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The future of the ICP

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THE FUTURE OF THE ICP

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1. Introduction

1. In preparing this paper, I have consulted with other members of the Global Executive Board (EB) and the Global Office. An earlier version was discussed with the EB. The views expressed in this paper are personal views but incorporated the comments made by EB members and the Global Office. There was only one significantly divergent view which is outlined in Section 8. There are still divergent views on some aspects of the International International Comparison Program (ICP) methodology but these are outside the scope of this paper. I welcome the views of participating countries in particular on future improvements to the ICP.

2. The views in this paper are put forward as support for the discussion on the future of the ICP. It should be read in parallel with the Friends of the Chair report which has also been submitted for consideration.

3. The 2005 round of the International Comparison Program (ICP) has been a success. The results are now available at both the global and regional levels and have been well used and well received. The organisation of this round was based on a concerted effort by international and national statistical agencies to do a better job than in previous rounds. A review of earlier rounds by Jacob Ryten was a major influence. Significant discussions about the organization of the ICP were also held at the United Nations Statistical Commission (UNSC). As a consequence this round of the ICP has been better planned, better managed, better resourced (although still not sufficient resources) and with much higher country participation. Many countries have participated for the first time including large countries like China.

4. Nevertheless, as is the case for most large complex projects, there is scope to do things better. It is one of the goals of this paper to identify areas for improvement. It does not discuss technical improvements in any detail.

2. What have we learnt?

5. The following are the key learnings.

- i) No country can produce a Purchasing Power Parity (PPP) by itself. It follows that inter-country co-ordination is necessary. It is also essential to abide by standards accepted by other countries, share data and procedures, and allow data to be subjected to review by others. While there were letters of agreement between regions and countries, and also between regions and the

Global Office, these agreements fell short in defining the precise requirements so some misunderstandings arose.

- ii) There is a need to evaluate and more clearly define the roles and responsibilities of all the participants including the Global Office.
- iii) For many countries it was not easy to take on the additional data collection effort to collect prices for several hundred items outside their CPI basket. Expectations of their capacity should be more realistic in future rounds.
- iv) There has been feedback from countries indicating that the ICP governing bodies (including TAG) did not fully comprehend all the trials and tribulations facing countries.
- v) The use of Structured Product Definitions (SPDs) to obtain consistency in pricing across countries was a very worthwhile and important initiative. It should be built upon for the next round.
- vi) The knowledge and expertise required to organize and coordinate a complex statistical program is available in the National Statistical Offices of many countries, often more so than in the regional and international organizations. Some partnering arrangements were put in place for this round (eg support was provided by Statistics Canada in Latin America, the Office of National Statistics in Africa). More extensive partnering arrangements should be sought from the very beginning for future rounds. A partnering arrangement for the Global Office should be considered for the next round.
- vii) More recognition needs to be given to the fact that not every country speaks the same language. Failure to allow sufficient time and resources for translation caused delays and data quality problems.
- viii) While the primary work program for the ICP involves the collection of prices, the final result is the use of PPPs to deflate national GDPs into a common currency so that per capita and structural comparisons can be made. The expenditure breakdowns are also used to weight prices. The comparisons of GDP lose their credibility if the national accounts, and the breakdowns into expenditure categories, are weak or if the national accounts are compiled on an inconsistent basis across Countries. Insufficient attention was paid to the quality of the national accounts, and their consistency across countries, in the early parts of this round.
- ix) There were inadequate resources to cover full GDP. As a consequence there were slippages in timetables.

6. Ideally, we would have reported learnings as a result of user experience with the ICP estimates. At the time of writing this report, it was too early to obtain this type of feedback but a deliberate attempt should be made to summarise the user experience in mid 2008.

3. Key Issues

7. The key issues revolve around (i) governance, (ii) budget/affordability, (iii) quality, (iv) the participation of countries and regions, (v) the capacity of some developing countries to undertake the data collection, (vi) project management, and (vii) engagement with users and potential users of the ICP results.

