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**Items for discussion and decision: International
Comparison Programme****Final report of the Friends of the Chair group on the
evaluation of the 2011 round of the International
Comparison Programme****Note by the Secretary-General**

In accordance with Economic and Social Council decision 2015/216 and past practices, the Secretary-General has the honour to transmit the final report of the Friends of the Chair on the evaluation of the 2011 round of the International Comparison Programme (ICP). The report provides the results of the evaluation assessing the scope, activities and lessons learned from the 2011 round of ICP. The report also provides recommendations on how future ICP programmes can be effectively organized in order to make ICP results available more frequently, enhance relevance to users and better integrate ICP activities into regional and national statistical work programmes. The Statistical Commission is invited to express its views on the report, adopt the recommendations expressed in the report and decide on the implementation of the next round of the International Comparison Programme in 2017. Points for discussion by the Commission are contained in section VI of the present report.

* E/CN.3/2016/1.



Final report of the Friends of the Chair group on the evaluation of the 2011 round of the International Comparison Programme

I. Statistical Commission mandate and the Friends of the Chair group working methods

1. At its forty-fifth session in 2014, the Statistical Commission agreed to establish the Friends of the Chair group in order to carry out the evaluation of the 2011 round of the International Comparison Programme and prepare an initial report for review at the forty-sixth session of the Commission in 2015, followed by a final report to be presented to the forty-seventh session of the Commission in 2016. The initial report mainly focused on governance issues, as well as on methodological innovations and improvements. The conclusion of the Commission at its forty-sixth session in 2015 was that the final report should result in a combined and full set of recommendations, with a view to transforming the International Comparison Programme exercise into a revolving and more frequent exercise that takes into account users' needs and national statistical capacities. The Commission also encouraged countries and regional and international organizations not to lose momentum and to envisage a next International Comparison Programme round in 2017.

2. The Friends of the Chair group, consisting of representatives of 15 participating countries, held a meeting on 5 March 2015 and, on the basis of discussions held at the forty-sixth session of the Statistical Commission, agreed to:

(a) Finalize the evaluation report with final conclusions and recommendations, including views from participating countries and donors/users;

(b) Investigate the possibilities for a "quick and light" next round of comparison (including financial and methodological implications) with the goal of gradually transforming the ICP exercise into a revolving and more frequent process producing more timely and frequent results.

3. The Friends of the Chair group decided that the final version of the evaluation report to be presented to the Statistical Commission in 2016, while reiterating the recommendations of the initial report, should mainly provide considerations regarding the future ICP, in particular the organizational and methodological issues linked to holding rounds more frequently, and include issues of financing.

4. The present report reflects the view of different stakeholders:

(a) Concerning governance issues, organizations that were part of the ICP 2011 governance structure, such as the Executive Board, the Global Office at the World Bank and the regional coordinating agencies, were addressed and their experiences in 2011, included in the initial report, are also contained in the final report. Views of these stakeholders regarding the future organization of the ICP were also collected and were helpful in drawing up the final recommendations;

(b) For methodological considerations, a major source of information on the 2011 experience was the discussion with Technical Advisory Group members, and the findings of the initial report are also included in the final report. Important input regarding the implications and methodological requirements of the proposed

concept of an early comparison benchmark year (2017) and on the possibility of a rolling benchmark approach came from three meetings in 2015 of the regional coordinating agencies, and included the participation of technical experts;

(c) The user/donor aspects are reflected in the final recommendations and result from discussions with major donors. They concentrate on the need to produce timely and frequently available results.

5. Section II provides information on governance performance as experienced on the global and regional levels during the 2011 round and is followed by a description of the technical and methodological innovations and improvements in 2011. Section III summarizes the conclusions of the Statistical Commission on the initial report. Section IV describes the various aspects of planning of the future ICP. Section V of the report contains final concluding recommendations on the future ICP round.

II. International Comparison Programme 2011

A. Background and organizational setting

6. ICP is a worldwide statistical exercise aimed at estimating purchasing power parities (PPPs) for use as currency converters in order to compare the macroeconomic indicators and economic situations of countries around the world. By using PPPs as conversion factors, the resulting comparisons enable users to measure the relative social and economic well-being of countries, monitor the incidence of poverty, track progress towards the Millennium Development Goals and target programmes effectively. PPPs also assist international markets by identifying the relative productivity and investment potential of different countries.

7. ICP is both technically and operationally complex. Its success is measured by the extent of improvements in the quality of the price and national accounts data. The basic principle is that all participants agree jointly on the methodology, workplan and timetable. The governance arrangements need to provide an environment for the programme to succeed, both in terms of providing technically sound data and as an international partnership with participants from national, regional and international agencies working together.

8. The governance structure of the ICP 2011 round, and the partnering arrangements with the regional agencies, as well as with the joint Organization for Economic Cooperation and Development (OECD) and Eurostat programme as an autonomous programme and a specific region within ICP, included the following bodies:

- (a) The Executive Board, as the decision-making and strategic body;
- (b) The Global Office, as the secretariat of the Executive Board, responsible for the overall coordination of the ICP;
- (c) The Technical Advisory Group and task forces (Computation Task Force, Validation Expert Group, Results Review Group), to provide research and advice on technical issues and assist in the computations and analyses of the results, in close communication with the Global Office;

(d) Regional coordinators, to support and coordinate the national statistical institutions in implementing the comprehensive survey programmes, and regional advisory boards for several regions.

9. One of the biggest challenges related to the scope of the 2011 programme was to accommodate the drastically enlarged country coverage to 199 countries or economies, including from Africa, Asia and the Pacific, the Commonwealth of Independent States, Latin America, the Caribbean, Western Asia, 21 Pacific Islands countries and territories, the OECD/Eurostat programme and the economies of Georgia and the Islamic Republic of Iran. The World Bank arranged collaborators in the ICP regions and the ICP Global Office worked through those collaborators to undertake the regional price surveys/comparisons.

