International Comparison Program (ICP)  
Status and Progress Report  
Submitted to the Executive Board  
February 28, 2005  
New York, New York

Introduction

1. This report provides a status of ICP 2003-2006 global and regional activities as the program has now entered the reference year (2005) for data collection and compilation of Purchasing Power Parities (PPPs). The report will provide a review of the data collection efforts by region, the implementation of the data processing system (Tool Pack) and preparations for the global Ring Comparison.

2. The review will show that considerable progress has been made in determining the methodology to be used for the Ring Comparison as well as the ‘difficult to compare’ items such as housing. The budget and funding situation is also reviewed. The status report will conclude with issues regarding aggregation and publication of results, and an overview of the work plan and time table.

Price Collection Surveys.

3. Data collection has begun in all ICP regions except Africa. A more detailed summary by region follows.

- **Africa:** The region has finalized the product specifications and prepared data collection forms for data collection. Tool Pack training has been provided to all participating countries. Problems with disbursement of funds to the countries have delayed preparatory work for data collection including recruitment and training of data collectors, and finalization of the survey framework. The African Development Bank has commissioned Professor Ben Kiregyera, a member of both the ICP and regional Executive Boards, to evaluate the program to gain an assessment of the problem and to determine when data collection can begin.

- **Asia:** Data collection has begun in all but one country. All countries have received computers with the Tool Pack installed and many are gaining experience with its use. Countries have been asked to submit the first prices in early March.

- **CIS:** The region began collecting prices in mid 2004. It will continue collecting prices through 2005. Purchasing Power Parities will be prepared using 2004 as a reference year, and again using 2005 as a reference year.

- **Latin America:** The region conducted pilot surveys in the last quarter of 2004, summarized the data and conducted a review of the results which provided considerable insight useful not only to them but also to other regions. For example, they found more errors than expected with
wrong units of measurement and inadequate sample sizes. Their experience points to the need for each region to do a quick assessment of the first data collected so that adjustments can be made. The pilot survey provided another test of the Tool Pack that dispelled concerns about its use.

- W. Asia: Qatar, Bahrain, Oman, Egypt, Kuwait, and Saudi Arabia have started data collection. UAE and Lebanon are expected to start this month. Jordan, Syria and Yemen are ready. They are waiting for money transfer from ESCWA. They, too, will start before the end of February.

- Pacific Island Countries and Territories. Funding made available by the Australian Aid Agency will make it possible for the Cook Islands, Niue, Palau, PNG, Samoa, Tonga and Fiji to participate in the comparison on a limited basis. Data will be collected and PPPs prepared for 58 Household Consumption basic headings. Product specifications are drawn primarily from CPI lists with products of regional importance being added. Fiji is also participating in the Asia comparison and will be the bridge between the two regions. The regional coordinator is the Secretariat of the Pacific Community (SPC).

- Central America and the Caribbean Region. The Global Office is working with ECLAC to include additional Central American countries including Panama, El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica and Dominican Republic. Similar discussions are underway with the Inter American Development Bank and the Caribbean Community Secretariat regarding that region. The price surveys would be limited to consumption items largely drawn from the CPI lists. The time frame for data collection would be late 2005 or early 2006.

4. The ICP Global Office will be sending regional coordinators SPDs and/or methodology to be used for the remaining components of the GDP. This includes Health, Housing, Education, Government, Construction, and Equipment. A more detailed discussion of these issues follows. The goal is to provide a set of core specifications for each category for every region to measure and supplement if they so wish.

- **Health:** The World Health Organization (WHO) has prepared specifications describing 30 core pharmaceutical products. SPDs have been prepared based on them and the regions will receive product specifications in early March. The list of medical products and services used in the Eurostat-OECD comparison was reviewed by the World Bank medical department who provided information on defining products and services in developing countries. SPDs and product specifications for these items will also be turned over to the regions in early March.
• **Housing:** The usual approach for the Housing sector is to use data from rental surveys to estimate PPPs for both rental and owner-occupied housing. The primary difficulty lies with countries where the majority of people live in owner-occupied housing with insufficient rental markets to impute values. The Technical Advisory Group (TAG) approved a method called the “Quantity Approach” for countries that do not have a sufficient rental market. This approach relies on national account data to indirectly derive PPPs. A questionnaire has been prepared to be sent to all countries to determine the scope of their rental market. All countries will be asked to furnish data needed to estimate PPPs using the Quantity Approach. The TAG is currently providing another review of the need to conduct rental surveys where possible. The chapter on Housing for the ICP Handbook is in final review.