8. The governance arrangements worked quite well in the 2005 ICP round. One issue that has been raised is whether sufficient attention was taken of the concerns of participating countries. Nevertheless, future governance arrangements should build on mostly successful arrangements that are currently in place whilst fine tuning seems desirable. The legal underpinnings of the Executive Board and the agreements between international organisations need examination. The Technical Advisory Group (TAG) was very successful and should be continued although some thought should be given to its membership.

9. More than \$50m was spent on this round by the global and regional offices including in kind efforts made by regions (including OECD/Eurostat) and national statistical offices. It is a large, expensive and complex international project. Some have argued that the ICP should be every 3 years but the cost is simply not affordable. Yet there are large 'start up' costs if the ICP is conducted infrequently. (The previous ICP round was conducted in respect of 1993.) There is a tension that has to be managed and I make some observations on this in Section 5. But there seems to be a broad consensus that more continuous arrangements are highly desirable.

10. The quality of the 2005 ICP round is far superior than was the case in previous rounds. But some quality problems still exist. The key quality concerns are because (a) it is clear that in some cases comparable data are not being collected across countries despite the concerted effort made to describe the items being priced, (b) the expenditure breakdown of the GDP was not always reliable or comparable across countries, (c) the national accounts were not compiled on a consistent basis across countries, and (d) the price data from some countries was not representative of prices within their country. Appropriate edits can overcome these problems to a large extent.

11. Concern (a) applied to both comparisons within regions and the ring comparison across regions. Outliers are relatively easy to manage as long as there are not too many for a single country. The bigger problem exists where there appears to be a systematic difference. Concern (d) was an issue for some of the bigger, more important countries. A condition of participation in the ICP should be that it should be possible to derive national price estimates that are representative of the whole country. This does not necessarily mean that price data has to be collected throughout the country. If data is not collected throughout the country, there is a need to make adjustments so that they reflect national prices. Techniques for doing this should be part of the ICP Manual.

12. Concerns (c) and (d) relate to the national accounts. One of the biggest issues that we (our region and the rest of the world) faced in this round was the poor quality of the expenditure weight derived from the national accounts. This is no surprise. For many participants it was the first time that their data were confronted with other country data in a context of comparability. Early consideration should be given to the harmonisation of national accounts and their expenditure components. Clearly this round suffered from some inconsistencies not helped by the fact that there was considerable

variability in the extent to which SNA93 had been implemented across countries. Some harmonisation work was done within regions. For example, Africa put a considerable effort to harmonise national accounts within Africa but this created inconsistencies between the ICP estimates of GDP and those previously published by the World Bank and IMF. Harmonisation across regions is also an important consideration.

13. Another area of concern was some inconsistency in methodologies across countries despite the numerous workshops of Regional Co-ordinators. The biggest concerns seemed to be in areas like housing and government expenditure. Some of these inconsistencies did not become apparent until the data from the Ring Comparison were brought together.

14. The Ring methodology was an innovation and, not surprisingly, met a few problems. Also, the Friends of the Chair have received some criticism about how it was managed. With the benefit of hindsight working through Regions, rather than directly to the Ring countries may have complicated communications. This was done for cost-savings reasons but in the future it should be managed like a region (although close communication with the actual regions is crucial). As for the regions, there should be provision for meetings to review product specifications, prices submitted, etc.

15. There seems to be general agreement that the Ring method is the best approach to linking the regions but some effort should be devoted to working out how it might be done better. A lot has been learnt through experience. Methodological studies need to be undertaken and TAG could help determine the best way of implementing the Ring method for the next round. A number of methodological issues have already been raised (eg level of aggregation for linking countries). It is also clear that early decisions should be made on participating countries and the items to be priced. This would allow planning to proceed on a much better organised basis.

16. Some sub-regions (eg Caribbean and Central America) were excluded because of budget limitations. This was also initially true for the Pacific Islands but funding was provided by the Australian aid agency to allow them to participate for consumption items. However, it was difficult to obtain sufficient enthusiasm from these countries apart from Fiji. (Fiji was part of the Asian region comparison.) Some individual countries within regions did not participate usually, but not always, because of capacity reasons.

