



# PART 1

INTRODUCTION AND OVERVIEW

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# Introduction and Overview

## 1.1 INTRODUCTION

How does one compare country economic data that are expressed in units of national currency? In which African countries is the cost of living highest? Which African countries have the highest living standards? How can levels of poverty be compared across countries? To answer such questions policy makers need comparable data across countries and over time. International agencies, national governments, and other organizations and individuals need this information as they work to improve the well-being of the poor and disadvantaged. Countries differ widely in prosperity, structure and statistical capacity, both within and across regions. Without multilateral action, comparable and reliable international economic data would not be available. The purpose of the International Comparison Program (ICP) is to provide such data.

To make reliable comparisons of economic and social data, countries must first use common methods of measurement, and concepts, classifications and scope must all be comparable. National currency values must be converted to a common basis or numeraire. The ICP addresses these issues and defines such things as what should be measured, which international standards should be used and what time period and scope they should cover. The program also calculates purchasing power parities (PPPs) that can be used to convert national currency data to a common numeraire.

This is the third of three publications by the African Development Bank Group (AfDB) to provide details of PPP-adjusted real GDP expenditures, PPP indices and price level indices (PLIs) for countries that participated in the 2005 ICP-Africa. The first publication, released in March 2007, covered household consumption expenditure except for housing services, animal drawn vehicles and maintenance of other major durables for recreation and culture. The second publication, released in April 2008, incorporated additional GDP

components, including gross fixed capital formation and consumption expenditure by government and non-profit institutions.

All real expenditure results in this publication are expressed in terms of a notional African regional integration currency (AFRIC) (see Appendix B for the definition of AFRIC). This is done intentionally to avoid the semblance of favoring any particular African currency. The results of the 2005 ICP-Africa are not affected by the choice of currency used in their computation.

## 1.2 OVERVIEW OF THE ICP AND PARTICIPATION OF AFRICA

The ICP is a global statistical initiative set up on the recommendation of the U.N. Statistical Commission to enable international comparisons of economic aggregates such as GDP, price levels and purchasing power of currencies. The ICP was established in 1970 as a joint venture of the United Nations and the International Comparisons Unit of the University of Pennsylvania. Starting with a modest project to undertake comparisons in ten countries, further ICP rounds were conducted in 1975, 1980, 1985 and 1993. In the 1993 round, the ICP had expanded to a truly global program, with 118 participating countries covering all regions of the world. A new ICP strategic framework was discussed widely and subsequently endorsed unanimously in March 2001 by the U.N. Statistical Commission, various international organizations, donor agencies, regional agencies (including the AfDB), representatives of national statistical offices and prominent experts.

From the inception of the ICP, the participation of African countries has progressively increased. In the first two experimental phases (1970 and 1973), Kenya was the only country representing Africa. In subsequent phases, the number of African countries increased to 4 in 1975, 15 in 1980, and 23 in 1985 and decreased to 22 in 1993. The Statistical Office of the European Union financed and

supervised Africa's ICP activities in 1985 and 1993. In contrast, local institutions within other regions carried out ICP coordination for their respective regions. The 2005 Africa-ICP program is the first time that an African institution coordinated Africa's ICP activities.

The ICP Global Office guided the overall program for the 2005 round, with various international agencies managing the regional programs. The AfDB assumed the role of coordinating agency for the ICP in Africa. The African region is one of the most diverse in the world. The already complex task of conducting a large-scale project like ICP-Africa, covering 48 economies, was complicated further by the region's geographic dispersion and the large variations in size, structure and standard of living for each country. The huge variety in the types of goods and services produced and consumed throughout the region confronted the AfDB with challenges in the process of developing a common list of products to be priced across the region. These challenges were further compounded by the fact that many countries in the region had low levels of statistical development.

Taking into consideration all those difficulties, ICP-Africa was designed as a regional platform to build partnerships, going beyond mere cooperation and encouraging effective collaboration. Notable strides were made in forging partnerships with international and regional organizations involved in statistical development in Africa, including the U.K. Department for International Development (DFID), World Bank, U.N. Economic Commission for Africa, International Monetary Fund (IMF), U.N. Development Program, African Capacity Building Foundation (ACBF), World Health Organization (WHO), International Labour Organization (ILO), Food and Agriculture Organization (FAO), Partnership in Statistics for Development in the 21st Century (PARIS21), Observatoire Économique et Statistique d'Afrique Subsaharienne (AFRISTAT), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Union Économique et Monétaire Ouest Africaine (UEMOA) and Economic Community of West African States (ECOWAS), which are members of the ICP-Africa Governing Board.

## Spatial vs. Intertemporal Comparison

It is possible to compare prices and volumes between countries using the same general methodology as for intertemporal comparisons within a single country.

However, the theory of index numbers developed in a time series context cannot be applied mechanically to international comparisons simply by replacing the term "period" by the term "country". International comparisons differ in a number of respects:

- (a) In time series, it is customary to compare two time periods of the same duration, such as a year. In international comparisons, however, it is not customary to compare areas or regions of equal size. On the contrary, comparisons may be made between economies that are of entirely different orders of magnitude, one perhaps being 10 or 100 times greater than the other. It is as though a volume comparison were to be made between a complete decade and a single year. It is difficult to interpret such data as if they were different points on the same underlying production function. It is also less obvious that two economies of very different sizes should be treated symmetrically;
- (b) Countries are also modifiable units. They can be disaggregated into smaller units, such as regions, or aggregated into larger blocks such as free trade areas or economic communities. Price and volume measures are needed for blocks as well as individual countries. In these circumstances, the weight attached to the economic activities in a country ought to be invariant to whether the country is considered as a group of regions, a unit in itself or as part of a larger international block;
- (c) In time series there is continuity between the prices and quantities in successive time periods as the prices and quantities move over time. There is no such continuity between prices and quantities in different countries. In consequence there is no obvious, objective way in which countries can be ordered for purposes of compiling chain indices. Chain indices cannot be expected to play the same role in international comparisons as in intertemporal price and volume measurement.

*Source: U.N. Statistics Department, System of National Accounts Manual 1993. (New York, 1993)*