



INTERNATIONAL COMPARISON PROGRAM

TERMS OF REFERENCE

TASK FORCE FOR COUNTRY OPERATIONAL GUIDELINES AND PROCEDURES (TF03)

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1. Background

The 47th Session of the United Nations Statistical Commission (UNSC), held in March 2016, instituted the International Comparison Program (ICP) as a permanent element of the global statistical work program. Starting from 2017, the program will be conducted at more frequent intervals. The ICP Governing Board, in its inaugural meeting in November 2016, adopted the ICP Governance Framework and established a Technical Advisory Group (TAG) to guide the program's research and methodological developments.

The ICP TAG is a technical body, which (i) assures methodological soundness and overall quality of the purchasing power parity (PPP) estimates; (ii) ensures transparency of the PPP estimation process; and (iii) facilitates the establishment of a permanent and more frequent ICP rounds. The TAG, at its first meeting in May 2017, set forth a technical research agenda to inform future ICP comparisons.

The TAG is forming Task Forces on specific topics and inviting recognized experts on the practical application of index numbers, PPPs, price statistics and national accounts to take part in them, as needed, to develop concrete proposals to address the various research agenda items and support the computation of ICP results. The Global ICP Unit at the World Bank supports the work of the Task Forces.

This document outlines the terms of reference of the Task Force for Country Operational Guidelines and Procedures (TF03), including its scope of work, proposed membership, tenure and work modality, and deliverables.

2. Scope of Work

The *Task Force for Country Operational Guidelines and Procedures* works towards addressing the following ICP research agenda items:

Moving towards rolling price surveys

The single most concern raised during the evaluation of the 2011 round of ICP was the six-year gap between the 2005 and 2011 ICP benchmarks and the need for more frequent comparisons. The UNSC Friends of the Chair (FOC) group recommended that the previous approach to extrapolate PPPs from the benchmark using single price indices be replaced. Instead, it proposed the use of a mix of survey and extrapolated data to provide more frequent results, starting from the next comparison cycle for reference year 2017. In order to implement this plan, the FOC recommended that a rolling survey concept be adopted, which is based on spreading price surveys over a three-year comparison cycle centered on the reference year. The rolling survey approach requires a set of reliable extrapolation indices for detailed gross domestic product (GDP) categories in order to extrapolate survey data forward and backward to a respective reference year.

The notion of rolling price surveys is not entirely new to ICP. During the implementation of the 2005 and 2011 ICP benchmarks a pseudo-rolling approach, whereby prices collected in different years were moved backwards or forwards using appropriate deflators, was used. While this was commonly used in different regions, the approach was somewhat ad hoc and procedures were crafted on a case by case basis. The current thrust towards a more formal approach to rolling price surveys will ensure a consistent approach across all regions and thereby enhances quality of the comparisons.

The rolling survey approach, to be implemented starting in 2017, involves spreading the price data collection over a three-year time period around the reference year. PPPs for the basic headings not based on the reference year are to be extrapolated to the reference year.

The following topics are identified for research under this agenda item:

- Determine the frequency of data collection (annual, biannual, quarterly) for the rolling survey for each aggregate of the GDP;
- Determine the requirements for the rolling price surveys and availability of national account deflators, consumer price indices (CPIs) and other price indices by GDP component to be used in the extrapolation to the reference year; and
- Suggest steps for statistical capacity-building to ensure that CPIs and national account deflators are consistent over time and comparable across countries.

CPI-ICP synergies to improve spatial and temporal price consistency

The need for a closer integration of CPI and ICP activities has long been recognized and discussed at various ICP meetings and conferences on international comparisons. However, little progress has been achieved in this direction. A major factor limiting progress in this direction is the lack of a clear notion of what CPI-ICP integration of activities actually means. Initially such integration was taken to imply a closer alignment of product lists used in the ICP and the products priced for CPI price surveys. Needless to say, such a suggestion was met with stiff resistance from participating countries as the national CPIs have a specific purpose and are central to policy making within the countries.