10. The results of ICP 2011 were presented at the forty-fifth session of the Statistical Commission in 2014. The report, prepared by the World Bank on behalf of the ICP Executive Board, described the computation of the ICP 2011 estimates, the governance activities that supported the computation process and the preliminary results. The report also outlined the plans for the evaluation of the ICP 2011 round.

B. Major initial findings by the Friends of the Chair group

11. A sound picture of the ICP 2011 round could be drawn from the information provided by ICP documentation, such as reports and the minutes of meetings held by the Executive Board, the Technical Advisory Group and the regional coordinators, as well as from surveys and interviews conducted with the major stakeholders of ICP 2011. The questionnaire distributed to the stakeholders covered a number of subject areas from a global and regional perspective, such as the governance framework and the implementation of the distinct governance bodies' roles and responsibilities, the process of decision-making and the communication between the main actors in ICP 2011. The questionnaire focused on the stakeholders closely involved in the ICP 2011 round. In addition, interviews were conducted with selected representatives of the stakeholders. Important additional background information came from the annual ICP reports by the World Bank to the Statistical Commission, the ICP handbook and book, the operational material and guide and ICP quarterly updates and regional reports. The major findings are presented below.

General evaluation

12. ICP 2011, with its considerably expanded coverage (from 150 to 199 countries), brought a much higher acceptance compared to earlier exercises. Following their improved availability, the use of PPPs around the world has increased. In addition, the applied methodology has significantly improved over that of the 2005 round. ICP 2011 has put ICP on a firm methodological basis by introducing approaches such as the global core list and applying major technical innovations such as the ICP toolkit. Specifically, the broad documentation of metadata and the further development of ICP operational guides and handbooks contributed much to the knowledge of staff conducting the work. A certain challenge arose from the cumulative effect of the two ICP rounds (2005 and 2011) which took the ICP from a one-time "snapshot" created by each solitary benchmark into a kind of time series-like environment with the requirement of time consistency.

13. One clear lesson from the 2011 round is that a six-year interval between rounds is too long. That perception was expressed by almost all stakeholders (even before asking any users' opinions) and is highly interrelated with the acceptance of ICP results, which would be needed every two to three years, with extrapolations to annual results. At the moment, however, at the global level and with the exception of the OECD/Eurostat programme, there is no mechanism to ensure this. Therefore, a major part of the present report provides a more in-depth analysis of the issue of the frequency of and intervals between ICP rounds.

Governance structure

14. The responses of the parties involved allow the conclusion that the ICP 2011 governance structure has generally worked quite well. The designed structure of interaction between the global and the regional levels, with the Executive Board as the central decision-making and strategic body and the Global Office and Global Manager as the executive units, has been widely proven to be appropriate for handling the main challenges and problems of the ICP exercise. The very broad membership of the Board came at the cost of efficiency in reaching agreements and making decisions throughout the ICP exercise. Overall, however, the governance structure and the management initiatives taken have turned ICP into a successful global exercise.

15. The federated approach to governance, with collaborators at the regional level — albeit with some inefficiencies at certain stages and in some regions — was a good solution. However, not all regions signed a memorandum of understanding or had a clear partnering arrangement with the Global Office, which meant a certain lack of strict agreements on methodologies and timetables among the stakeholders even at the outset of the process.

16. One clear lesson learned from the ICP 2011 round is that the agreed computational methods must not be changed in any way once the results are known to countries. Similarly, countries should not be able to opt out of the comparison exercise after seeing the results. Memorandums of understanding or other written agreements describing the cooperation procedures, as well as the arrangements for data exchange and the agreed methodology, should be signed by all actors before the start of ICP activities.

17. Concerning operational aspects, such as the development of the global core list, survey materials and national accounts materials, the cooperation between the various players worked well. The contribution of regional coordinators in global meetings and the Global Office's contribution in regional meetings enriched the discussions and ensured smooth progress.

18. A number of supporting activities provided by the Global Office, Technical Advisory Group and World Bank deserve special mention, as they contributed much to the success of the programme. Data and communication exchange between the global and regional level worked better than in the 2005 ICP round. Nevertheless, a specific and responsive communication system/framework that is more secure, transparent and timely, similar to the tools used by Eurostat, would be helpful.

Executive Board

19. The Executive Board acted as the central decision-making and strategic body of the ICP 2011 round. Key international organizations (the International Monetary Fund (IMF), OECD, Eurostat and the Statistics Division of the Department of Economic and Social Affairs of the Secretariat) had permanent seats, and several national statistical institutes (mainly from big economies) were also represented. Board members were appointed on the basis of their deep statistical knowledge and experience in developing supranational statistical indicators and programmes supporting capacity-building, following the rules adopted by the Statistical Commission. The World Bank was present for similar reasons and owing to its role as the host agency of the Global Office. Country representation was designed to ensure a balanced representation of regions, country-specific economic structures and statistical capacity. Regional coordinators were present to reflect the federated approach to developing PPPs first regionally and second globally.

20. According to those principles, one could say the Executive Board for ICP 2011 was well balanced in terms of regional representation, country size, capacity and mix of permanent members. The Board in general had a mix of strategic and technical minds and had sufficient experience to oversee the programme.

21. However, with 25 members (including 10 from international organizations) the Executive Board was too large to effectively conduct its business. The number of Board members should therefore be strictly limited in order to make it an effective decision-making body.

