

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: Development Indicators and Policy Research Division

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| RETA No. Country and Name RETA 6088: STRENGTHENING AND COLLECTION OF PURCHASING POWER PARITY DATA IN SELECTED DEVELOPING MEMBER COUNTRIES | | | Amount Approved: US\$1,200,000 | |
| | | | Revised Amount: US\$3,120,000 | |
| Executing Agency: Asian Development Bank | | Source of Funding: TASF and PRF | Amount Undisbursed: US\$782,497 (31 March 2009 per TPR) | Amount Utilized: US\$2,337,503 (31 March 2009 per TPR) |
| RETA Approval Date: | RETA Signing Date: - | Fielding of First Consultant Date: 12 February 2003 | RETA Completion Date Original: 31 Dec 2005 | Actual: 31 Mar 2008 |
| | | | Account Closing Date Original: 31 Dec 2005 | Actual: 31 March 2009 |
| Description The conventional method of making international comparisons of gross domestic product (GDP) is to convert GDP in national currencies into a single currency, using exchange rates usually the US\$. Exchange rate converted values can be inconsistent with actual developments in levels of real GDP as exchange rates neither reflect relative price levels nor move with them over time. Purchasing Power Parity (PPP) deflated values permit comparisons of real quantities free of price differences and eliminate inconsistency inherent in exchange rate converted values. Thus, PPPs generated from the International Comparison Program (ICP) have become more widely used in measuring levels of development, poverty, and monitoring the Millennium Development Goals. The ICP is a regular activity in OECD countries. In Asia, however, there has been minimal progress due to limited statistical capabilities and lack of funds in many countries. In 2001, ADB accepted the World Bank's (WB) invitation, as the ICP Global Coordinator, to be the ICP regional coordinator in Asia and the Pacific (21 ADB DMCs and 2 non-ADB-members at the request of ESCAP/WB and funded by WB, participated) and consequently, RETA 6088 was formulated in 2002 for conducting ICP activities in 2003. However, given that the ICP was a global exercise, events superseded the RETA framework and as a first-time global undertaking, preparatory activities (survey designs; structured product description; expenditure weights; etc) were undertaken only in 2003 to 2004, and ICP price surveys commenced only in 2005 and thereafter. Thus, the original 2003 reference year became known as ICP 2005. It is also important to note that the global ICP was evolving such that many activities, not originally in the TA report, had to be incorporated to maintain global consistency with the other regional ICP programs. The RETA was originally financed by a TASF of \$1.2 million. Two changes in scope with supplementary financing from JSF, PRF, OCR, and TASF were effected. The original scope was expanded to include: (i) computation of PPP-based poverty measures; (ii) Tool Pack software training; (iii) conduct of data review workshops, and; (iv) ring list price surveys. | | | | |
| Expected Impact, Outcome and Outputs Expected RETA impact is the availability of PPP-based GDP that give better measures of levels of development, poverty, and MDG monitoring; the PPPs from the ICP 2005 were used at the WB to revise the \$1 a day poverty line to \$1.25 a day. The expected outcome was an improved methodology for 2005 PPP estimates. In addition to the 2005 PPP-based GDP estimates, the research study on poverty-specific PPPs were major milestones attained. Other significant outputs are: (i) mainstreaming ICP with national statistical work; (ii) harmonizing ICP with CPI data collection systems; (iii) assisting NSOs in conducting non-household price surveys; (iv) assisting NSOs in poverty analysis using ICP data; (v) assisting countries in identifying a comparable and representative list of items across countries; (vi) providing advisory services to NSOs as required in carrying out the above activities; (vii) organizing regional data review workshops and training; (viii) preparing manuals and handbooks needed to institutionalize ICP methodologies in participating DMCs, (ix) Tool Pack software training, and (x) conduct of ring list price surveys. | | | | |
| Delivery of Inputs and Conduct of Activities The RETA financed the services of international and domestic consultants; and national consultants in participating DMCs; in-country meetings and workshops/seminars; price collection for GDP expenditure categories; data quality assessment, processing and documentation; inception workshop; midterm data review workshop; training programs in ICP methodology/software; ICP-CPI harmonization, and, a concluding workshop. The RETA also financed other activities under its expanded scope including the computation of PPP-based poverty measures, Tool Pack software training, and ring product surveys. Technical discussions/workshops were also conducted in India, Indonesia, Malaysia, Philippines, and Thailand to advocate compilation of sub-national and urban/rural PPPs and to further strengthen statistical capacity on ICP methodology. Participating DMCs and the various specialist consultants engaged definitely contributed to the successful completion of the 2005 ICP in Asia and the Pacific. | | | | |

