MINUTES OF THE 1ST ICP TECHNICAL ADVISORY GROUP MEETING

MAY 24, 2017

PRINCETON UNIVERSITY, NEW JERSEY, USA

Welcome, opening remarks and introduction of Technical Advisory Group members

The first meeting of the International Comparison Program (ICP) Technical Advisory Group (TAG) took place on May 24, 2017 at Princeton University in New Jersey, USA.

The main objectives of the meeting were to:

- review TAG chairmanship and membership;
- brief TAG members on the ICP Governance Framework and the Terms of Reference (TORs) for the TAG, as approved by the ICP Governing Board;
- introduce the new ICP approach and update the TAG on the implementation of the 2017 comparison cycle;
- discuss the proposed ICP Research Agenda; and
- set-up ICP Task Forces (TFs).

The meeting agenda is enclosed in Annex 1. In attendance were TAG members and staff from the World Bank Global ICP Unit, which serves as TAG secretariat, as listed in Annex 2.

Haishan Fu, Director, World Bank, opened the meeting by welcoming the participants and highlighting that the ICP celebrates its Golden Jubilee next year, marking fifty-years since the program was launched in 1968. She noted that the last half-century has seen the ICP grow into a global statistical program and that earlier this year the United Nations Statistical Commission (UNSC) instituted the ICP as a permanent program. This decision, she added, marks a turning point for the ICP and offers a chance to transform it into a truly permanent statistical program, producing reliable PPP time series rather than independent benchmark PPPs. Haishan also emphasized the TAG's pivotal role in ensuring the success of the ICP. She concluded her opening remarks by stressing the need to improve the quality of PPP estimates, respond better to user needs, and promote further openness and transparency.

Next, Haishan introduced the TAG members nominated by the ICP Governing Board and announced that Sir Angus Deaton and Paul Schreyer have agreed to be the TAG Chair and Alternate Chair respectively. The TAG members are:

- *Alan Heston*, Professor emeritus in the Department of Economics at the University of Pennsylvania, co-founder of the Penn-World Tables, and leading expert on international economic comparisons and PPPs.

- *Ana Revenga*, Deputy Chief Economist of the World Bank, former Senior Director of the Poverty Global Practice of the World Bank, and member of the Atkinson Commission on Global Poverty.

- *Sir Angus Deaton*, 2015 Nobel Prize Laureate in Economics, and Senior Scholar and the Dwight D. Eisenhower Professor of Economics and International Affairs Emeritus at the Woodrow Wilson School of Public and International Affairs and the Economics Department at Princeton University.

- *Prasada Rao*, Professor in the School of Economics at the University of Queensland, and leading expert on econometric and statistical methods, time-series analysis, PPPs and price statistics.

- *Paul Schreyer*, Deputy Chief Statistician of the OECD, a leading expert on the measurement of capital and productivity, measuring non-market activities, national income accounting and price statistics, and former rapporteur of the Stiglitz-Sen-Fitoussi Commission.

- *Pronab Sen*, Country Director for the International Growth Center's India Central Programme, former Chief Statistician of India, and head of the panel that reviewed India's new GDP series in 2015.

- *Robert Feenstra*, Professor at the Department of Economics at UC-Davis, holder of the C. Bryan Cameron Distinguished Chair in International Economics, Director of the Center for International Data at UC-Davis, and leading expert on trade and PPP time series.

- *Erwin Diewert*, Professor in the Vancouver School of Economics at the University of British Columbia, and leading expert on index numbers, price measurement and productivity.

- *Walter Radermacher*, former Chief Statistician of the European Union and General Director of Eurostat and former Head of the German Statistical Office.

- *Xianchun Xu*, former Deputy Commissioner of the National Bureau of Statistics of China and prominent expert on national income accounting.

Haishan reported that Ana, Prasada, Paul and Pronab were not able to attend the first meeting; however, they look forward to attending subsequent meetings of the TAG. Participants were informed that Ana will be retiring from the World Bank later this year; thus, it was suggested that an additional senior staff from the World Bank could be invited to join the TAG.

