

# **RETA 6088: STRENGTHENING AND COLLECTION OF PURCHASING POWER PARITY DATA FOR SELECTED DEVELOPING MEMBER COUNTRIES**

## **Administration of a Supplementary Grant from the Japan Special Fund**

### **I. INTRODUCTION**

1. Economic information is crucial to formulate policies and programs to improve human lives, the ultimate goal of economic development. However, countries' different social and institutional arrangements create difficulties in comparing levels of economic development. Comparison of economic aggregates such as gross domestic product (GDP) is further complicated when economic variables are expressed in different currencies.

2. The challenge, therefore, is to convert economic aggregates such as GDP into a standard currency unit that is comparable across countries. The most common method of converting economic data from a national to a common currency such as the United States (US) dollar is to use exchange rates. However, comparisons based on exchange-rate-converted GDPs frequently yield results inconsistent with actual developments in growth of real GDP in the countries being compared, as exchange rates are influenced by short-term factors and subject to substantial distortions from speculative movements and, to some extent, government intervention.

3. In the 1960s the international community recognized the problems associated with exchange rate conversions, which gave rise to the International Comparison Program (ICP) to generate purchasing power parity (PPP) data. PPP is the most robust and appropriate method to compare levels of economic output, directly reflecting differences in prices and volumes of goods and services in different countries.

4. In September 2001, the World Bank invited the Asian Development Bank (ADB) to participate and lead in implementing the 2004 Round of the ICP for the Asian and Pacific Region (ICP Asia Pacific). With the President's approval of regional technical assistance (RETA) 6088 in the amount of \$1.2 million<sup>1</sup> under the ADB-funded technical assistance (TA) program, ADB agreed to support this global initiative and take responsibility for implementing and coordinating the Program in the region.

### **II. BACKGROUND**

5. The RETA aims to strengthen and build sustainable capabilities of the national statistical offices (NSOs) of the participating developing member countries (DMCs) to collect data necessary to compile PPP-based comparisons for GDP expenditures and main aggregates, and to contribute to a regional and national structure for implementing ICP on an ongoing basis.

6. The RETA specifically helps participating DMCs (i) mainstream ICP with national statistical work by integrating it with their national accounts and price collection systems; (ii) harmonize ICP with data collection systems for the consumer price index (CPI); (iii) conduct surveys to collect data not covered by CPI surveys; (iv) identify comparable and representative lists of products across the region; (v) provide advisory services required to carry out the above activities; (vi) conduct regional and in-country workshops and training courses for ICP

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<sup>1</sup> The amount was released in three equal installments over 3 years (2002–2004). On 17 February 2004, the Vice-President, Knowledge Management and Sustainable Development, approved the third installment of \$400,000.

statisticians to be able to produce the required ICP outputs; and (vii) prepare relevant manuals and handbooks, with the assistance of the ICP Global Office, to institutionalize ICP methodologies in DMCs.

7. Twenty DMCs agreed to participate in ICP Asia Pacific: Bangladesh; Bhutan; Cambodia; People's Republic of China; Fiji Islands; Hong Kong, China; India; Indonesia; Lao People's Democratic Republic; Malaysia; Maldives; Mongolia; Nepal; Pakistan; Philippines; Singapore; Sri Lanka; Taipei,China; Thailand; and Viet Nam. Hong Kong, China; Singapore; and Taipei,China are participating at their own expense.

8. A meeting of heads of NSOs of participating DMCs was organized in June 2003 to gain their support in implementing ICP and contribute to deepening appreciation of ICP initiatives. ICP Asia Pacific was formally launched in a regional inception workshop held from 28 July to 1 August 2003, at the Asian Institute of Technology, Thailand.

9. Since the inception workshop, the Program has accomplished the following:

- (i) Participating DMCs have completed their product lists for food, clothing, and footwear with the assistance of the Australian Bureau of Statistics. This is the first major step to finalize the regional product list that will be the basis for the price surveys to commence in October 2004.
- (ii) The framework of partnership, which guides the program of work between ADB and NSOs of the participating DMCs, was finalized and sent to the DMCs for their concurrence.
- (iii) Two sub-regional training workshops were organized in Putrajaya, Malaysia, and Goa, India, to prepare the countries to conduct price surveys. At the same time, participants were trained to use Toolpack, a software for price collection and data editing, validation, and processing.
- (iv) The ICP Asia Pacific Web site (<http://www.adb.org/Statistics/icp/icp.asp>) was developed to provide information on program developments and activities.

10. The following are the expected outputs of the TA. Country outputs include (i) a country product list for household and non-household consumption items; (ii) national annual average prices for all items in the regional product list; and (iii) 2004 expenditure weights for 155 basic headings from GDP expenditures, which will be used as weights to compute the final PPP estimates. Regional outputs include (i) a regional product list for household and non-household consumption, prepared in consultation with participating DMCs; (ii) preliminary PPP-based estimates for GDP and its subcomponents, comparable across countries and to be made available in 2005; (iii) final 2004 PPP-based estimates for GDP and its subcomponents, comparable across countries and to be available by the end of 2006; and (iv) PPP-based poverty estimates for all participating DMCs.