22. Against the background of a lighter and more integrated ICP approach, the roles and responsibilities of the Executive Board should be those of a truly strategic body that tackles funding, political support and outreach issues instead of being involved in hands-on activities. The Board provides the overall oversight and puts forth the policies and protocols that govern the production of global and regional PPPs. The Board should ensure the countries' inputs and views and ultimately be responsible for the ICP results before the Statistical Commission. A priority of the new Board should be to ensure the successful implementation (and funding) of the 2017 ICP round. In order to achieve "balance between efficiency and representations of stakeholders and, at the same time, transparency in the decision-making process" (see Economic and Social Council decision 46/109) the determination of an appropriate number of members participating in the Board is important. Eleven countries, one to two for each ICP region (depending on the number of participating countries in each ICP region) should have a seat on the Board. Other members of the Board should be the World Bank, IMF, the Statistics Division, Eurostat and OECD. Other regional coordinating agencies (the Asian Development Bank (ADB), the African Development Bank (AfDB), the Interstate Statistical Committee of the Commonwealth of Independent States (CIS-STAT), the Economic Commission for Latin America and the Caribbean (ECLAC) and the Economic and Social Commission for Western Asia (ESCWA)) should be members with observing status. That would bring the total Board seats to 16, down from 25 as in ICP 2011. Terms of reference of the Board should specify the way its decision-making processes will be carried out. A more restricted membership in the Board could be counterbalanced by holding meetings in an extended format, inviting other national statistical offices that are not members of the Board to attend and to consider the participation, upon invitation, of the user community in their extended meetings.

Global Office and Global Manager

23. The institutional setting of the ICP 2011 Global Office and Global Manager was as follows: the Global Office, located at the World Bank's headquarters in Washington, D.C., was responsible for assisting and supporting the Executive Board in the preparation of its work and for efficiently organizing the global coordination task. This coordination office, headed by a Global Manager, was expected to interact closely with the regional coordinators. It provided technical assistance to regional coordinating agencies by updating the global core lists and survey materials. The World Bank administered the ICP multi-donor trust fund and provided grants to various regional agencies from that trust fund or from other World Bank grant facilities. Other important coordinating tasks were the organization of conferences and seminars and the preparation of knowledge products, papers, blogs and quarterly updates of ICP activities to promote the uses of PPPs. On matters related to the execution and implementation of the ICP mission, its policy, programmes, priorities and standards, the Global Manager acted within the directives provided by the Board and within the framework of the work programmes and budgets approved by the Board. Elements of the day-to-day management of the ICP Global Office were cleared by the World Bank Development Data Group Director and Manager (e.g., budget allocations from the World Bank's budget and ICP trust fund, staffing actions and performance assessments, travels, etc.). The reporting arrangement allowed for synergies and the sharing of experience between the ICP Global Office and other statistical capacity-building activities provided by the Development Data Group of the World Bank.

24. The Executive Board/Global Office/Development Data Group cooperation model operated efficiently, as all parties well understood their respective roles and responsibilities. It would be very useful to make the Global Office a permanent team, presumably best placed at the World Bank. A more permanent structure would ensure greater continuity and preserve institutional memory and would not be subject to financial uncertainty. In that case, the role of Global Manager would be assumed by a permanent staff member at the World Bank.

Technical Advisory Group

25. The Technical Advisory Group, consisting of international experts, assisted the Global Office with the clarification of conceptual, methodological and technical questions arising during the exercise. The work done by the Technical Advisory Group was greatly appreciated by most stakeholders and mentioned as an important contribution to the success of ICP 2011. A number of methodological questions were clarified and conceptual innovations prepared. The new and improved methodologies increased the complexity of the calculations. Therefore, three task forces were formed: the Validation Expert Group to oversee the validation of data provided for the global comparisons; the Computation Task Force, consisting of a group of experts with experience in ICP computations, to calculate the global results independently from each other and ensure their convergence; and the Results Review Group to review the results in terms of their plausibility and adherence to the agreed-on methodologies and procedures.

26. The Technical Advisory Group and all three expert groups contributed greatly to the overall quality of the final results and also ensured the transparency of the overall process. However, the high number of Technical Advisory Group members

(22 permanent members and around 40 experts temporarily attending Technical Advisory Group meetings) was not perceived as being efficient and should be limited in order to make the methodological discussions effective.

Regional coordinators

27. The regional coordinators had the difficult task of coordinating the regional comparisons and ensuring a smooth workflow between the Global Office and the countries. They were responsible for the planning of the surveys, providing relevant documentation, building methodological capacity, collecting and checking country data, calculating and disseminating regional results and transmitting the regional data to the Global Office in a timely manner. The degree of success in the implementation of ICP varied across regions, depending on the experience and level of expertise of the parties involved. Some regional organizations and national statistical institutions drew on assistance provided by the Global Office and partnering arrangements. Other regions, including the OECD/Eurostat region, could successfully rely on their existing advanced comparison methodology and infrastructure.

Repurposing and renaming of governance bodies

28. In order to reflect changes in roles as a consequence of a lighter and more integrated ICP approach, a renaming of governance bodies is proposed. If the Executive Board is to strengthen its role as a strategic body that tackles strategy, funding, political support and outreach issues as well as endorsing the policies and protocols to which regional and global PPP calculation would adhere, renaming it a “Governing Board” seems appropriate. If the regional coordinators meeting needs to actively involve other agencies, such as IMF, that play a major role in compiling detailed consumer price indices (CPIs) and improving CPI quality, and that can help with the ICP/CPI integration agenda, it may be a good idea to rename it “Inter-Agency Coordination Group”. The Technical Advisory Group may better be labelled as a “Technical Advisory Task Force” to reflect the fact that its main tasks would change, as the Friends of the Chair group expects a reduced technical agenda with no major changes in methodologies.

Capacity-building

29. A large majority of ICP stakeholders confirmed that ICP 2011 had wide positive effects on the regional statistical programmes with regard to both price statistics and national accounts. The ICP exercises also brought considerable contributions in building national statistical capacities (institutional and technical). In most of the regions, substantial efforts were made to integrate ICP into the national statistical programmes. Participants honour in particular the work done to improve the statistical base for cross-country comparisons, as well as the contribution of the programme to the improvement of the statistical basis for shedding light on poverty problems. Simultaneously, the regional coordinators confirmed that the various parts of ICP had a significant impact on the workload of the regional offices and national statistical institutions, in particular for price collections exceeding the normal CPI basket and for the full gross domestic product (GDP) coverage.

