy for Educational Development)

Stephen Lim (Institute for Health Metrics and Evaluation, University of Washington)