### III. PROPOSED CHANGE IN AMOUNT

11. ICP Asia Pacific is off to a good start, with participating DMCs showing keen interest in spite of their limited funds. The Program is estimated to cost \$6 million over 4 years (2003–2006). So far ICP Asia Pacific has been managed with only \$3.845 million from the following sources: (i) ADB (\$1.200 million from the Technical Assistance Special Fund, \$0.450 million from the Japan Special Fund [JSF], \$0.800 million endorsed funding from the Poverty Reduction Cooperation Fund [PRF], and \$0.500 million in kind); (ii) Government of Australia (\$0.500 million in cash and \$0.300 million in kind); (iii) Economic and Social Commission for

Asia and the Pacific [ESCAP] (\$0.045 million in cash); and (iv) Statistical Institute for Asia and the Pacific [SIAP] (\$0.050 million in cash). The participating DMCs have substantially contributed to the Project, mostly in kind. Since this is a global initiative, the World Bank and International Monetary Fund (IMF) provide funding for the overall global program; and external donors such as the Department of International Development (DFID) of the United Kingdom contributes substantial amounts to the African Development Bank while the Canadian International Development Agency (CIDA) supports the Latin American and Caribbean program through the Economic Commission for Latin America and the Caribbean (ECLAC). ADB continues to exert efforts to obtain the balance from other external sources. The funding covers only some major activities under phase I, which includes finalization of the product list and price collection for household consumption. The Program is required to produce PPP-based measures of total GDP expenditures and subcomponents (household consumption, government consumption, capital formation, and net exports). Should funds not be augmented soon, a staged PPP comparison will be needed. Stage II, which covers the rest of the non-household product list (i.e., capital formation, government, and net exports), will be undertaken as funds become available.

12. The Government of Japan, through JSF, has provided a supplementary grant of \$450,000 to augment the funds for RETA 6088, increasing its total budget from \$1.20 million to \$1.65 million. Another \$800,000 from PRF is under processing. (The cost estimate and financing plan are found in the Appendix.) This supplemental grant will finance crucial activities under stage I, which cannot be covered by the RETA's budget, particularly the in-country trainings, and initial activities under stage II. However, this increase in funding is still not sufficient to meet the objectives of ICP Asia Pacific. Hence, ADB will need to raise more funds to come up with the total fund requirement of \$6 million.

13. The JSF supplementary funding will finance the following activities:

- (i) Provision of additional seed funds to DMCs<sup>2</sup>. The RETA has provided them with limited seed money to carry out major activities such as finalization of the product list and price collection for household consumption. However, these funds, which were distributed on the basis of population size, level of economic development, as well as level of statistical capacity, are limited. DMCs have to put in a lot of their own resources, mostly in-kind contributions, but are not in a position to provide cash to undertake further activities. The entire ICP exercise should cover total GDP and its components of household consumption, government consumption, capital formation, and net exports. JSF funds will be used to help DMCs derive more detailed weights from GDP, and compute PPPs for government consumption, capital formation, and net exports to get a full GDP comparison.
- (ii) Engagement of ICP consultants<sup>3</sup> to advise DMCs on price collection and other related services and on analysis of PPP data. More consultants are required for this purpose than originally anticipated. Expertise is needed for cross-item and cross-country price validation, the 1993 UN System of National Accounts, Toolpack software for price data management, and PPP computation and analysis.
- (iii) Regional workshops and meetings such as the regional workshop to finalize the rest of the regional product list (other than food, clothing and footwear) to be held

<sup>2</sup> The Office of the General Counsel will be consulted on how to disburse the additional funds.

<sup>3</sup> The consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants by ADB and Its Borrowers*.

in the third quarter of 2004; and the meeting of NSO heads scheduled in the fourth quarter of 2004 to keep the NSOs abreast of developments in ICP Asia Pacific and to get their renewed commitment. The Program's success hinges, to a large extent, on the committed participation of the NSOs as they provide the necessary inputs to calculate PPPs.

- (iv) In-country training on price collection and Toolpack, a software that provides an integrated system for price collection, verification, and processing of ICP and CPI data. Funds provided in the original RETA are not adequate to help as many participating DMCs as necessary.
- (v) Procurement of computers. NSOs of some of the smaller DMCs are not adequately equipped to handle the Program's extensive computer requirements.

#### **IV. THE PRESIDENT'S RECOMMENDATION**

14. The President recommends that the Board approve on a no-objection basis the provision of additional technical assistance for the Strengthening and Collection of Purchasing Power Parity Data in Selected Developing Member Countries to be financed on a grant basis by the Japan Special Fund funded by the Government of Japan in an amount not exceeding the equivalent of \$450,000, for this purpose.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Original Cost Estimate (TASF)	Supplementary Financing (JSF)	Total Cost
1. Consultants	320.0	90.0	410.0
a. International Consultants			
(i) Remuneration	180.0	68.0	248.0
(ii) Airfare, Incidentals, and Per diem	95.0	22.0	117.0
b. Domestic Consultants			
(i) Remuneration	45.0		45.0
2. Support to DMCs (executing agencies) (in-country workshops, data collection and editing, documentation, communication, and recruitment of domestic consultant, when necessary)	419.0	180.0	599.0
3. Computer		20.0	20.0
4. Workshops, Training/Seminars and Conferences	277.0	100.0	377.0
5. Miscellaneous Administration and Support Cost	55.0	25.0	80.0
a. Bank Staff (in external workshops, coordination meetings, review missions; when acting as trainers)	43.0	23.0	66.0
b. Report Preparation and Communications	12.0	2.0	14.0
6. Contingencies	129.0	35.0	164.0
<b>Total</b>	<b>1,200.0</b>	<b>450.0</b>	<b>1,650.0</b>

TASF = Technical Assistance Special Fund, JSF = Japan Special Fund, DMC = developing member country  
Source: Asian Development Bank estimates.