30. For the 2011 round, capacity-building was an integral part of the continuous process for improving data quality. Regional coordinators provided assistance and support, such as organizing regional seminars and workshops on prices and national accounts, thereby providing important forums for bringing statisticians together for the presentation of and discussions on new methods and operational practices. The Global Office contributed substantially to capacity-building in the ICP 2011 round by preparing important materials such as *Measuring the Real Size of the World Economy: The Framework, Methodology and Results of the International Comparison Program (ICP)* and the ICP Operational Guide. Beyond this material, the Global Office provided critical technical support to countries and regional coordinators relating to: (a) survey methodology; (b) data validation; (c) national accounts expenditure compilation; and (d) PPP calculation. Building on lessons learned from the 2005 round of ICP, the Global Office developed the ICP software for 2011 (also known as the ICP kit) as a comprehensive set of physically independent but logically integrated software modules to coordinate data collection and data processing during the 2011 round.

Quality of data and metadata

31. The regional agencies responsible for the comparisons in the seven ICP regions shared that responsibility with the national agencies. The Global Office assumed responsibility for ensuring that the seven regional comparisons and the OECD/Eurostat comparison could be combined in the global comparison, and then combined them. The compilation, validation and publication of the global results were also responsibilities of the Global Office, but the validation of regional results was the sole responsibility of the regional coordinators. The mutual exclusivity of data validation between regional and global estimates created challenges in generating consistent global estimates across all regions. The different methods of quality assurance between activities at the regional and global level was a weakness. There was no formal feedback mechanism between the global PPP compilation and the additional validation of regional estimates that might have contributed to anomalies at the global level. This “mutually exclusive” approach to quality assurance and validation was a serious limitation in ICP procedures and protocols.

32. Ensuring the quality and completeness of input data and metadata is a crucial issue for ICP. With the preparation of a series of metadata questionnaires, the Global Office considerably improved the substance of metadata and therefore the quality of the comparison. Quality assurance framework checklists were prepared to help collect the information required to evaluate and assess the quality of the submissions. They were available in Arabic, English, French and Spanish. The checklists had to be completed by the countries, the regional coordinators and the Global Office. On the national accounts side, the Model Report on Expenditure Statistics, national accounts quality assurance questionnaire and the national accounts exhaustiveness questionnaire provided a wealth of metadata on how countries were splitting their GDP expenditures into 155 basic headings and on the quality and exhaustiveness of their GDP expenditure estimates. On the price survey side, a survey framework questionnaire was prepared for the countries in Arabic, English, French and Spanish. This questionnaire was crucial, providing information on the coverage of the survey across countries.

33. The ICP quality assurance framework was derived from the Data Quality Assessment Framework developed by IMF, which focuses on the quality-related

features of governance of statistical systems, core statistical processes and statistical products. The ICP quality assurance framework covered six topics: prerequisites of quality; assurance of integrity; methodological soundness; accuracy and reliability; serviceability; and accessibility.

Technical aspects and methodologies

Establishing the item lists

34. The process of creating global core lists has several limitations and needs to be improved. The regional product specification coding was not as uniform as could be desired. Not enough was done to use the ICP structured product description as the basis for a registered and maintained international product description standard. The procedures for the selection of the global core list products (i.e., the number of products per basic heading) were not fully clear and as a result some basic headings were not covered adequately for some regions. There was a need to develop a special survey for information technology products at the last moment, and not all regions provided sufficient input to its development. As a result, the global core lists still suffered from being too much based on OECD/Eurostat definitions. The process of developing the global core list specifications could be made more transparent by using common online tools with which all regions could make their proposals. Ideally, the products proposed for the global core lists would undergo a preliminary survey to determine their availability and importance in regions and countries before they are included in the survey. This would also help in improving the specifications.

Importance versus representativity

35. The comparability of the products being priced is the fundamental principle underlying the estimation of PPPs. A dilemma facing ICP is that available comparable products may have significantly different expenditure shares. Since there are no explicit data on expenditures for individual products, indirect or implicit rough weighting is used to obtain “unbiased”/equi-representative basic-heading PPPs. The Technical Advisory Group recommended the concept of “importance” for the 2011 ICP. Importance was defined by reference to the notional expenditure share of the item within a basic heading. The country product representative dummy (CPRD) method used in ICP 2005 was replaced by the weighted country product dummy (CPD) method. In general, the concept of “importance” is less ambiguous, simpler to understand and more transparent than the concept of “representativity” used in ICP 2005 (in reference to “typical price levels”), but it does not solve all problems for the calculations of “true” (unbiased) basic-heading PPPs if the “typical price level” is ignored. Therefore, further efforts should be focused on further explanations to the countries concerning the whole process.

Rents

36. Several aspects make the comparison of housing expenditures challenging, for instance, the recording of housing expenditures and the significantly varying market situations from one country to another. There were substantial efforts from the regional coordinators and the Global Office to improve the methodology as well as input data (prices as well as national accounts figures) in this complicated area;

however, the actual progress was rather moderate. Most likely the dual-approach for collecting both rental and quantity data needs to be maintained. Improvements in this area should primarily come from improvements in data quality and availability (price and dwelling stock data as well as national accounts data).

Government services (health, education and collective services)

37. The use of a productivity adjustment for global linking of salaries in government services in ICP 2011 was an obvious improvement. There were, however, several weaknesses: the productivity adjustment calculated using capital-labour estimates for the whole economy for such specific areas as health, education and collective services is a very rough approximation (also, the accuracy of productivity adjustment factors for different countries seem to be different), and not all regions used productivity adjustment in the regional comparisons. In addition, the regions did not use the same methodology (e.g., OECD/Eurostat used the “output” approach for health/hospital services and education but other regions used the “input cost” approach). In effect, the results of the countries depend, in some cases heavily, on the regional methodology, and interregional comparability was decreased.

