

WORKSHOP on PRODUCT SPECIFICATION

26 January - 6 February 2004
AIT/Bangkok, Thailand

HIGHLIGHTS

1. The participants were briefed about the purpose and objectives of the workshop which were to:
 - Finalize the regional product list for food, clothing and footwear;
 - Introduce the SPD software and use it to initiate work on the product list for the rest of household consumption; and
 - Initiate work on the poverty PPPs.
2. A brief summary of the processes undertaken in the preparation of the draft regional product list was explained. It was noted that the participating DMCs were requested to submit their detailed CPI specifications and their respective country product lists for food, clothing and footwear, and put together by the Australian Bureau of Statistics (ABS) to come up with a draft Asia/Pacific list.
3. The need to progress to the completion of the entire household consumption product list was mentioned as this workshop's output would only be the regional product list for food, clothing and footwear. The rest of the household consumption product list which includes housing; electricity, gas and water; services; etc., will have to be agreed upon in a similar regional workshop, sometime in May, to complete the list for household consumption in time for the price surveys in July 2004.
4. The group's responsibility was to ensure maximum comparability and representativity being aware of the consequences that non-comparability would lead to bad PPPs while non-representativity would give rise to biased PPPs. It was precisely the failure to achieve maximum comparability in the last ICP round that made the PPPs unpublishable. It was also noted that the consequences of non-representativity were not quite as serious as those of non-comparability.
5. There are 155 countries participating in the 2004 ICP round, of which 23 countries (including 20 ADB DMCs and 3 non-ADB DMCs) are from the Asian Pacific region. Asia Pacific countries will be linked with the other regions through the ring process. There will be a global product list, with the regional product lists as subsets of this global list.
6. The differences between temporal and spatial indices were discussed.

Temporal Index	Spatial Index
Compares same location at different points in time	Compares different locations at a fixed time
Reference: base period	Reference: base country/region
Example: CPI, GDP at constant price	Example: ICP, regional price level comparison

7. The similarities between the two indices were also mentioned.
 - Both aim to deflate macroeconomic data to establish a common basis for comparison.

- Both aim to eliminate differences in prices in areas which are an integral part of the nominal information and would otherwise confound comparisons.
8. Comparability and representativity are requisites in both temporal and spatial indices. However, both characteristics are more difficult to achieve in spatial indices than in temporal indices. Spatial indices seek to measure economic distance between prices and consumption patterns of countries.
 9. While comparability and representativity are requirements in the ICP, in situations where it may be necessary to have a trade-off, comparability should take precedence over representativity, recalling that non-comparability leads to bad PPPs, while non-representativity results in biased PPPs.
 10. Comparability can be assured/maximized by:
 - Providing detailed item descriptions
 - Including all relevant price-determining characteristics
 - Reporting all price collection deviations
 - “Cleaning” price data to better reflect product specifications (e.g. adjust quantities to reflect the standard measures as required in the product specifications).
 11. Factors that determine quality were outlined as follows:
 - Technical factors (production methods; materials used)
 - Physical characteristics (size, weight, type of packaging, craftsmanship, durability)
 - Market parameters (brand, shop type from where product is bought, location, seasonality of product when relevant, branded vs. non-branded, service included)
 12. The following were identified as important factors to consider in determining a product’s representativity:
 - When it is a popular choice for the population in the country. As such, it would be in the CPI basket.
 - It accounts for a significant proportion of expenditures within the basic headings.

However, while these guidelines are given, expert opinion of price statisticians is necessary to judge representativity as objective measures are sometimes not practicable.
 13. The concept of equi-representativity was introduced. A concept that applies only to the regional list, it advances the principle of each country having an equal chance to select a representative set of products. The current ICP round is adopting this principle unlike in the previous ICP round which started with the OECD list and gave undue advantage to countries similar to OECD, than other smaller countries which were less able to identify similar products in the OECD list. This application of the equi-representativity concept is the main difference between the current and the previous ICP rounds - the process of each of the participating DMCs selecting and discussing comparable and representative items in the regional product list.
 14. Equi-representativity requires the following:
 - Balanced item list to reflect the significance of items in the consumption patterns across the regions