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

Evaluation of Outputs and Achievement of Outcome

Development of an automated data validation system and conduct of data validation workshops, together with diagnostic tables ensured quality price and national accounts data, resulting in robust 2005 PPP estimates. Frequent interaction and consultation during the workshops fostered rapport and transparency essential to achieve the RETA's objectives. The workshops also helped in creating a sense of ownership among the participating DMCs of the procedures and methods, and of the final results compiled. *Tool Pack training and use of the software* was a considerable investment in capacity building for participating DMCs lacking expertise in processing price statistics and preparing price indices. The coordination and management of the data collection process was significantly improved by using this system. The *Product Catalogue* and *Price Collection Guides* ensured correct product identification resulting in comparability, an essential requirement for reliable PPP estimation. The publication on *Purchasing Power Parities and Real Expenditures* (and the *Highlights*) presents 2005 PPPs for 23 participating countries, a first for the Asia and Pacific region. The PPPs, disaggregated by major economic variables, enable a robust cross-country comparison of per capita real GDP, consumption expenditure; gross fixed capital formation, and; price level indexes for 2005. The report also documents the procedures of PPP estimation. The *Research Study on Poverty-Specific Purchasing Power Parities* (and the *Highlights*) showcases the implementation of the methodology proposed by the Poverty Advisory Group of the ICP Global Office, and produced a set of poverty PPPs specifically for deriving international poverty lines (IPL) for 16 participating countries. The use of poverty specific price data to compile poverty PPPs is a first in this field. The study also identified a poverty line more appropriate to Asia and the Pacific than the conventional IPL. In all, the research initiative is extremely useful in refining the methodology for future poverty PPP compilation. The *ICP-CPI Harmonization* initiative enabled a review of the ICP experience and provided harmonization strategies with the CPI to ensure a more secure platform for future ICP operations in the most efficient and economical way. *Institutional capacity building* was also achieved as many DMCs acknowledged their ICP experiences as instrumental in improving their capability in conducting price surveys; upgrading data quality of their price statistics through more accurate product specifications and better spatial coverage of price surveys; and, improving gross domestic expenditure (GDE) estimation. The country visits demonstrated the feasibility of the ICP methodology for sub-national PPP calculation, and improved understanding of PPPs among price statisticians. The *ICP website* (<http://www.adb.org/statistics/icp/icp.asp>) facilitated wider information dissemination on the RETA's activities and reports.

Overall Assessment and Rating

The RETA can be rated as successful. A milestone in the world of statistics was achieved with this ICP round. It not only provided the inputs for establishing a new IPL at \$1.25 per day replacing the \$1 a day poverty line, for the first time, the People's Republic of China and India simultaneously participated in this largest regional statistical initiative. Their presence broadened the coverage of the 2005 ICP and sharpened analytical precision of price levels in Asia in 2005. Moreover, the region's diversity in size, economic development and statistical capacity, while posing a challenge, was overcome as all participating DMCs worked closely to generate price and detailed GDE estimates. Countries acknowledged the benefits gained from the ICP experience in their individual country reports.

Major Lessons

The governance framework adopted was a partnership-based program, with no single agency playing a dominant role. Transparency, democratic decision-making, and credibility were keys to ensuring NSO support, and created a sense of ownership of the program among participants. The Regional Advisory Board, the highest policy making body for ICP Asia Pacific, was a major player in the successful execution of the ICP in the region. The Board was instrumental in setting regional goals and priorities, and its early decision to set up the Framework of Partnership between the DMCs and ADB ensured sustainability of the program. Ensuring the support of NSOs at the outset of the RETA was crucial in eliciting sustained cooperation and commitment; and propelled the program to a good start. ICP Asia Pacific, though composed of highly diverse economies, was run successfully amid a spirit of teamwork and camaraderie fostered by the frequent interactions during several workshops convened at various stages of the program. And finally, ADB has been able to use the ICP platform as a major statistical capacity-building initiative.

Recommendations and Follow-Up Actions

A major difficulty in defining the product lists was the diversity of the economies. An alternative approach could be to group the DMCs into sub-regions. Most DMCs had some difficulty in reporting national accounts at the required 155 basic headings. This is important for PPP computation and ADB should undertake follow-up actions to assist DMCs in establishing reliable expenditure estimates. For the next ICP round, it is important that product specifications and collection instructions be translated into local languages. Similarly, for the Tool Pack Software because of its importance in storing, editing, and transmitting data. Integration of ICP price collection with CPI price collection should be explored to reduce resource constraints in NSOs. The possibility of reducing the number of ICP products for pricing should also be considered. Methodology to estimate PPPs for non-benchmark years and computation of sub-national PPPs using the CPI platform should be explored. In addition, advocacy for a wider use of PPP-based data for policy-making could further ensure the institutionalization of PPP compilation in the countries.