38. No doubt the OECD/Eurostat experience with the output approaches in these areas should be carefully analysed by all regions. The challenge with the output approach, however, is that it requires data that are not always available or are of a questionable nature. Outputs (and their quality) are more difficult to define and could be less comparable. For the time being, the input-based approach with productivity adjustment is most likely the best possible option for the worldwide ICP. However, the process for calculating productivity adjustment factors, as well as the application of productivity adjustment factors, should be streamlined.

Construction

39. The ICP 2011 approach was a compromise that made the best of less than uniform measurement standards for this tough-to-measure activity. A model-based approach clearly would be better, but in general it can be argued that the 2011 input-based approach was and still is the best possible and achievable option, given the limited availability of data, as it is much less costly. On the other hand, the input costs (materials, labour and equipment) do not take into account the outstanding gap among economies for profits, taxation and contractor mark-ups, and therefore do not fully reflect market prices. It is suggested that further research regarding these problems is needed in future rounds of ICP.

Global linking

40. The decision to adopt the global core list approach for the 2011 round was a clear improvement, especially as it ensures more robust linking because it is based on the set of prices for all participating countries. However, the approach should be further improved by refining the item definitions and ensuring that the concepts, such as “well-known brand”, are used systematically throughout the list. In addition, survey guidelines can be strengthened for some difficult areas, such as health, housing and equipment goods.

41. A common opinion is that both weighted CPD and country approach with redistribution (CAR) methods were improvements and should be maintained in

future rounds of ICP in order to create a better consistency across rounds. Nevertheless, some further technical improvements are desirable, for example the reduction or elimination of the impact of “weak” links (the pairs of less comparable countries) in the global comparison and investigations.

Fixity of the regional results

42. If one assumes that the regional comparisons have different degrees of accuracy, then the fixity of the regional results can be seen as an advantage. Another benefit of maintaining regional fixity is that it is important for the credibility of the ICP results to preserve fixity and to have only one set of results for each region. In general terms, however, it is hard to support the concept of “fixity”. It is essentially an organizational constraint, not a statistical one. In addition, maintaining fixity makes the calculation process less transparent and is more labour-intensive. The main problem is not the fixity per se but the fact that the regions use different methodologies, which decreases the comparability of the global results. Different approaches according to regions should be allowed as long as they are anticipated from the beginning, and linking procedures are also established from the beginning, but sufficient effort should be made towards methodological unification. The official ICP results should be published with regional fixity. However, many users are interested in results that compare countries more directly without imposing the fixity constraint, and therefore an analytical or experimental set of PPPs without the fixity constraint should be produced along with the official estimates.

Quality assurance of regional and global purchasing power parities

43. Previous ICP rounds dedicated substantial efforts to the validation of ICP input data (prices and expenditures) but less attention to the resulting global PPPs. In the future, more efforts should be devoted to validating the resulting regional and global PPPs from an economic point of view to ensure their consistency and plausibility.

Integration of the consumer price index and the International Comparison Programme

44. Assuming there will be more frequent and permanent ICP exercises, it will be especially important to decrease the burden on countries. Achieving potential synergies by further integrating ICP and CPI survey activities should be broadly investigated.

III. Conclusions of the Statistical Commission at its forty-sixth session in 2015

45. The Statistical Commission welcomed the findings and draft recommendations contained in the initial report of the Friends of the Chair group ([E/CN.3/2015/14](#)) which mainly referred to procedural and governance aspects of ICP as well as to methodological improvements in the 2011 round. One of the key conclusions of the initial report on the 2011 round was that a six-year interval between ICP rounds was too long. This view was expressed by almost all stakeholders during the evaluation process and was also reflected in the reactions at the session of the Commission. It was expressed that the acceptance and relevance of ICP results depend on their frequent and timely availability (at least every two to three years with extrapolations

to annual results). The Commission at its forty-sixth session expressed its preference to:

(a) Shorten considerably the interval of ICP worldwide comparisons with the intention of having the next benchmark occur as soon as possible, preferably in 2017;

(b) Ensure that ICP becomes a permanent element of the global statistical programme;

(c) Integrate ICP into the regular regional and national statistical work programme.

46. Based on these conclusions and on the discussion with major stakeholders and users, the Friends of the Chair group concentrated on an in-depth analysis of the possibility of an integrated approach to shorten the intervals between individual ICP rounds with a view to organizational, methodological and financial impacts. The present report therefore provides a detailed description of the concept for gradually transforming the ICP exercise into a revolving and more frequent process that produces more timely and frequent results. The final evaluation resulted in a set of recommendations that included the draft recommendations of the initial report of the Friends of the Chair group.

IV. Planning for future rounds of the International Comparison Programme

47. Section IV describes a concept allowing for an early next round of worldwide comparison, with the goal of being, at the same time, a starting point for more frequent exercises to produce timely, if not annual, comparison results.

A. Rolling benchmark approach

48. As shown in earlier exercises, the simple update approach (i.e., to extrapolate PPPs for all elements of GDP, for example from 2011 to 2017, using price and volume indicators instead of annually collected sets of price data), is not recommended owing to the relatively long period of extrapolation and the lack of good quality and comparable deflators and volume indices in all regions.

49. As a solution, a mix of survey data and extrapolated data is proposed, in line with the concept of annual rolling survey cycles and frequent (annual, biennial, triennial) benchmark results. It means that for a benchmark year t , the surveys on consumer goods and services that are the most voluminous and workload intensive surveys are sliced into three surveys distributed across three years ($t-1$, t , $t+1$). The survey results from year t go directly into the database for the benchmark comparison, those of the years $t-1$ and $t+1$ are extrapolated and retrapolated from year t . The surveys on capital goods (machinery and equipment) and construction, as well as housing, could be conducted in annual to triennial cycles. Input/output data for non-market services and general government salaries as well as GDP expenditure data should be collected annually. First estimates for year t at the level of main GDP aggregates could be realistically expected at the middle of $t+2$ and more advanced and more detailed results expected at the end of $t+2$. This approach

needs extrapolation and retrapolation for only one year, therefore the comparability of CPI data should be less problematic even for statistically less advanced regions.