• **Education:** Structured Product Definitions have been prepared and sent to the regions. The difficulty with the education component of household consumption is that educational services are provided in various degrees by governments which makes comparisons difficult. Therefore, comparisons are based on private music or language lessons or pre-primary schools or by substituting PPPs obtained for the governmental education. Regions will be encouraged to consider the use of PPPs from the government sector to represent household consumption for education.

• **Government Consumption:** Services provided by governments are difficult to compare directly. Therefore, the method used in previous rounds and also in the Eurostat-OECD comparisons is to use government employee compensation as proxy measures to compute PPPs. The basic process is to prepare specifications for different categories of government employees, and then have countries estimate the annual compensation for each. Forty-six occupations have been defined using job descriptions taken from the International Standard Classification of Occupations (ISCO). These descriptions were last updated in 1988.

The International Labor Organization (ILO) has agreed to work with the ICP Global Office, OECD and Eurostat to update the job descriptions for the forty-six occupations. This work is underway with the goal to have a core set of descriptions that can be used globally for the compensation comparison. The chapter on Government for the ICP Handbook has been re-written and is available on the ICP website.

**Capital Formation:** The TAG approved the use of a methodology termed “Basket of Construction Components”. The process involved breaking down construction projects into a set of common components that can be compared across countries. Consultants are finalizing over 30 product specifications that will be the basis for the construction component of the
GDP for all ICP countries. These will be presented to the regional coordinators in early March.

- **Equipment:** An international consultant has been engaged to use the Eurostat-OECD list as a basis to prepare SPDs and product specifications for developing countries. This material will also be presented to regional coordinators in early March.

**ICP Software—The Tool Pack**

5. The initial version of the ICP Tool Pack distributed to regional and country offices was in English and only contained the modules required for data collection. An updated version, although delayed due to improvements made and extensive testing, was disbursed to regional offices in January 2005. The updated version contains several features needed by the regional coordinators, including the tables for data validation between countries and the estimation of PPPs.

6. The Tool Pack is also available in French, Spanish, Arabic, and Chinese. All versions have been tested, installed and countries using them have been trained. The Russian version is currently being tested with installation and training in Moscow planned for March.

7. Latin America was the first region to operationally test the Tool Pack which was done during its pilot data collection exercise in the fourth quarter of 2004. A joint report by Statistics Canada and the Economic Commission for Latin America and the Caribbean indicated that the “The Tool Pack has been used in the region albeit in different ways because individual circumstances of countries participating in ICP Latin America differ. But the myth of its ineffectiveness has been dispelled, at least in our region.” Dr. Sergey Sergeev, a member of the ICP Technical Advisory Group, prepared a report in his capacity as consultant to Statistics Austria. His report concluded that “the co-ordination and management of the data collection process can be significantly improved by using this system.” Reports by Uruguay, Bhutan, China, Qatar, and Uganda also express general support to the usefulness of the Tool Pack.

**The Global Ring Comparison—Preparing the Ring List**

8. The ICP Global Office has developed an Excel based application called the Ring Administration Module (RAM) to allow the preparation of the Ring Product List to be done in a structured manner. This application contains product specifications and accompanying pictures for several thousand items. The process started with the Global Office storing merged product lists from all six regions (including Eurostat and OECD) for food, clothing, footwear, furniture and recreation in the system. The application has been sent to regional offices. Global Office representatives held workshops in Asia and Western Asia to help Ring Country
representatives indicate which of the products available in other regions are also available in their markets. Other regions are also in the process of completing the work.

