



INTERNATIONAL COMPARISON PROGRAM

TERMS OF REFERENCE

TASK FORCE ON PPPs AND GLOBAL POVERTY MEASUREMENT

April 2020

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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 World Bank's Global Poverty Working Group, launched in 2015, is a cross-departmental working group to ensure coordination in the Bank's global poverty monitoring exercise. It includes key staff from the Bank's Poverty and Equity Global Practice, the Development Data Group and the Development Research Group.

The ICP 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 ICP Global Office at the World Bank supports the work of the Task Forces.

The ICP research agenda set forth by the ICP TAG lists the topic of "ICP PPPs and Global Poverty Measurement" as a priority research area, especially in light of the Report of the Atkinson Commission on Global Poverty. As a result, an initial meeting on this topic took place on May 2018 and was attended by experts from the ICP TAG, the World Bank's Global Poverty Working Group and the World Bank's ICP Global Office. The meeting deemed it important to form a task force to examine the impact of ICP PPPs on the World Bank's global poverty measurement.

This document outlines the terms of reference for the *Task Force on PPPs and Global Poverty Measurement*, including its scope of work, proposed membership, tenure and work modality, and deliverables.

2. Scope of Work

For more than three decades, the World Bank has relied on PPP measures from ICP in its calibration of the international poverty line (IPL) and in producing estimates of incidence of global poverty. The initial IPL of \$1/day was based on results from the 1985 ICP and the Bank has subsequently revised the lines to \$1.08, \$1.25 and \$1.90 based, respectively, on PPP data from the 1993, 2005 and 2011 rounds of the ICP. The influence of successive rounds of ICP on the IPL and the resulting changes in global poverty estimates have been the subject of intense debates. These debates have led the World Bank to seek advice from a group of distinguished researchers in this area led by late Professor Atkinson.

Recommendation 10 of the Atkinson Commission on Global Poverty (World Bank, 2016) deals directly with the use of PPPs from ICP. It clearly fixes the IPL at \$1.90 based on PPPs from the 2011 ICP and the national currency equivalents in 2011 are projected forward based on the CPIs in respective countries. This is a far-reaching recommendation as far as ICP is concerned in that it implies no role for PPPs from ICP rounds between 2011 and 2030 on IPL determination and on estimates of global poverty. However, in its response to Atkinson Commission on Global Poverty, the World Bank indicated that it plans to follow this recommendation, but leaves open the possibility that future PPP rounds might be used again to inform the construction of the IPL, even before 2030, if it is satisfied that the ICP methods have substantially stabilized over at least two ICP rounds, and that changes in PPPs are then driven by real changes in cost-of-living parities, rather than changes in methodology.

The 2017 ICP is expected to produce the following datasets by early 2020:

- PPPs and associated indicators for benchmark year 2017.
- Revised PPPs and associated indicators for benchmark year 2011 - this revision is needed to reflect country revisions of their 2011 national accounts aggregates and weights after the release of the 2011 PPPs and associated indicators.
- Timeseries data bridging 2011 and 2017 ICP benchmark results - this interpolation between ICP benchmark years 2011 and 2017 is possible because no changes in methodology were introduced between 2017 ICP and 2011 ICP.
- Detailed metadata and methodological notes on the basket of goods and services priced, survey coverage, data collection, quality assurance processes, calculation of regional results, and linking regional results to calculate global results.

The *Task Force on PPPs and Global Poverty Measurement* will focus on assessing the impact of new ICP PPPs on the World Bank's global poverty measures and documenting any change in ICP methods between the 2011 and 2017 rounds. The main tasks of the *Task Force on PPPs and Global Poverty Measurement* are to:

- Assess the impact of 2017 ICP PPPs on the World Bank's global poverty measures.
- Assess the impact of revised 2011 ICP PPPs on the World Bank's global poverty measures.
- Compare poverty estimates from the 2017 ICP PPPs, the revised 2011 ICP PPPs, and those based on the original unrevised 2011 ICP PPPs.
- Assess the impact of using different estimates of Household Consumption PPPs produced by the ICP [Individual consumption expenditure by households, and Individual consumption expenditure by households without housing] on the World Bank's global poverty measures.
- Identify the factors that can impact the comparability of the ICP results between rounds and classify them into three groups: (i) the factors that ICP currently collects metadata on, and (ii) those that ICP does not currently collect metadata on but could do so in future rounds; and (iii) those that the ICP cannot be reasonably expected to collect metadata on. The aim of the typology is to help clarify some of the discussion on consistency of the PPP methodology over time.
- Identify the factors that can cause the PPPs and CPIs to diverge over time.
- Document any methodological change between the 2011 and 2017 rounds based on available metadata, and assess whether ICP methods have substantially stabilized between these two rounds.

3. Membership

The *Task Force on PPPs and Global Poverty Measurement* will be formed of the following World Bank practitioners with experience in poverty measurement issues, ICP PPP methods and approaches, and household income and consumption surveys:

- Andres Castaneda Aguilar, Development Data Group
- Christoph Lakner, Development Data Group
- Daniel Mahler, Development Data Group
- David Mogollon, Development Data Group
- Martha Viveros, Development Data Group
- Samuel Tetteh-Baah, Development Research Group
- Marta Schoch, Development Research Group
- Aziz Atamanov, Poverty and Equity Global Practice
- Judy Yang, Poverty and Equity Global Practice
- Minh Nguyen, Poverty and Equity Global Practice
- Marko Rissanen, ICP Global Office, Development Data Group

- William Vigil-Oliver, ICP Global Office, Development Data Group

4. Tenure and Work Modality

The *Task Force on PPPs and Global Poverty Measurement* will have a fixed tenure of one year, from November 2019-November 2020.

The Task Force will meet physically as needed, with some members joining virtually if need arises. Members will present their findings and recommendations to the ICP TAG and the World Bank's Global Poverty Monitoring Working Group.

The ICP Global Office will provide access to necessary data and metadata to facilitate the work of the Task Force. Standard ICP data confidentiality provisions will apply.

5. Expected Deliverables

The *Task Force on PPPs and Global Poverty Measurement* is expected to prepare a report with its findings, which will be presented to the ICP TAG and the World Bank's Global Poverty Monitoring Working Group.

Specific deliverables to be included in the report:

- Assessment of the impact of 2017 ICP PPPs on the World Bank's global poverty measures.
- Assessment of the impact of revised 2011 ICP PPPs on the World Bank's global poverty measures.
- Comparative analysis of poverty estimates from the 2017 ICP PPPs, the revised 2011 ICP PPPs, and those based on the original unrevised 2011 ICP PPPs.
- Assessment of the impact of using different estimates of Household Consumption PPPs produced by the ICP [Individual consumption expenditure by households, and Individual consumption expenditure by households without housing] on the World Bank's global poverty measures.
- Documentation of any change in ICP methods between the 2011 and 2017 rounds.

6. Scope of Work Expansion

If the Task Force's scope of work is expanded at the request of the ICP TAG and/or the World Bank's Global Poverty Working Group, the Task Force membership and tenure might need to be modified and expanded accordingly to accommodate the revised scope of work.