Principal scheme of the International Comparison Programme rolling benchmark approach for the year 2017 and later

Surveys	International Comparison Programme 2017				International Comparison Programme 2018				International Comparison Programme 2019			
	2016	2017	2018	2019	2017	2018	2019	2020	2018	2019	2020	2021
Food, beverages and tobacco	X =>						<= X			X		
Clothing and footwear	X =>						<= X			X		
Technical and household products		X			X =>							<= X
Health		X			X =>							<= X
Services			<= X			X				X =>		
Furniture			<= X			X				X =>		
Housing		X				X				X		
Machinery and equipment		X				X				X		
Construction		X				X				X		
Non-market services (salaries)		X				X				X		
CPI		X				X				X		
GDP		X				X				X		

Note: "X" refers to direct use; "X =>" with CPI extrapolation; "<= X" with CPI retrapolation.

50. For the benchmark year 2017, data collection could be organized as follows:

(a) Consumer products (including core list products):

(i) Two surveys in 2016 (food, beverages and tobacco; clothing and footwear). Since in these consumption segments product offers are assumed not to change quickly, the existing updated regional and global item lists from ICP 2011 (or slightly revised versions) can be taken. Extrapolation of price information to 2017 will be done with available detailed CPI sub-indices;

(ii) Two surveys in 2017 (technical and household products; health care). The updating of existing item specifications for technical products can take place during 2016 and be finalized at the beginning of 2017; the survey data would directly enter into the comparison data set;

(iii) Two surveys in 2018 (furniture; services). These surveys would be based on updated item specifications (to take place during 2016-2017) plus retrapolation of price data to 2017 with detailed CPI sub-indices;

(b) Capital goods surveys (machinery and equipment; construction) in 2017, on the basis of updated item specifications with necessary extension reflecting market developments;

(c) Non-market services and general government salaries surveys in 2017, on the basis of existing item specifications with necessary adjustments;

(d) Housing in 2017, on the basis of existing item specifications with necessary adjustments;

(e) GDP expenditure data in 2017, with first estimates at the level of main GDP aggregates available at the middle of 2019 and detailed basic headings data available at the end of 2019.

51. While consumer surveys, as the less problematic methodological area, are either already on the way or can start relatively quickly in 2016, work on other parts can take place in 2017 or 2018. The discussion on methodological improvements in the fields of housing, construction, general government, education, health, etc., should be held in 2016. In addition, the optimization of questionnaires, the GDP classification (expenditure breakdown) and the list of specifications should be subject to review.

52. This means that first results for the benchmark year 2017 would be available in 2019, which will be five years after the ICP 2011 results were published. This is still an unacceptably long timespan; however, it would be the starting point for more frequent worldwide results, on the assumption that a fully working rolling benchmark approach would be running, with results for the benchmark year 2018 in 2020 and so on.

53. Moreover, given the results from the various ongoing activities in most of the ICP regions (see para. 56 below), some kind of interim global PPP updates for the years 2012 to 2016, based on a mix of results from regional updates and detailed extrapolations, should be possible by the end of 2018. The options to combine these regional results to create interim update results should be further investigated by the World Bank, regional agencies and technical experts.

B. Advantage: flexibility

54. The concept of annual rolling survey cycles combined with indicator-based extrapolation and retrapolation gains advantage from a certain flexibility: it is not strictly necessary that all regions follow the same timetable for the price collection, at least not in the starting phase. Regions with lesser possibilities for extrapolation may choose to collect prices for all products in year t . Others may want to spread the price collection burden over $t-1$, t and $t+1$, as proposed. In the case of benchmark year 2017, results of the different already ongoing survey cycles in the various regions should be used as immediate input to the 2017 benchmark comparison. There may be some product categories (e.g., in fast-moving markets such as information processing equipment or telecoms) for which the time of price collection needs to be more closely coordinated in order to be able to define the global core list products to be priced. The detailed validation of prices happens in the first instance at the regional level. However, the check of between-regional comparability (global validation) can be done only when all regions supply data, and there is sufficient time in the production process to review and validate regional PPPs, should global PPP estimation reveal potential issues. Although flexibility per se should not be a big problem for the global validation, it is, however, desirable that all regions follow approximately the same timetable.

55. Though annual survey data would be desirable, flexibility can also be granted to the more difficult and complex surveys (machinery and equipment, construction, housing) allowing biennial or triennial cycles on the condition that countries and regions have a developed system of deflators for these areas.

56. Therefore, results and endeavours from the various activities ongoing in most of the ICP regions should be integrated into the global exercise for 2017 to the greatest extent possible. The Commonwealth of Independent States completed surveys in 2014 and results are expected in late 2016; Africa and Asia are conducting surveys from mid-2015 to mid-2016; Western Asia has interim results for 2012 and 2013 and plans to conduct surveys in 2016; Latin America plans to conduct surveys in 2016; the World Bank intends to produce a global 2012-2016 update; OECD plans to produce interim “update” rounds for 2015 and 2016; and Eurostat produces annual results. For subsequent rolling benchmark exercises it would be desirable for all regions to gradually switch to the general timetable as shown in the table above.