17. For some developing countries, the ICP has clearly been difficult. They have lacked the resources and infrastructure to collect the required data and/or there were difficulties with national accounts data. Capacity building has been a clear objective of the ICP and the ICP has helped some countries make considerable headway particularly in Africa. But there is more work that needs to be done.

18. There is general agreement that there should be a regular periodicity for the ICP although not agreement on the how frequently it should run. Options put forward have been 3 yearly, 5 yearly and 6 yearly. A variant is to run consumption every 3 years and full GDP every 6 years. I favour the latter. There are clear advantages in having some synchronisation with the 3 yearly program of the OECD and Eurostat.

19. Project management was clearly superior to previous rounds. The ICP did exceed the available funding by quite a bit but it was an "eyes open" decision by the Executive Board. As well as cutting back on discretionary spending, it was assumed

additional funding would become available by one means or another. There was a lot of reliance on the generosity of the World Bank.

20. Original deadlines were not met in part because of the lack of funding. But the Executive Board knew early that certain deadlines would not be met but decided not to change them in order to “to keep the pressure on”. This is not usually a sign of good project management. It may have also placed undue pressure on participating countries. Project management might be improved by greater cohesion across the regions with their various project management responsibilities. Having said that, there was a lot of sharing of knowledge at Regional Co-ordinators meetings.

21. Engagement with users and potential users is crucial. Plans were put in place to ensure there is strong awareness among potential users of the ICP results from this round. Time will tell how successful they will be. There should be some assessment about their effectiveness about mid year. The next Section makes some comments about the early user reaction to the ICP.

4. Early User Reaction

22. The first release of the global ICP results was on 17 December 2007. There was a media briefing and media release at the same time. Presentations were given to key users like the World Bank and the IMF.

23. Web traffic on the World Bank web site increased 20 fold in the first 2 days after release. There were over 3000 downloads of the ICP results over the first 2 days after the release.

24. The reporting was factual and positive in tone. The key message was that the world economy was smaller mainly as a result of the rebasing of China and India. Most reports noted that the rankings of the biggest economies had not changed. Most reports also noted that the latest results were based on better data particularly for China and India. Surprisingly the results for consumption and investment did not get much reporting although both show interesting stories.

25. A further release of the more detailed results, and a printed publication, will be made in late February. A presentation will also be given to UNSC in New York.

26. This should not be seen as the end of user interaction. If the full benefits of the ICP are to be obtained, users need to be educated on the reasons for using PPPs. This includes the Central Banks who do not use PPPs to the extent that they should. One way of improving knowledge is seeking speaking spots at relevant conferences and seminars. These are many people who should be well equipped to speak about the ICP.

5. The Future of the ICP

27. Governance arrangements seemed to work quite well at both the global and regional level. Whilst no doubt there are some improvements that could be made in light of experience, in my view the basic arrangements as previously agreed by UNSC should be maintained with some examination of the legal underpinnings.

28. There are two areas of improvement I would like to identify.
- (a) the governance arrangements (including the EB, TAG and Regional Boards) need to take better account of the particular interests and concerns of participating countries, and
 - (b) special governance arrangements may need to be put in place for the Ring comparison if it is to be treated as a “region” as suggested elsewhere.

29. The Regional Boards are the best forum for countries to air their views. Many of the decisions directly affecting countries are made at this level. Nevertheless there should be country representatives on the EB. For this round, eight countries were represented on the EB. Four of those were chosen because their Governments were significant donors to the ICP and these were the main contributors to EB discussions. It could be expected that donor countries will want to continue to be represented to ensure their money is well spent. Other countries on the Board should be chosen based on their ability to contribute to Board discussions and present the perspective of participating countries for their region. The representatives should be able to contribute to EB discussions.

