

Monthly Update

31 August 2011 Issue 8

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Special Interview - Part I

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Q1. What are some of the toughest challenges you constantly face in your role as a regional coordinator and how do you manage to overcome them? What would you describe as the most difficult aspect of your role? Why?

C.P.: Securing country participation in the ICP was not an issue. However, sustaining their continued commitment is the main ongoing challenge. This is so, because ICP is, to a large extent, still viewed as an international project and not a national priority. As such we had to strategize to first overcome this perception by convincing the National Implementing Agencies (NIAs) on the benefits to be derived from participation, that is, capacity building in national accounts and price statistics; promoting the use of PPP methodology to improve their national CPI; adopting the Structured Product Description (SPD) in the CPI; and promoting the concept of intra country PPP. We make it a point to constantly make reference to the 2009 PPP update and supply and use tables (SUT) projects which established our credibility in capacity building. Nevertheless, it still is an uphill battle; especially in countries where national statistics offices (NSO) resources are finite.

Currently the most pressing challenge is in getting countries to review their data. In spite of all the facilitation and backstopping provided through diagnostics tables, explanations and worked examples, it is still a challenge to get the countries' commitment to address data issues. My take on this is that, of late we have been loading countries with the non-household

sector data requirements with tight deadlines and the fact that many countries are also involved in the population census and hence their time and resources are stretched thin. Proficiency in language is another contributing factor. In the Asia Pacific region in almost all the participating countries English is not the medium of communication. As such the challenge is that NIAs understood the key messages in all our communications.

Obtaining consensus on pricing and its specifications is a challenge in itself. Our strategy to overcome this was actually a simple one. We bring all national coordinators together for regional workshops on a regular basis where they are allowed to fully debate all issues. All dissenting views are given due importance and consideration. By being an effective and impartial moderator, we invested in a tremendous amount of negotiation, coaxing and diplomacy to forge greater understanding, mutual respect and trust among the national coordinators. We hence managed to nurture a sense of camaraderie among the coordinators. These translated into understanding of each others views and constraints and paved the way for consensus decision making. Once agreed, the challenge is to avoid any reconsideration due to any participating country's afterthought. Though not encouraged, where necessary, some leeway is always accorded on a case by case basis.

Overall our main thrust in overcoming these challenges was to establish a sustained two-way communication with the respective NIA and constantly updating them on the progress of the ICP. This ensured their direct involvement in the decision making process and thereby giving them a sense of ownership in the project. The Regional Advisory Board (RAB) for the Asia-Pacific (AP) region further concretized this sense of ownership. Both large and small economies are given equal representation in the Board.

Funding is always a challenge. Inclusion of activities not originally included in the regional program; such as requiring all countries to price the Global Product List (in the 2005 ICP, Global List pricing was directly funded by the GO); additional data requirements for the non-household sector all require additional funding. It must be stated that request for funding within the institution (ADB) was made way ahead of

the GO establishing the responsibilities of the Regional Coordinating Agency (RCA). A direct consequence is that the RCA has to constantly look for funds.

Q2. How do you ensure country participation and what are the main issues/difficulties in such involvement?

C.P.: Country participation is initially secured through an official Letter of No Objection (LNO) signed by the national implementing agencies and the ADB. This is formalized via communications through the Ministries of Finance of participating countries.

Ensuring uninterrupted and continuous country commitment and support to the ICP activities, over a period of at least 3 years is a daunting task. How we went about overcoming this challenge? We fostered a close working relationship with NIAs and national coordinators to work together as a team through regular communication via email; conduct of regular regional meetings/workshops to update on progress and discuss issues; transparency of methodologies adopted and mandating NIA's themselves to finalize their data sets based on advice provided by ADB (the onus of quality of country data rests with the countries is always made very clear). As highlighted earlier, such activities gives the NIAs a sense of program ownership and, this works as a great incentive for country participation.

To supplement and enhance further the sense of ownership and participation, we encouraged the continued participation of the national coordinator or staff who has previously participated in regional workshops. This ensures sustained development of institutional skill, interest, talent and memory. Further, this smoothens the path for agreements during workshops which is vital in securing data quality.

The RAB has a critical role and is convened when hard decisions have to be made. (Fortunately, we have not had issues which warranted for any RAB meeting for this year). This too gives a sense of participatory ownership. Going back to the 2005 ICP round, the RAB was actively engaged, for instance, in the productivity adjustments issue.

A major comforting aspect of the project is that data confidentiality is guarded and respected, thus, fostering a sense of trust.

ICP Sessions at the International Statistical Institute 2011 World Congress

Two ICP sessions were held at the 58th Congress of the International Statistical Institute (ISI), in Dublin, Ireland. The first one, an Invited Papers Session, as per the ISI classification of sessions, related to “Improving International Comparisons of Prices and Sizes of Economies”; it was organized and chaired by Michel Mouyelo-Katoula, current ICP Global Manager. The second one, a Special Topics Session, dealt with “Understanding Changes in Purchasing Power Parities Over time”. It was organized and chaired by Fred Vogel, previous ICP Global Manager.