ICP Governance Framework and Terms of Reference of the TAG

Nada Hamadeh, ICP Global Lead, World Bank, briefed the TAG on the ICP Governance Framework, approved by the ICP Governing Board at its inaugural meeting in November 2016. The overall mandate of the Framework is to ensure that the global, regional, and national efforts to produce reliable PPPs and real expenditures adhere to approved policies, protocols, methodologies and quality assurance standards. It also aims to ensure that estimates are produced efficiently, in keeping with available resources.

The Framework comprises the *UNSC*, a *Governing Board*, an *Inter-Agency Coordination Group,* and a *TAG* and *TFs*. Within this scheme, the *Global*, *Regional* and *National Implementing Agencies* carry out the various program coordination and implementation activities. The permanent ICP allows the implementing agencies to better plan and allocate resources for the program. Given the limited resources, it is important to further streamline the ICP process and find synergies with on-going statistical activities. It was noted that all implementing agencies gained significant human capital and expertise from the 2005 and 2011 ICP rounds, which would help assure a more efficient conduct of the program.

The Framework ensures a lighter governance through smaller governance bodies. It also puts in place stronger coordination mechanisms and provides the ICP with a stable home, with the World Bank taking the role of the Global Implementing Agency.

The main governance bodies and their roles are as follows:

- The *ICP Governing Board* is the strategic and policy-making body that approves methodology, sets policies and protocols for PPP production, and ensures that ICP results are consistent with agreed methodology. It also advocates, conducts outreach, promotes openness, and raises funding. Members of the Governing Board include Chief Statisticians from eleven countries, representing their respective ICP regions, and from seven international and regional organizations.

- The *Inter-Agency Coordination Group* is the coordinating body for program implementation. It establishes work plans and develops quality assurance standards and protocols to ensure comparability across countries. The participation of the International Monetary Fund (IMF) ensures better coordination between their long-standing technical assistance program and ICP capacity-building activities.

- The *TAG* is the technical body that assures the methodological soundness and overall quality of the results, and ensures the transparency of the PPP estimation process. The TAG, in collaboration with the Inter-Agency Coordination Group, sets the ICP research agenda and establishes the required *TFs* to examine specific technical issues of the research agenda and support the production of ICP results.

- The *Global ICP Unit* coordinates and manages the ICP globally, provides secretariat functions for governance bodies, and calculates and disseminates global results. It also delivers technical assistance to regions and implements the ICP data access policy.

- The *Regional Implementing Agencies*, *Eurostat* and *OECD* coordinate and manage regional comparisons. They also carry out regional capacity-building and technical assistance activities, ensure national and regional data quality, and calculate and disseminate regional results.

- Lastly, the *National Implementing Agencies* conduct country activities, collect and compile the data required for estimating PPPs, and ensure national data quality.

It was noted that the TORs of the TAG are general enough to allow the TAG the flexibility to conduct its work as effectively and efficiently as possible. In terms of work modality, the TORs approved by the Governing Board propose that the TAG holds regular annual meetings to

discuss TFs' findings and suggestions on methodological improvements and to review the overall quality of the results. However, ad-hoc meetings may be organized, if need arises. The TAG can choose to invite TFs' coordinators/members to present their findings at the meetings. Likewise, TAG Chair/Alternate Chair may be invited to join Governing Board meetings to present TAG recommendations. The Global ICP Unit stands ready, in its role as secretariat, to provide the TAG with any support required.

The question of future TAG meeting dates and location was raised. The members concurred that TAG meetings should take place in the spring to allow enough time for any reporting to the ICP Governing Board meetings. The Governing Board generally meets once a year during the fall. Several TAG members also suggested that TAG meetings could take place in the same location as the annual *International Comparisons Conference,* given the overlap in participation. It was suggested to hold the second TAG meeting at the World Bank in Washington, D.C. in the spring of 2018, to celebrate the ICP's fifty-year anniversary.