9. After the above file is received from the Ring Countries, the responses will be used to purge products not available in at least two regions. The remaining products will be reviewed to remove duplication, and harmonize terms and definitions. The next step will be for the Ring Countries to do the market pre-survey to verify the availability of the remaining products and whether they are representative. The Ring Administration Module or RAM will also be the basis for this review.

10. The final step will be to finalize the product list. The issue is whether to bring all 18 Ring Countries together at once to do this finalization, or whether to conduct a series of regional meetings. It is the Global Office’s position that a meeting of all 18 countries would be preferred if resources allow.
11. A major result of the last TAG meeting was its agreement on the methodology to link regional basic heading Purchasing Power Parities into global PPPs. The method has been documented in Chapter 11 of the ICP Handbook and contains a worked example. The process is simple and transparent.

12. The beginning point is at the basic heading level and the regional PPPs for each Ring Country. The Ring Countries will submit prices for each item priced from the Ring list in each basic heading. These ring prices will be converted to a regional price using the regional PPP. This reduces the 18 Ring Country prices to 6 sets of regional prices. PPPs are calculated for the six regions which provides a multiplier to convert every country’s regional parity into a global parity. The following table comes from Chapter 11 of the ICP Handbook. The example shows three regions. Region 1 is the base region. The intra-regional parities (from the regional comparison) multiplied by the Inter-regional parities (based on Ring prices) results in the global parities. Fixity remains, which means the relative position of each country in the regional comparison is retained.

### Regional and Global Parities

<table>
<thead>
<tr>
<th>Region</th>
<th>Intra-regional parities</th>
<th>Inter-regional parities</th>
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<td>16</td>
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ICP 2003-2006 Handbook

13. New chapters have been written and posted on the ICP website. A brief summary of each chapter follows:
   
   - **Chapter 10. Basic Heading Parities.** The chapter contains a summary of the various methods available to prepare Basic Heading Parities along with a worked example showing the strengths and weaknesses. The methodology chosen for the 2005 round—Country Product Dummy with Representativity (CPRD) is described.
   
   - **Chapter 11. The Ring Comparison.** The methodology to be used in the Ring Comparison to connect the regions in to a global comparison has been carefully documented and a worked example has been provided to add clarity to the process.
   
   - **Chapter 12. Housing.** The methodology to both estimate expenditure weights and also to estimate the housing Purchasing Power Parities is described. It also contains a questionnaire to be sent to all countries to guide regional and national coordinators on specific methods to use in each region.
   
   - Chapter 8 which is on government has been re-written and is also on the ICP website.

Work Plan

14. The purpose of the work plan is to show the activities to be completed and the time table of events leading to the publication of the global Purchasing Power Parities. The work plan shows preliminary PPPs using 2004 expenditure weights becoming available the last quarter of 2006 with final PPPs using 2005 expenditures completed by the middle of 2007. Annex A provides a summary of the Global time line for Consumption, Housing, Health, Capital Formation and Government, and Regional PPPs. Some of the work/activities can be done in parallel while others are sequential. The sequential activities are a concern because that means the program moves forward at the speed of the slowest region/countries.

   - Specifications are being finalized for Health, Education, Housing, Construction, Equipment, and Government. These need to be completed for data collection to begin by the third quarter of 2005.
   
   - The process to build the Ring Product List has begun. Some aspects can be done in parallel to the regional program; however, in total, the Ring can proceed only as fast as the regional lists are translated and made available to the other regions.

15. Consumption. There are two main issues. Even though data collection for most of consumption has begun or is about to, specifications for Health, Education, and Housing are still being finalized. These final specifications are needed by July 1,
2005 if data collection is to take place during the third quarter. The other issue is that the data validation, estimation and preparation of the basic heading parities need to be done by the end of the second quarter of 2006 to meet the overall timetable.

16. Capital Formation and Government. Specifications for Construction, Equipment, and Government are underway in the Global Office with the regional reviews to be done during the second quarter. The timetable for these activities plus the data validation, estimation, and preparation of preliminary PPPs will be in parallel to the overall consumption schedule.