- Use of representativity signs, the “asterisk”, where the representative items (r) are marked with an asterisk. On the other hand, other items in the regional product list which are available in the countries but not considered representative are marked as (a). The (r) items are given double the weights of the (a) items.
15. Equi-representativity eliminates the Gershenkron effect, the bias caused by a lack of representativity.
 16. The plenary group was divided into 3 groups to facilitate discussions on the regional product list:
 - Group 1 (South Asia) - Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka and Iran facilitated by K. Blackburn and V. Gañac
 - Group 2 (Southeast Asia) - Brunei, Cambodia, Indonesia, Laos PDR, Malaysia, Philippines, Thailand and Vietnam facilitated by T. Lo and L. Labios
 - Group 3 (East Asia Group and Fiji) - Hong Kong, Macao, Mongolia, PRC, Singapore and Taipei, China facilitated by M. King and B. Pant
 17. The grouping of countries was expected to facilitate discussions as similar countries would reach agreements more easily.
 18. The groups were expected to do the following:
 - To identify general and specific problems related to convergence of the commodities to be included in the regional product list.
 - To review each draft specification.

On the other hand, the plenary session would consider problems and issues identified by the small groups; review each draft specification; and more importantly, the countries will commit to the regional product list.
 19. Group 1 commodities (Bread and cereals, except rice) was discussed with the following issues raised:
 - Some commodity names, such as cream crackers, refer to different items in some of the countries. In this connection, the need for pictures was emphasized to minimize confusion.
 - The concepts of annual average prices and national average prices were brought up. The former refers to the price that is representative over a period of time while the latter is the average price representative of the consumption pattern of the country.
 - A preliminary draft of the regional list for bread and cereals was reached to reflect the comments made by participants.
 20. The rice group will be treated differently from the rest of the product list because of the extreme importance of rice in the region. As such, a different methodology for weighting will be applied to rice which will have three basic headings instead of one as follows: fine rice; medium rice; and coarse rice. Each of these new basic headings will have its own weights. The participants confirmed that they would be able to provide the prices and weights for these three new basic headings.

21. It was emphasized that it was better to have a small number of very good matches rather than a very large number of items but which are not very good bases for comparison.
22. Latin names for fish should be included in the product specifications as the Latin names will exactly identify the variety of fish. For the Southeast Asian countries, it is important to get good PPPs for fish due to the significant consumption of fish in these countries.
23. For the group 3 product list (milk, cheese and eggs; oils and fats), significant points raised were the following:
 - Bean curd was included in this classification even if it is not milk-based because of the similarity in its production process as in cheese.
 - Soya milk is also included in this group based on COICOP classification because it has the same use as milk.
 - Weight is an important factor in ensuring comparability in chicken eggs.
24. Discussions for the group 4 product list (fruits, vegetables, sugar, honey, chocolate and confectionary) resulted in the following agreements:
 - For some fruits, such as apples, there is no need to be very precise about variety due to seasonality. Obtaining exact matches for the variety is difficult and may, therefore, not also give the desired comparability. It was decided to use “size based on weight of the individual fruit on a per kilo basis” as the factor for comparability.
 - The number of fruits to represent the basic heading was reduced to about 10 fruits from more than 20 as the body felt that it was more important to have fewer varieties that are more precisely described and are more representative across the region.
 - The countries were left to decide on what is more representative when both domestic and imported items are in the market.
 - For fruits and vegetables, other rice-determining factors cited were variety; size; outlet from which an item is bought; and timing of the day when the item is bought.
25. Group 5 (Food products, n.e.c., coffee, tea & cocoa; mineral water, softdrinks; fruit & vegetable juices; alcoholic beverages; tobacco; narcotics)
 - Regionally specific products even if they are found in a certain group of countries only, such as South Asia, will be included in the regional product list due to their significance in the countries’ consumption patterns. An example is turmeric.
 - Internationally known brands for some items, even if they may not be representative but are available in most of the countries, such as ice cream Nestle brand, would be selected for pricing for comparability reasons. For example, It is believed that the quality of Nestle ice cream would somehow be the same across countries where this brand is produced.
26. For group 6 (Clothing and footwear)
 - The Asia Pacific list will have three basic headings for garments, to account for the significant distinction among men’s; women’s; and children’s clothes, even if the Global Office only has one basic heading for this group.
 - It was recognized that culture and climate were essential factors to consider in the specifications for clothing. To achieve comparability for traditional clothing, the body agreed to have specifications for cloth and to get the cost of labor for sewing. This would ensure better comparability for traditional clothing rather than using ready-to-wear traditional clothing for which it is more difficult to make specifications.