New ICP approach and the implementation of the 2017 comparison cycle

TAG members were briefed on the ICP approach and the implementation of the 2017 comparison cycle. The UNSC recommended transitioning the ICP into a rolling survey approach, which spreads the price data collection over three years in order to ease the burden on countries for any given calendar year. This approach is designed to make comparisons using a mix of actual and extrapolated data. The ICP will gradually adopt this approach, while allowing regions the flexibility to conduct surveys over a period of three years, according to their specific circumstances.

It was noted that several ICP regions have kept the ICP momentum through interim regional comparisons and maintained the capacity through multiple regional workshops. Outreach efforts have also been increased through seminars, website, video tutorials, papers, leaflets, blogs, and newsletters. Regarding outreach, it was noted that the production of statistics should be accompanied by continuous communication with users, extending beyond the release of certain sets of results. To better assess the level of interest generated by ICP results and data, it was suggested that the Global ICP Unit look into firms that specialize on tracking and analyzing the impact of institutional work and research outputs.

Regarding the ICP 2017 cycle, the plan is to carry out price surveys during 2017 and 2018, and incorporate price data from the interim surveys carried out in 2016 in some regions, where possible. By the end of 2019, global PPP time series for 2012-2016 would be produced through linking interim regional results, where available, and the ICP 2017 cycle results would be published. In the future, the ICP would continue to strive to implement the rolling survey approach for reference years 2020 and 2023 in order to produce results every three years.

It was stressed that since PPPs produced by the ICP will be treated as time series, a more disciplined approach to introducing methodological and operational changes needs to be adopted in order to ensure the comparability of results across time.

ICP research agenda - discussion and adoption

The TAG discussed the draft ICP research agenda, which was drafted by the Global ICP Unit and Prasada Rao, in consultation with the Inter-Agency Coordination Group and various international and national experts. The twelve items on the agenda mainly focus on methodological aspects related to building PPP time series and fine-tuning established methods and procedures to improve quality. Research items were classified as topics that are relevant for the 2017 ICP cycle in the immediate term and topics that are more relevant in the medium and longer term.

The suggested research agenda items for the *immediate term* include:

1. *PPP Time Series & Rolling Survey Approach*
   a. *Moving Towards Rolling Price Surveys*
   b. *Linking Interim Regional Updates into a Global Comparison*
   c. *Building PPP Time Series for the Interim Period*
2. *PPPs and Real Expenditures for Dwelling Services*
3. *Labor Productivity Adjustment*
4. *Fine Tuning Global Linking Procedures*
5. *Quality and Reliability of PPPs*
   a. *Quality of Data*
   b. *Reliability Measures for PPPs*
6. *Uses of PPPs for National and International Policy Making*

On "PPPs and Real Expenditures for Dwelling Services", it was noted that a key challenge lies in ensuring consistency of price, expenditure and volume data used to estimate the PPPs. In particular, if national accounts practices across countries were inconsistent in measuring housing expenditures, as it is often the case, the resulting measures of PPPs and real expenditures may not be plausible. Moreover, the need to ensure consistency of housing methods across regions was stressed.

With regards to "Fine Tuning Global Linking Procedures", a question was raised on whether global core list prices should be deflated using regional PPPs prior to calculating the inter-regional linking factors. The current practice is to build globally linked basic heading PPPs with fixity already imposed through such a deflation. The TAG also agreed to investigate means to lessen the impact of "weak" bilateral links in the aggregation process, both at the regional and global levels, by using a version of GEKS with country weights inversely proportional to the Paasche-Laspeyres spread or a similar measure, or spanning trees.

Concerning research on the "Quality and Reliability of PPPs", it was noted that the quality of ICP data should be assessed from a wide perspective, for instance by focusing on the statistical capacity of countries, the quality of national accounts and price statistics, among other aspects. A well-received idea to help users assess the reliability of PPPs is to have guidelines on the inherent limitations of PPPs according to their specific use. Furthermore, the question was raised on whether some measures of uncertainty should be provided to users as a reminder of the inherent difficulty involved in comparing countries with different economic structures. The use of standard errors or confidence intervals for PPPs was suggested for this purpose.