C. Requirement: detailed indicators of good quality

57. All the listed arguments for timely, frequent and cost-effective comparisons are expected to ensure that future rounds of ICP will be “lighter” and “quicker” than previous comparisons, without loss of accuracy. The rolling benchmark concept requires a set of reliable indicators for detailed GDP categories in order to extrapolate and reinterpolate survey data to the respective benchmark years. Based on the experience in the interim period, these data and metadata are not available and/or are not of good quality in all countries, therefore a technical assistance strategy (with IMF) would be needed in order to gradually improve the availability and quality of these indicators in all countries. This will be a gradual process and PPP estimates will slowly improve with time as the quality of the data and metadata improves. The following indicators could be used for the different GDP categories:

- (a) Consumer goods and services: CPI sub-indices at a detailed level;
- (b) Capital goods and construction: sub-indices of producer price index, construction price index;
- (c) Housing, rentals: rental price index, quantity/quality indicators;
- (d) Non-market services, general government salaries: sub-indices of wages index, labour cost index, quantity and/or input/output indicators;
- (e) GDP: yearly expenditure data and national accounts deflators.

58. All possible indicators should be timely and should have the required detail and accuracy. Many national statistical institutions have such indicators. If these indicators are not available, then they should be integrated into the programmes of capacity-building of developing countries. Assessment activities of international organizations are ongoing, with the goal of extrapolating PPPs. It would be ideal to have time series of price indices for all ICP countries at the most disaggregated level possible, which would, first of all, concern the CPI time series. Extensive research into the available CPI series, country coverage, years covered and additional details was conducted by the World Bank. IMF and OECD elaborated on their joint initiative to collect and disseminate detailed national CPI data for all countries. The aim is to collect CPI (monthly or quarterly) for 12 Classification of Individual Consumption According to Purpose (COICOP) categories. The quality, availability and comparability of adequate indicators should be subject to investigation by the Technical Advisory Task Force.

59. The above proposal is ambitious, given the tight time schedule and the capacity constraints many participating countries are facing. It is likely that starting survey activities in 2016 will be unrealistic for some regions and countries because of the rather short time available for preparatory works. This plan requires quick action with regard to organizational and financing commitments after the Statistical Commission's decision in March 2016. However, flexibility would allow, where necessary, the postponement of survey activities planned for 2016 to the benchmark year 2017, while leaving all other surveys unchanged.

D. International Comparison Programme as a permanent programme and its integration into the work programmes of global, regional and national statistical institutions

60. 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 programmes 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 programme, 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 programmes as an established business line.

61. Another aspect is that ICP is also improving capacity-building within all participating organizations, including national statistical institutions and regional and global coordinating agencies. With the training provided within the ICP framework, related staff are building up knowledge primarily in the field of price statistics and national accounts. This capacity-building is undoubtedly more efficient if it happens on an ongoing basis rather than every few years. It is therefore important to utilize the capacity gained from the 2011 round.

E. Funding issues

62. A strong opinion among ICP stakeholders is that a more regular and institutionalized ICP needs a certain sustainability of funding, in particular in situations where the statistical infrastructure is not (yet) adequately developed, and for financing of the global coordinating activities in situations where the permanent funding of the Global Office would help ensure that the knowledge gained with each ICP round is not lost. Consequently, if the ICP work were to be established as an integrated national statistical institution business line with a dedicated regular budget, rather than as an externally funded project, donors might shift funding to activities that directly benefit countries, such as data collection, technical assistance and workshops. Potential donors would like to ensure value for money when

supporting the production of ICP results. Timeliness and frequency of ICP results are undoubtedly good arguments, but good outreach would also include showcasing to donors that ICP generally responds to user needs and strives for further openness with regard to access to data and metadata. ICP stakeholders should therefore accelerate, combine and coordinate outreach efforts at the global, regional and national levels.

63. According to information received from the World Bank, the World Bank funding levels for the next round would be less than that of the ICP 2011 round, as there are many demands and priorities competing for funding, most notably the newly established Sustainable Development Goals. Therefore, national statistical institutions will require help to secure long-term commitments and sustainable funding from their governments. To do so, ICP stakeholders will need to reach out and demonstrate the value of ICP data to policymakers at the national level. In this regard, the strategic role of the Governing Board, with the support of the global and regional coordinating agencies, would be key.

64. As soon as the concept of the future ICP is generally accepted, funding solutions with potential donors, including the World Bank, IMF, regional development banks and other regional agencies, the Department for International Development of the United Kingdom of Great Britain and Northern Ireland and other donors, must be negotiated in order to ensure the following country, regional and global activities and the research agenda:

(a) Country activities: data collection and validation;

(b) Regional activities: the maintenance of a permanent ICP team in regional coordinating agencies to conduct regional coordination, data validation, the calculation of regional results, the organization of regional capacity-building activities and the conduct of regional advocacy activities;

(c) Global activities: the maintenance of a permanent ICP team (Global Office) at the World Bank to preserve institutional memory and ensure continuity in the global coordination, data validation and calculation of global results. The team would also support the governance structure of ICP, prepare operational and capacity-building materials and conduct global advocacy activities;

(d) Research agenda: financing the work of the Technical Advisory Task Force to support the ICP technical agenda, especially the methodological aspects of the rolling benchmark and building the PPP time series.

V. Final conclusions and recommendations

65. The 2011 round of ICP was a major step forward in developing a system of calculating PPPs on a global basis. However, feedback received from stakeholders as well as from the discussion at the forty-sixth session of the Statistical Commission in 2015 made it clear that the worldwide ICP should be carried out on a continuous basis and the interval of ICP exercises should be considerably shorter, starting with a benchmark year to be held in 2017. Based on this information, the Friends of the Chair group developed the following recommendations:

A. Future rounds of the International Comparison Programme

66. It is recommended that the International Comparison Programme be organized on a more frequent basis, with the next benchmark year occurring in 2017. Results of future ICP cycles should be available, if possible, every three years, with extrapolations to annual results. This would make ICP results more relevant to users.