- Samples of fabrics (wool/polyester, chinese silk, cotton/polyester) were purchased from a Thai fabric store in Bangkok and distributed to the participants to ensure comparability of clothing materials to be priced.
27. The group was informed of the next steps to be taken for the preparation of the final version of the regional product list for food, clothing and footwear. The countries were given one week (until February 13) to review the revised regional product list that would be submitted to ICP Asia Pacific Regional Office/ABS. ABS will then forward this list to the World Bank on February 16 for processing. The countries were also requested to provide additional information/translations to aid price collectors in identifying the items in the regional product list. The countries, however, were given the option to do the latter activity and were not required to submit such information for February 13.
 - The countries committed to meet the deadline of February 13 except for Taipei,China which expressed concern due to previous commitments.
 - The participants were introduced to the use of SPDs in developing the product list for the rest of household consumption for housing, education, health, etc. The SPDs were not used to develop the product list for food, clothing and footwear as they were not yet ready at the start of the ICP, this being the introductory stage for the SPDs.
 - The global SPDs were developed by the World Bank and were then customized for the regional programs.
 28. The participants found the SPD software easy to use and would facilitate their work on providing product specifications. However, the software would be much improved if:
 - The software could provide for “exclusivity” of the cells. For example, the software accepts responses for all shapes under “tables”. A table could be round, square, oval and rectangular all at the same time.
 - The unit of measure is not accurately specified, whether it is in centimeters or meters.
 29. Product specifications for the rest of the product list of the participating countries were inputted into the SPDs which mostly covered the product specifications for furnishings.
 30. The countries were also requested to provide in more detail the specifications relevant for their countries for the items selected in each of the basic headings for phase II of the product list for household consumption.
 31. A presentation on “Poverty Specific PPPs and Global and Regional Poverty Measurement” was made in which the following issues were identified:
 - World Bank uses \$1 and \$2 a day as international poverty lines converted into local currency using PPPs from ICP. This is a simple approach that produces internationally comparable numbers; is easy to explain; and as such creates international awareness on poverty in the international community.
 - However, this approach may not be appropriate for poverty measurement as items priced using the standard PPPs usually include those purchased by those in the higher income groups due to adherence to comparability; price surveys are usually conducted in the urban areas; the outlets from which prices are collected are not those patronized by the lower income groups; and the use of weights based on the national accounts represent the average consumption of the country and therefore, are not representative of the consumption pattern on the poor.

- The strategy to be adopted for the computation of PPP-based poverty statistics is the following:
 - (i) Identify goods and services representative of the poor population's consumption using the draft regional product list for food, clothing and footwear; and the SPDs for the rest of the household consumption product list of the regular ICP as the starting points.
 - (ii) Review of the price surveys of the countries to determine whether the outlets from which prices for the regular Consumer Price Indexes (CPI) are derived are appropriate for the poverty PPPs.
 - (iii) Determine the expenditure pattern of the poor based on household budget surveys.
 - (iv) Determine an appropriate methodology for computing the poverty PPPs.
 - The exercise on PPP-based poverty PPPs was also seen as an essential element in capacity-building in the estimation of poverty lines and poverty incidence especially in countries that are not regularly computing poverty lines or those which may not have any poverty measures at all.
31. While the group was reminded that no definite decision on the PPP-based poverty measures could be made at the moment pending approval of the funding request for the project, the participants maintained their enthusiasm in identifying the list for the PPP-based poverty measures.
32. At the same time, the readiness of the countries to undertake the poverty activity was assessed with the following findings:
- All the countries have household surveys from which the weights could be derived.
 - Price collection for the poverty list is feasible in the countries. However, since price surveys were not likely to cover the same outlets for the regular ICP and the CPI, additional resources would be required for the price collection for the poverty basket.
 - The participants brought up the issue of identifying the poor population and in accurately identifying and specifying the list of commodities and services they consume.