30. I believe it would be an error to include country representatives on TAG as has been suggested by some. TAG should take account of the operational experience and capabilities of countries but it would be better to establish a Reference Group when TAG needs to consult with a representative set of countries. This does preclude someone from a NSO being a member of TAG if they have the required technical expertise.

31. As outlined above, budget affordability is a key issue. This applies globally, regionally and nationally. The funding issues should be sorted out early. We should not look at simply repeating the 2005 ICP on a periodic basis. Ideally future ICP rounds should be more frequent and less expensive. This may be achievable if the ICP is more closely aligned with the prices and national accounts works of National Statistical Offices ie the ICP work becomes part of the mainstream of the NSO's work. This is in effect what happens with the 3 yearly OECD/Eurostat comparison. For them the additional data collection effort required for the price comparison is relatively small. Most of the required data are already collected. This strategy may require a reduction in the number of consumption items in the ICP but may not result in a commensurate loss of quality.

32. Such a strategy has a number of benefits
- (i) Clearly it reduces costs on countries.
 - (ii) The continuity of arrangements will make it easier for global, regional and national offices to manage.
 - (iii) It will be easier to maintain the necessary expertise at all three levels.
 - (iv) Data collection effort can be systematically spread over the period of the ICP round.
 - (v) Technical capacity building effort will be very closely aligned with important prices and national accounts programs which are already subject to much technical assistance.

33. Do we need to collect so many price observations? The Economist magazine observed the results from the latest ICP were not so different to their Big Mac index. This

suggests we may need so many price observations to get reasonable accuracy. It may be worth doing some analysis to better understand the number of price observations that give best value for money.

34. The capacity of developing countries to collect price data is something else that has to be taken into considerations. It is another reason for trying to reduce the required number of price observations.

35. Some innovative methods were used to estimate the relative costs of non-market services (using government consumption), housing, construction and equipment. The approaches seem basically sound but no doubt we could learn from experience. A concern that has been expressed is inconsistency in the application of methodologies across countries for non-market services and housing. A particular concern is whether to apply a productivity adjustment to estimates of government compensation or not. There is also debate as to whether the best method for construction was used. A careful review of the methods would be worthwhile. TAG could make an excellent contribution.

36. The Global Office took responsibility for all these collections of in the recently completed round. I think this is ideal but other organisations could be contracted to take responsibility for some of these specialised surveys. This is something for the next EB to consider.

37. One aspect of the ICP did not work as intended was the use of representativity indicators. It is important that countries price products that are both comparable and representative. Unless a group of countries is particularly homogeneous, it is unlikely that the product list they established among themselves will be balanced or equally representative. The potential bias this can cause is avoided by assigning representativity indicators to the products priced when calculating PPPs for basic expenditure headings. The concept "representativity" was not fully understood during the 2005 round. In future rounds, greater effort should be made to explain the concept as an understanding is important for the selection of products for the list as well as for the calculation of basic heading PPPs.

38. The devolution of regional responsibilities to regional bodies, with the co-ordination of the Global Office, worked quite well. This should be repeated but with some reflection on how things might work better. One issue was that, for some regions, there was not always a clear understanding of roles and responsibilities. In the end, the CIS region was linked into the ICP through the OECD/ Eurostat program. It has previously been linked in this way to OECD/Eurostat countries. A decision to do this should have been made much earlier. I believe it is the arrangement that should apply in future rounds.

39. There has to be a clear understanding of the respective roles of the global, regional and national offices. Memoranda of Understandings are an important part of this process so roles and responsibilities are documented. They need to be carefully prepared and cover matters such as data sharing, data access, adherence to agreed methods and schedules, and formats for submission of data to the Global Office. But they need to be honoured. The "penalties" for not honouring, unless mutually agreed, also need to be spelt out and pursued. But, in the end, the real consideration is whether there is sufficient goodwill between the participants.