Lastly, it was emphasized that a main priority of the "Uses of PPPs for National and International Policy Making" agenda item should be to demonstrate how and for what purposes PPPs are used by countries. Concern was expressed that it may be unclear how national policy makers are using PPPs. The ensuing discussion emphasized the importance of showcasing concrete examples of how PPPs and underlying ICP data are used by national policy makers. In this regard, developing sub-national PPPs may help advance awareness of PPPs for domestic purposes. In addition, the importance of improving openness and data access was also noted.

In terms of the suggested research agenda items for the *medium term*, these include:

7. *CPI-ICP Synergies and Sub-National PPPs*
8. *PPPs for Construction*
9. *PPPs for Health and Education*

On "CPI-ICP Synergies and Sub-National PPPs", it was noted that the World Bank is helping countries in Asia and Africa with developing sub-national PPPs. The process helped improve CPI data consistency as well, as it precipitated revisions of the CPI system in some of those countries.

On "PPPs for Construction", it was suggested that the compilation of construction expenditures should be further assessed to check whether construction expenditures properly reflect the country's construction output. The importance of examining possible adjustments for construction labor productivity, as part of agenda item 3, was also stressed.

For "PPPs for Health and Education", the importance of distinguishing between health outcomes and outputs was acknowledged by the participants. It was noted that OECD-Eurostat is using a different approach than the rest of the regions, which creates inconsistencies across regions. As more countries participate in the OECD comparison, this will contribute to further inconsistencies between ICP benchmark results for these countries.

The suggested *ongoing and longer term research agenda* items are the following:

10. *ICP PPPs and Global Poverty Measurement – Post Atkinson Commission*
11. *Exploring Innovations in Technology and Data Sources for PPP Measurement*
12. *Accounting for Product Quality Differences in PPP Measurement*

Regarding the item "ICP PPPs and Global Poverty Measurement – Post Atkinson Commission", it was noted that uncertainty exists among the World Bank poverty researchers on whether and how the Atkinson recommendation regarding PPPs should be applied. The importance of establishing strong links between the TAG and World Bank poverty researchers was noted. Moreover, participants were informed that the Global ICP Unit will soon be releasing a working paper on poverty-specific PPPs along the lines of the work previously done by Angus and Olivier Dupriez.

On "Exploring Innovations in Technology and Data Sources for PPP Measurement", it was suggested that a pilot could be conducted to collect price data for non-household consumption items using a specialized firm, along the lines of the work done by the Global ICP Unit for household consumption using Premise. In addition, it was mentioned that alternative approaches could be explored to attempt to capture prices per square meter of construction. It

was also suggested to keep actively monitoring available private sector operators that could be relevant to the ICP's line of work.

Lastly, regarding "Accounting for Product Quality Differences in PPP Measurement" it was suggested that future research could look into the use of a more functional approach to compare items across countries, especially for poverty studies, for example based on the cost per calorie of a given food type in different countries. The ICP method identifies and matches products across countries using structured product definitions (SPDs).

Further to the above research topics, the TAG agreed to add an additional research topic related to the PPPs for exports and imports. The current ICP practice is to use market exchange rates as proxies for the PPPs for exports and imports; however, this is often seen as a sub-optimal choice. Importantly, these PPPs would enable us to estimate terms-of-trade, which would be crucial in constructing the real GDP time-series and linking ICP benchmarks.

In conclusion, the TAG approved the proposed ICP research agenda, with the addition of the item on PPPs for exports and imports.

Setting up ICP TFs - discussion and recommendations

The TAG discussed a proposal for setting up ICP TFs, under which each TF would focus on one or more specific topics. Each TF would be provided with TORs with information on the topic, a clear statement of the technical issues to be considered, well-defined deliverables, and timeframe for completing the work.