Over the last decade, a better understanding of benefits from CPI-ICP synergies has emerged. The following statement from the FOC report explains this point clearly. “A rolling benchmark concept for ICP implies that national statistical institutions collect the necessary information on a more regular basis than every five years. Such frequency calls for the integration of ICP into the work programs of national statistical institutions. While the production of price indices (especially CPI) and the compilation of expenditure-based GDPs is a permanent process and normally part of each national statistical institution’s work program, the production of, for example, nationwide average prices very often falls outside of the official price statistics. In the case of price surveys, use of ICP-relevant surveys at regular intervals can also coincide with the need for price-level comparisons across regions (mainly for large countries) and can overlap with CPI surveys. Synergies with related statistics are certainly higher in the case of more frequent surveys, which positively affect cost-effectiveness. Similarly, to make ICP more regular and sustainable, it is essential that it become institutionalized at the global, regional and national levels. It is important that global and regional coordinating agencies incorporate ICP work into their work programs as an established business line.” Paragraph 60, E/CN.3/2016/9, UN, 2016)

As ICP moves towards annual compilation of PPPs, it is important to limit the burden on the participating countries. Achieving potential synergies by integrating ICP and CPI survey activities is likely to reduce the burden on the national statistical agencies involved in the ICP. Recognizing these synergies, the FOC group urged that participating countries to integrate and harmonize ICP activities with their regular price statistics and national accounts work to ensure that the ICP becomes a sustainable and truly permanent program.

Harmonizing CPI and ICP activities will reduce the data collection burden resulting from the implementation of the rolling survey method, while making the CPI and ICP prices more consistent and comparable, which would help improve extrapolations. The following topics are identified for research under this agenda item:

- Assess areas where harmonizing CPI and ICP processes will create synergies;
- Prepare a set of guidelines for countries to facilitate the process of harmonizing CPI and ICP activities; and

- Conduct a case study of selected countries to evaluate the use of SPDs to better define their national CPI product specifications.

Sub-national PPPs

The CPI-ICP integration process received impetus from the recent surge in interest in the compilation of PPPs at the sub-national level. Several countries, including China, India, Indonesia, Italy, the Philippines, South Africa, United Arab Emirates, and Vietnam have expressed interest in compiling PPPs for comparisons of prices and real incomes across regions within these countries. Through this process, the countries gain an increasing appreciation of the ICP methods and survey instruments for making spatial price comparisons. The integration of the CPI and ICP activities will also enhance their application for additional uses at the national and sub-national levels.

The following topics are identified for research under this agenda item:

- Examine the Asian and African experience with sub-national PPPs and formulate guidelines on the use of the CPI product lists and prices to compute sub-national PPPs;
- Analyze temporal consistency of CPI and sub-national PPPs; and
- Expand work on sub-national PPPs to more countries.

3. Membership

The *Task Force for Country Operational Guidelines and Procedures* will be formed of experts and/or practitioners in the field of index numbers, PPPs, price statistics and national accounts. They include:

- Brian Graf, Independent Expert
- David Roberts, Independent Expert
- Dilip Kumar Sinha, India MOSPI
- Levan Gogoberishvili, IMF
- Luigi Biggeri, University of Firenze
- Majed Skaini, United Nations Economic and Social Commission for Western Asia
- Patrick Kelly, National Statistical Office of South Africa
- Prasada Rao, University of Queensland
- Yuri Dikhanov, World Bank
- William Vigil Oliver, World Bank

4. Tenure and Work Modality

The *Task Force for Country Operational Guidelines and Procedures* will have a fixed tenure of three years (July 2017-June 2020), in-line with the timeframe of the assigned research items, which are as follows:

- Moving towards rolling price surveys: 2017-2019
- CPI-ICP synergies to improve spatial and temporal price consistency: 2017-2020
- Sub-national PPPs: 2018-2020

The *Task Force* will meet physically at least once per year. It can also meet virtually if need arises. Members may also join the meetings of the IACG to discuss the operational implications and feasibility of their proposals, and the meetings of the TAG to present their findings and recommendations for the TAG's consideration. The Global ICP Unit will provide access to necessary data and materials to facilitate the work of the Task Forces. Standard ICP confidentiality provisions apply.

5. Expected Deliverables

The *Task Force for Country Operational Guidelines and Procedures* is expected to present its proposed guidelines to the TAG; draft an interim report for discussion by the TAG; fine-tune proposed guidelines, if deemed necessary by the TAG; and prepare a final report with recommendations. If any methodological change is proposed, the Task Force should conduct and document an assessment of the impact of this change on the results. Specific deliverables include:

- Developed guidelines for moving towards rolling price surveys;
- Developed guidelines for harnessing CPI-ICP synergies to improve spatial and temporal price consistency; and
- Developed guidelines for estimating sub-national PPPs.