(1) Improving International Comparisons of Prices and Sizes of Economies

The objective of the session was to update the international statistical community about improvements and innovations being implemented in the 2011 round of ICP. While the current round builds on the main assets earned from the previous round, several areas were identified for improvement and innovation. They include, but are not limited to: (i) the survey frameworks for the various ICP data collection activities, with specific emphasis on the main survey related to household consumption goods and services; (ii) the revision of the ICP data access and archiving policy, which while preserving the data confidentiality principle would allow ICP users to access unpublished data for more in-depth; (iii) the development of a national accounts framework for ICP and related guidelines; (iv) the method of linking ICP regions through a global process evolving around the global core approach; (v) the preparation and implementation of an ICP quality assurance framework; and (vi) the preparation and publishing of an ICP book titled “Measuring the Size of the World Economy”.

The ICP session focused on the first three aspects which were addressed through three papers: Fred Vogel wrote and presented the paper on “Increasing the Efficiency of Price Survey Frameworks in the ICP”; Dennis J. Trewin, Chair of the Executive Board of the ICP 2005 prepared a paper on “Enhancing ICP knowledge Sharing through Wider Data Access Policy”; and Paul McCarthy, Chair of the ICP 2011 Technical Advisory Group, and Michel Mouyelo-Katoula co-authored the last paper on “Improving the quality of GDP Expenditures Estimates under the ICP”. Ms

Shi Ting, Director of the International Comparison Program at the National Bureau of statistics, P.R. China, as the session discussant, reiterated the criticality of the improvements from a global perspective, and highlighted the national implications using China’s ICP experience. Summaries of the papers are provided below.

Increasing the Efficiency of Price Survey Frameworks in the ICP

The foundation of the PPPs coming from the ICP is that they are based on prices for a basket of goods and services that are comparable across countries. In addition to the comparability requirement, the basket should include products representative of individual countries. The tension between comparability and representativity is reviewed by examining the interaction of several factors that affect the reliability of PPPs. The first is the specificity of the price-determining characteristics and how that relates to the number of products to be priced. Both depend on the heterogeneity of the product groups, and the amount of overlap of the products across countries. All of these factors have to be considered in the sample design for the price collection to determine the number and types of outlets to be included. A final requirement is that national annual average prices be provided for each product or service.

The paper illustrates the sources of variability inherent in the estimation of PPPs and presents how the understanding of those sources can be used to define the products to be priced, classify them according to their importance, set targets for the number each country should price, and define the scope and coverage of the data collection by outlet types and the rural/urban domains in order to provide national annual average prices.

Enhancing ICP Knowledge Sharing through Wider Data Access Policy

In the 2005 round, the Data Archive and Access Policy strongly limited access to data below the basic heading level data (there are 155 basic heading expenditure categories). Also, in some regions, the memoranda of agreement between the regional coordinating agencies and the countries restricted researchers’ access to detailed price data. However, at the end of the 2005 round, it was clear that some of the more important researchers were mostly interested in more detailed data than was available from the 2005 round notwith-

standing the quality limitations.

Based on this experience, the 2011 round will attempt to achieve two fundamental goals in the area of data access: (1) securing the confidentiality and security of data, and (2) ensuring effective dissemination and use of data. A trade-off arises between achieving those two goals. The 2011 round will try to strike a balance between users’ needs for access to detailed micro data and participating countries concerns about this level of access including both confidentiality and quality concerns. However it should be recognized that country’s laws on confidentiality cannot be breached under any circumstances. Also, greater focus will be laid on collecting, archiving, and providing access to metadata, to increase the quality and utility of the data .

Improving the Quality of GDP Expenditures Estimates under the ICP

The 2005 ICP provided PPPs and estimates of real expenditures (and the per capita estimates) for 146 countries. An issue arising from the 2005 ICP was that the national accounts of participating countries were not always consistent even though they were supposed to be based on the conceptual framework described in detail in the international standards for national accounts - the System of National Accounts, 1993. As a result, the Global Office has established a program to improve the comparability of the national accounts provided for the 2011 ICP, in which more than 160 countries are expected to participate. This includes: collecting the national accounts data early enough to identify and resolve major issues; identifying the basic headings that are most likely to have a significant impact on the consistency of expenditure data between countries and encourage countries to improve these basic heading data; addressing the GDP exhaustiveness issue; and using the supply-use identity to estimate values for each major product in a country (referred to as “commodity flow analysis”).

The Global Office has developed guidelines and a Model Report for Expenditure Statistics (MORES) to assist countries to compile their estimates and to document their methods. The Global Office has also established an ICP National Accounts Working Group (INAG) to advise on which major components of expenditure on GDP need to be improved in general and ways of going about this task.