40. Estimates of purchasing power parities will be required of all countries so they will be included in the ICP in one way or another. The choice is whether their participation is based on data they have provided (assuming it is sufficiently accurate) or whether their participation is based on imputed data. Clearly the former is preferred for the quality of the ICP. Imputation methods, using what data are available, need to be further developed. The use of imputation methods may also have to be used when the data for a country is not adequate. This is not entirely satisfactory but probably better than relying on data that is clearly wrong.

41. As mentioned in Section 3, more should be done to improve the harmonisation of national accounts, and the expenditure breakdowns, both within regions and across regions. A strategy should do this should be prepared before the next ICP round commences. There is also a need to start relatively modest projects of harmonization of some aspects of the national accounts (e.g. moving from SNA68 to SNA93) and conceptually difficult areas (such as: health, education, housing) in preparation of the next round. The benefits of improved national accounts are extremely important to participating countries. It is just not the ICP that benefits.

42. One aspect that needs examination is project management. A number of different approaches are available for project management. Some have been accredited by Governments. It is not so much the specific approach to project management that is important but that a consistent approach is used. Key staff in the global and regional Offices should have training in project management at the beginning of the next round.

43. More generally, staffing plans should be developed early in the project for each of the regions. This should include some analysis of the type of skills required. Strategies should be developed for recruiting the required staff. This will be a mixture of full-time employees, contracted staff and advisers. Something that should be seriously considered is a partnership with one or more National Statistical Offices to strengthen the support that is available.

44. A number of important methodological changes were made for this round. Most have been successful. One disappointment was that the Toolpack software package was not used to the extent envisaged. There seems to be general agreement that Toolpack should be part of the next round. Before embarking on redevelopment it is recommended that a thorough review by a National Statistical Office, experienced in developing and using a prices software system, be undertaken.

45. The Ring methodology was largely successful but it should be reviewed in light of the actual data collected as part of this Round. The representativity across countries participating in the Ring Comparison was one area of concern. The management arrangements should also be reviewed. It is recommended that Ring countries report directly to the Office responsible for the Ring Comparison (possibly the Global Office). The Office should organise data collection for the ring comparison directly and not through the Regional Co-ordinators. Regional Co-ordinators should be consulted and kept informed, but the Global Office should deal with the ring countries directly. These should be decided upon and signed up at the beginning of the round. The ring comparison should be organised in the same way as regional comparisons with meetings of countries to decide the product list and to edit the price data. It is important that the ring product list is decided before or at the same time as the regional product

lists. It is also important that the pricing of the ring list is done at the same time as the pricing for the regional lists.

46. An alternative worth investigating is including all countries in the Ring. This was done for some non-consumption items in this Round. This would require making it mandatory for all Regions to include a relatively small agreed list of items in their pricing lists (ie the Ring items would have to be decided early). These items would then form the basis of the Ring comparison.

47. A lot of work has been done by the World Bank and ADB, using data from this round, to develop improved poverty estimates. Nevertheless, another aspect that needs to be examined in the future is how the ICP might be improved to provide better data for poverty analysis. Research seems to indicate that the prices paid by those in poverty, rather than their expenditure patterns, is more important for poverty analysis. This may have implications for the price collection strategy.

48. To conclude my view is the broad strategy for the next round of the ICP is to build on the arrangements for this round identifying improvements that might be made in light of experience. There is no need to "start again". But it may be worth waiting for at least 12 months before starting another round to enable a thorough review of the methods and arrangements for this round before commencing the next round.

49. The OECD and Eurostat are planning a round of the European Comparison Program with a reference year of 2011. I would suggest this is a good reference year for the next round of the ICP. An issue for discussion is whether it should be based on full GDP or consumption only. Of course, the data collection can start before the reference year particularly for consumption items where CPIs are available for 'ageing' the data.

50. If it is agreed that there should be another round, a research agenda needs will be commissioned. The Transition Board (see next paragraph) and TAG should be involved in determining the research agenda. One significant item of research would be investigating how the price collection effort is to be optimised.