67. It is recommended that a rolling benchmark concept be set up, which would consist of a system of rolling surveys over a three-year comparison cycle with the objective of obtaining annual benchmark results. The rolling benchmark concept requires a set of reliable indicators for detailed GDP categories in order to extrapolate and retrapolate survey data to the respective benchmark years. This enables countries and regions to spread the survey burden over three years and offers more flexibility in the allocation of resources.

68. It is recommended that ICP become a permanent element of the global statistical programme. The objective should be to institutionalize ICP at the global, regional and national levels by incorporating ICP work into the annual and multiannual work programmes of the global and regional coordinating agencies and national statistical institutions as an established business line.

69. It is recommended that the Statistical Commission authorize the Governing Board to set up a sustainable funding concept which corresponds with the proposed rolling benchmark concept.

70. It is recommended that the Statistical Commission authorize the Governing Board to reach out and demonstrate the value of ICP data to policymakers and other important users and donors, in particular showcasing to donors that ICP generally responds to user needs and strives for further openness with regard to access to data and metadata. ICP stakeholders should be invited to accelerate, combine and coordinate outreach efforts at the global, regional and national levels.

71. It is recommended that financial and technical assistance be offered to countries in order to further develop the capacity built during the 2011 round of ICP. This will further improve data quality and help to integrate ICP into national statistical programmes.

B. Process

72. It is recommended that the methodology and procedures to be applied during a comparison cycle be approved by the Governing Board at the outset of the process and that, once the preliminary results are calculated, changes in methodology not be allowed. For the next cycle in 2017, no major changes in methodology should be introduced, in order to ensure comparability with the 2011 results. Subsequently, if a methodology or procedure is deemed flawed, the Governing Board could consider and approve improvements in methodology to be applied during subsequent ICP cycles.

73. It is recommended that, once the preliminary results are prepared after the completion of quality assurance at both the regional and global levels, changes in countries' input data not be allowed.

74. It is recommended that the Governing Board establish policies that improve openness with regard to access to ICP data and metadata.

C. Governance

75. It is proposed that the governance bodies be renamed in accordance with their repurposing in the following way:

(a) The former “Executive Board” would be called the “Governing Board”;

(b) The regional coordinators meeting would be called the “Inter-Agency Coordination Group”. The Inter-Agency Coordination Group would comprise the World Bank, the Statistics Division, OECD, Eurostat and the other regional coordinating agencies (ADB, AfDB, CIS-STAT, ECLAC and ESCWA);

(c) The Technical Advisory Group would be called the “Technical Advisory Task Force”.

76. It is recommended that the roles and responsibilities of the Governing Board be clearly defined in order for it to serve as a truly strategic body that tackles funding, political support and outreach issues instead of being involved in hands-on activities. The Board should put forth the policies and protocols that govern the production of the global and regional PPPs. It should ensure the countries’ inputs and views and ultimately be responsible for the ICP results before the Statistical Commission. A first priority of the new Board should be to ensure the successful implementation (and funding) of the 2017 ICP round.

77. It is recommended that the terms of reference of the Governing Board clearly specify the way decisions are taken by the Board. Transparency in the decision-making process should be sought.

78. It is recommended that an appropriate number of Governing Board members be determined in order to strike the right balance between efficiency and the representation of stakeholders. National statistical institutions should be given a strong position on the Board. In order to balance country representation across ICP regions, 11 national statistical institutions should be represented on the Board as members: Africa (2), Asia (2), Pacific Islands (1), Latin America (1), Caribbean (1), Western Asia (1), Commonwealth of Independent States (1), European Union (1), non-European Union OECD (1). A rotation system within each ICP region could ensure a broad representation of countries on the Board over time.

79. In addition to the 11 national statistical institutions, membership of the Governing Board should comprise five international organizations, including the World Bank, IMF, the Statistics Division and two members of the Inter-Agency Coordination Group. The other members of the Inter-Agency Coordination Group would be invited to attend Board meetings as observers. That would bring membership in the Board to a total of 16 seats, down from 25 (as in ICP 2011).

80. The Governing Board is encouraged to consider, when appropriate, holding meetings in an extended format, inviting other national statistical institutions that are not members of the Board to attend its meetings and to consider the participation, upon invitation, of the user community in their extended meetings.

81. It is recommended that the Technical Advisory Task Force oversee the ICP technical/research agenda to ensure methodological soundness. The Governing Board should nominate, on the basis of pure professional criteria, a pool of 10 to 15 experts, including experts in the fields of index numbers, PPPs, price statistics and national accounts. The Technical Advisory Task Force can form “task forces” on specific topics. Technical Advisory Task Force members are independent experts, not representing any specific region or institution, but the Technical Advisory Task Force should include experts with knowledge of different regions. Technical Advisory Task Force members may be invited by the Board to attend its meetings if required.

82. It is recommended that a Global Office (i.e., a permanent team at the World Bank as a global coordinating agency) support the governance structure of ICP and undertake the global coordination, data validation and calculation of global results.

D. Research agenda and methodological aspects

83. The Technical Advisory Task Force, together with the Inter-Agency Coordination Group, should set forth a technical/research agenda at the onset of the programme. The Governing Board will approve this technical/research agenda. For the next cycle in 2017, no major changes in methodology should be introduced, in order to ensure comparability with the 2011 results. Therefore, the short-term agenda should be limited to fine-tuning methods and procedures covering the following areas:

- (a) Implementing a rolling benchmark approach and building a PPP time series;
- (b) Integrating ICP and CPI survey activities;
- (c) Streamlining the process of establishing item lists and the use of importance indicators;
- (d) Improving the availability and quality of input data for rents, government services and construction;
- (e) Streamlining the use of productivity adjustments for government services;
- (f) Fine-tuning the global linking procedures;
- (g) Quality assurance of resulting PPPs and measures of reliability.

VI. Points for discussion

84. **The Statistical Commission is invited to express its views on:**

- (a) **The recommendations proposed by the Friends of the Chair group;**
- (b) **The future planning of ICP as elaborated by the Friends of the Chair group.**