ICP Sessions at the International Statistical Institute 2011 World Congress

(2) Understanding Changes in Purchasing Power Parities over Time

by Fred Vogel

The purpose was to obtain different views on how to explain changes in PPPs over time. An overview of the PPPs being compared over time is provided which is then followed by the main points made by each presenting author: Martin Ravallion, Director, Development Research Group of the World Bank wrote a paper on “Price Levels and Economic Growth: Making Sense of Revisions to Data on Real Incomes”, Charles Thomas, Jaime Marquez, James Coonan, and Corinne Land from the US Federal Reserve Board prepared a paper on “International Relative Price Levels—an Empirical Exploration”, and Luigi Biggeri, University of Florence and Tiziana Laureti, University of Naples co-authored the paper on “Extrapolation of PPPs over time using the CPI—methods and interpretation”.

There are periodic benchmark surveys that are “stand alone” efforts making use of the best methodology available at the time. As a result, changes in methodology can contribute to level differences in PPPs between benchmarks. The reference points for analysis of benchmark periods were 1985, 1993, and 2005. Data users also require annual updates between these benchmark periods. Therefore, the World Bank in its World Development Indicators publication provides annual PPPs at the level of the GDP. These annual PPPs are simply obtained by extrapolating the benchmark PPP forward for each country using its GDP growth rates as a ratio to the US GDP growth rates. The 2005 benchmark PPPs differed significantly from those based on extrapolations resulting in lower levels of GDP at purchasing power parity for many developing countries.

Price Levels and Economic Growth: Making Sense of Revisions to Data on Real Incomes

Ravallion’s analysis showed that the Balassa-Samuelson model still applied to the 2005 benchmark. This model is based on the hypothesis that PPPs will tend to rise relative to the exchange rate in a growing economy and happens if economic growth comes from higher labor productivity in the traded-goods sector. This is also thought of as a dynamic Penn effect in which the price level index tends to be higher in richer countries. As

shown by Ravallion, a poor country’s PPP will move closer to the exchange rate as it develops. The paper shows that the PPP changes between rounds make sense, and also finds that the dynamic Penn effect is even stronger in initially poorer countries. The higher PPPs in many developing countries are a result of their economic growth. This was especially true for China where his analysis suggests that two thirds of the increase in price levels came from the dynamic Penn effect. An outcome of the analysis used to see if changes in PPPs over time made sense was that the extrapolations for non benchmark years could be significantly improved if the dynamic Penn effect were brought into the inter temporal extrapolations of the price level index by adding market exchange rates to the extrapolation. Doing so would have avoided the large revisions made to the 2005 extrapolated estimates using the 2005 benchmark PPPs.

International Relative Price Levels - an Empirical Exploration

The purpose of the analysis was to examine price levels for tradable vs. non tradable goods at the level of the basic heading and at the level of development of the economies. The analysis showed the variability of price levels across countries for non tradable basic headings was considerably greater than the variability for tradable basic headings. The analysis regarding the existence and importance of the dynamic Penn effect at the basic heading level is consistent with that shown by Ravallion and also shows the relative impact of tradable vs. non tradable items.

Extrapolation of PPPs over Time using the CPI—Methods and Interpretation

This paper addressed the issue of extrapolation of benchmark PPPs. Several reasons were cited for the differences between benchmark and extrapolated PPPs which is mainly that the extrapolation is at the level of the GDP while the benchmark PPPs are aggregated from the basic heading level. Other reasons are that the benchmark PPPs are based on 2005 prices and expenditures while the extrapolated measures come from GDP (Paasche) and/or CPI (Laspeyres) indexes. Market baskets also differ. The main purpose of the paper was to break down the extrapolation method into price and weight components and to show that the best way to extrapolate PPPs is to start at the basic heading level where the extrapolations could then be aggregated consistently with how the benchmark

PPPs are computed. This would also require that the national CPI’s contain products comparable across countries.

The outcome of the session was to confirm that economic theory can be used to explain differences in PPPs over time. The use of the dynamic Penn effect as illustrated by Ravallion should be used to evaluate potential differences that will likely be shown by the 2011 benchmark. And the dynamic Penn effect should be used in the estimation of the annual extrapolated PPPs. The session ended with a discussion about changes being made for the 2011 benchmark and why fixity needed to be applied. Strong arguments were made that there should be a global aggregation that takes precedence over national aggregations.

Global Office Validation Workshop

On August 22, 2011, the Global Office held a hands-on training session on the Household Consumption data validation. In attendance were the Global Office staff as well as two external consultants currently working in the validation expert group. The aim of the workshop was to train all the ICP team members on data validation to the level where everyone would feel comfortable with processing global validation as well as with supporting the regions. Two levels of validation, namely national and regional, were discussed while the session on the global level was scheduled in early September. The session also touched on temporal analysis of Household Consumption Survey data where regional data with the 2009 exercise were used as examples.

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