51. The Executive Board will have finished its mandate with the release of the final ICP publication in late February. But it is likely that there will be some matters that require oversight by a Board over the next 12 months including work on a road map for the future. It is proposed that a Transition Board be established for this purpose until a new ICP Board is set up (possibly not until UNSC 2009). The membership of the Transition Board could be the current Executive Board plus the Chair of the Friends of the Chair group. TAG should continue with its current membership. The membership should be reviewed by the next Executive Board.

6. Location of the Global Office

52. Under the governance arrangements a Global Office is necessary. It is essential for a number of important planning, co-ordination and secretariat tasks with policy and strategic direction from the EB. It also had responsibility for the Ring Comparison. The World Bank kindly hosted the Global office for this round and it did a very competent job. It is well positioned to do so in the future and it is recommended that it be asked to host the Global Office for the next round.

53. The Development Data Group of the World Bank has indicated it would be prepared to host the next round if this had the support of the global statistical community and there were clear agreements on the changes to the ICP Program. These are important for facilitating discussions with the World Bank Executive on the arrangements for the next round.

54. The Executive Board agrees that the choice of Global Manager should be subject to international competition. The responsibility for selection should be with the Director of the Development Data Group (if the World Bank is hosting the Global Office) and representatives of the next Executive Board. The reality is that both parties will need to be happy with the choice. The Global Manager will be employed by the World Bank on a contract basis so clearly the Bank needs to be happy with the choice. On the other hand, the ICP will not be a success unless the EB has full confidence in the Global Manager.

55. However, it is not essential that the Global Office run the Ring Data Collection. It could be run by a National Statistical Office, for example, if it was sufficiently well resourced. (It should not be one of the existing Regional Offices.) There are precedents. Regardless, there has to be close collaboration with the regions as much of the price data used in the Ring will come from the Regions. A decision on who should take responsibility for the Ring data collection could be made much closer to the actual date of the data collection. But it is the Global Office who should take responsibility for using the Ring data to make the global comparison.

56. As to the timing of the appointment of the Global Manager, the recruitment process should start as soon as possible after key decisions have been made on the next round by UNSC and there is reasonable assurance that funding will be available.

7. The Executive Board

57. The Executive Board comprised representatives from:

- (a) the World Bank,
- (b) several other international agencies with a strong interest in the ICP (IMF, UN Statistics Division),
- (c) the regional agencies responsible for ICP in their regions (Asia Development Bank, African Development Bank, ECLAC, ESCWA, CIS, OECD and Eurostat), and
- (d) countries (Australia, Canada, United Kingdom, Uganda, Cote d'Ivoire, Russia, China and India)

58. The Global Manager was an ex officio member of the Board. The EB members were chosen in their personal capacities but, in practice, alternatives were allowed if the representative was not available.

59. The first three countries and Russia were in large part chosen because they were major donors to the program. The representative from Canada resigned during 2007.

60. The ESCWA and ECLAC regions were not represented in many Board meetings and this needs to be addressed in the next round.

61. For the next Board, the organisations listed in (a), (b) and (c) should continue to be represented. There is flexibility with countries to be represented on the next EB but they must be prepared to be active participants.

8. Divergent Comments from Executive Board members

62. There were no significantly divergent comments from EB members that need to be noted. However, a senior member of the Global Office argued that once it is decided who the host institution will be personnel decisions should be left to the host institution rather than a joint decision with the EB. He argues that this is sensible both from practical, institutional and legal perspectives. A particular concern is not knowing what personnel rules and guidelines would the Board's personnel decision follow and how might personnel decisions be challenged. He is concerned that the recommendation gives the Board authority without any institutional or legal accountability.

9. Issues for Discussion

1. Are there comments or additions to the Key Issues identified in Section 3?
2. Section 5 contains a number of suggestions on the future of the ICP. Are these supported? Are there any additions?
3. Is it agreed that there should be another ICP round? Is 2011 an appropriate reference year?
4. Is it agreed that the ICP Global Office should be hosted by the World Bank? Are there any special conditions or protocols that should apply?
5. Should a Transition Board be established as suggested? What is the process for deciding the next ICP Board?

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