17. Regional PPPs. The preparation of aggregated PPPs for each region is dependent on the completion of the data collection and analysis necessary to prepare the basic heading parities for Consumption, Capital formation, and Government. In addition, expenditure weights for 2004 are needed. If all proceeds as shown in the work plan to this point, preliminary regional PPPs will be available by the end of 2006.

18. Global PPPs. The work plan shows that the list of items to be priced by the Ring Countries needs to be completed by the middle of 2005 if data collection is to take place in the last half of 2005. The lists of products and methodologies for Health, Education, Housing, Construction, Equipment and Government are being prepared to reflect the global situation to minimize the additional data collection the Ring Countries must do for those items. However, it is likely that there will be minimal overlap between the regional lists for consumption items and what the Ring Countries will need to price. However, the work will be not as extensive as for the regional comparison because the Ring data will only be collected once and in the capital cities. The Ring Comparison will move in parallel to the above activities. A key point is that the Ring PPPs are dependent on having PPPs from each of the six regions.

19. Summary of timeline and work plan. The work plan will be reviewed with the regional coordinators in a meeting scheduled for March 7-11, 2005. An overall concern is the effect the delay in the African region will have on the global comparison. Another concern is the number of activities that must move in parallel for the time table to be achieved.

Funding and Budget

20. The Global Trust Fund contained $2.3m at the beginning of FY 2005. About $2.0m was budgeted for FY 2005—about half of that amount has been disbursed. Whether or not the full amount of the remaining is spent will depend on the progress of preparations for the Ring Comparison. Any carryover will be needed in FY 2006 if it is not spent in FY 2005. We are expecting an additional $300k from donors. The budget for 2006 is $1.2m. The carryover from this year plus the additional amounts from donors will provide for about half of the $1.2m. That
along with needs for FY 2007 mean the global program faces a $1.1m shortfall overall to bring this round to completion.

Technical Issues

21. The TAG has reviewed a considerable amount of background material and has made recommendations on the methods to compute Basic Heading Parities (CPRD), as well as the methodology for housing, construction, and the Ring Comparison. The remaining major decision involves how the Basic Heading parities will be aggregated to sublevels of the GDP. The TAG will be considering the pros and cons of the different methodologies and preparing a recommendation.

22. A subgroup of the TAG, the Poverty Advisory Group (PAG) has been considering methods to use PPPs and household survey expenditure survey data to improve the estimates of the number of people living in poverty. An effort is underway to prepare a data base containing micro data from household surveys for a large number of countries. The goal is to use the expenditure patterns of the poor to compute PPPs for comparisons of poverty levels between countries.

Publication Strategy

23. The ICP has been organized so that each region’s results will stand alone. This means that each region can release their regional results as soon as they are completed without waiting for other regions. It is recommended that the regions be given guidelines regarding the level of detail they can publish and the scope for per capita measures.

24. The results of the Ring comparison will provide Basic Heading Parities. The global comparison of aggregated results can be obtained by either of two ways. First by aggregating all 150+ countries as one large region. The other would be to aggregate the Ring adjusted PPPs independently region by region. The two procedures will result in different PPPs as well as different rankings of countries. There are pros and cons of using either procedure and the TAG advice will be sought. However, it involves political issues as well, therefore we need input from the Executive Board.
Appendix A—Timeline leading to publication of PPPs and related information

Overview Of ICP Program

<table>
<thead>
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Overview

Household Consumption
Data Collection
Data validation
Estimation of average prices
Regional validation
Basic Heading PPPs

Housing, Health, Capital Formation--Gov’t
Complete Specifications
Data Collection
Data validation
Estimation of average prices
Regional Validation
Basic Heading PPPs

Regional PPPs
Obtain 2004 Expenditure Weights
PPPs for consumption
PPPs at GDP

Global PPPs 2004 Expenditure Weights.
Prepare Ring list
Data Collection
Data Validation
Estimation of ring average prices
Ring validation
Obtain BH PPPs all countries, all regions
Basic heading PPPs ring
Scale regional ppps to global ppps all countries
Global PPPS/ GDP and indices

Regional PPPs 2005 weights
Global PPPs 2005 Expenditure Weights.