In terms of membership, TFs would be constituted of experts and/or practitioners in the field of index numbers, PPPs, price statistics and national accounts. The size of each TF would depend on the complexity of the topic, as decided by the TAG. Membership of each TF would be proposed by the Global ICP Unit for consideration and endorsement by the TAG. Within each TF, one member would be designated to coordinate the TF work. Moreover, each TF would include an expert from the Global ICP Unit and may also include a TAG member.

In terms of work modality, each TF would have a fixed tenure in line with the timeframe of its assigned topic(s). TFs would meet as needed, either in person or virtually, and may join the meetings of the ICP Inter-Agency Coordination Group to discuss and clarify the operational implications and feasibility of their proposals. Likewise, TFs may be asked to join meetings of the TAG to present their findings and recommendations. The Global ICP Unit would provide the TFs with the necessary data and support to facilitate their work.

The suggested TFs to be established in 2017 and their assigned topics are:

TF1. PPP Compilation and Computation

- Linking interim regional updates into a global comparison (2017-2019)
- Building PPP time series for the interim period (2017-2019)
- Fine tuning global linking procedures (2018-2019)
- Productivity adjustment for government and construction labor (2018-2019)

TF2. Country Operational Guidelines and Procedures

- Moving towards rolling price surveys (2017-2018)
- CPI-ICP synergies to improve spatial and temporal price consistency (2017-2020)
- Sub-national PPPs (2018-2020)

TF3. Housing

- PPPs and real expenditures for dwelling services (2017-2019)

TF4. PPP Uses

- Uses of PPPs and ICP data for national and international policy making (2017-2019)

TF5. PPPs and Poverty Measurement

- ICP PPPs and global poverty measurement – Post Atkinson Commission (2017-2021)

TF6. New Data Sources

- Exploring innovations in technology and data sources for PPP measurement (2017-2021)

Furthermore, the TFs to be established in 2018 and their assigned topics are:

TF7. PPP Quality and Reliability

- Quality of data (2018-2019)
- Reliability measures for PPPs (2018-2019)
- Accounting for product quality differences in PPP measurement (2020-2022)

TF8. Non-Market Services

- PPPs for health and education (2020-2021)

TF9. Construction

- PPPs for construction (2020-2021)

Upon discussion of the proposed TFs, the TAG agreed to postpone the establishment of the TF on "New Data Sources" to 2018, and establish instead an additional TF on "PPPs for exports and imports" in 2017.

The TAG approved the plan to set up the TFs with the above noted changes. The Global ICP unit will prepare and circulate proposed membership for the TFs to be established in 2017, for the TAG's consideration and endorsement.

Annex 1: Meeting Agenda

**International Comparison Program
Technical Advisory Group Meeting**

May 24, 2017

**Palmer House, Princeton University
1 Bayard Ln, Princeton, NJ 08542
United States**

Agenda

08:30 - 09:00	*Breakfast*
09:00 – 09:30	**Welcome, opening remarks and introduction of Technical Advisory Group members** *Background document: ICP Technical Advisory Group Membership*
09:30 – 10:00	**ICP Governance Framework and Terms of Reference of the Technical Advisory Group** *Background document: ICP Governance Framework*
10:00 – 11:00 **cycle**	**New ICP approach and the implementation of the 2017 comparison** *Background document: Planning Note for the 2017 Comparison Cycle and Future Cycles*
11:00 – 12:30	**ICP research agenda - Discussion and adoption** *Discussion paper: ICP Research Agenda*
12:30 – 14:00	*Lunch*
14:00 – 15:30	**ICP research agenda - Discussion and adoption (cont'd)** *Discussion paper: ICP Research Agenda*
15:30 – 17:00	**Setting up ICP Task Forces - Discussion and recommendations**

Annex 2: List of Participants

ICP TAG

Sir Angus Deaton, Chair

Erwin Diewert

Robert Feenstra

Alan Heston

Walter Radermacher

Xianchun Xu

ICP Global Unit, World Bank

Haishan Fu

Nada Hamadeh

Yuri Dikhanov

Marko Rissanen

William Vigil-Oliver

Observers

Jinping Wang