

International Comparison Program for Africa – Towards Economic Convergence Measurement.

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Summary:

The purpose of this paper is to highlight the main advantages that can be derived from the International Comparison Program for Africa (ICP-Africa), in terms of its contribution to statistical harmonization in the areas of price and national accounts statistics, in the context of monitoring economic convergence processes in the Africa region.

Key words:

ICP, convergence, prices, national accounts, harmonization.

Résumé:

Cet article met en relief les principaux avantages qui peuvent être tirés de la mise en œuvre du Programme de comparaison internationale pour l'Afrique (PCI-Afrique), en tant que contribution à l'harmonisation des statistiques de prix et de comptabilité nationale, dans le cadre des processus de suivi de la convergence économique de la région Afrique.

Mots clés:

PCI, convergence, prix, comptes nationaux, harmonisation.

1. Introduction

African countries are striving towards the formation of the African Economic Community (AEC). The African Development Bank (AfDB), the African Union (AU), and the United Nations Economic Commission for Africa (ECA) are working together on a regional integration agenda to promote policies and programs that would: (i) speed up the formation of the AEC, (ii) promote intra-African trade, (iii) harmonize and coordinate policies and programs in Regional Economic Communities (RECs), and (iv) promote and develop infrastructure policies and programs. In order to assess the economic and social integration process within their zone, these economic and monetary unions need convergence and surveillance

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statistical indicators, including indicators of population, external trade, public finance, prices, income, employment and national accounts. To increase the comparability of these indicators across countries, some unions have created statistical units aimed at strengthening the harmonization of national statistics and building sustainable capacities in member states. However, the quality of statistical information in the majority of African countries remains poor and needs improvement. Lack of statistical capacity – as manifested in the inadequacy of human and financial resources to plan surveys, collect, process and disseminate data in a timely manner – is one of the key constraints facing the many African countries today.

In recognition of this challenge, the AfDB has launched a major statistical capacity building program aimed at addressing these problems through the provision of financial and technical support under the framework of the International Comparison Program for Africa (ICP-Africa). The ICP is a global statistical initiative established to produce internationally comparable price and expenditure levels to facilitate cross-country comparisons of Gross Domestic Product (GDP) and its sub-aggregates in real terms and free of price and exchange rate distortions.

The purpose of this paper is to highlight the main advantages that can be derived from the ICP-Africa, in terms of its contribution to statistical harmonization in the areas of price and national accounts statistics.

2. Background - African Monetary Cooperation

The African Monetary Cooperation Program (AMCP) involves adoption of collective policy measures to achieve a harmonized monetary system and common management institution. It envisages the harmonization of the monetary cooperation programs of the various sub-regional groupings as building blocks with the ultimate aim of evolving into a single monetary zone by the year 2021 with a common currency and a common Central Bank at the continental level.

The achievement of macroeconomic stability and convergence in key macroeconomic aggregates is a necessary condition for the creation of a monetary union. Thus, there has always been the need to adopt convergence criteria in order to minimize within a time period, the degree of divergence among the economies of countries intending to undertake monetary and economic cooperation. A common feature in monetary cooperation programs of the various regional groupings in Africa is the requirement for member countries to comply with a set of macroeconomic convergence criteria.

Given the importance of macroeconomic convergence, the measures to achieve the objective of the African Monetary Cooperation Program would include, the adjustment of exchange rate of member countries to their equilibrium levels, eventual liberalization of current and capital account transactions, adoption of harmonized exchange rate system, harmonization of ceiling on central banks' credit to government in order to ensure fiscal policy harmonization and the adoption of market-oriented approach to the conduct of monetary policy.

Building on the progress so far achieved in the various sub-regional groupings, all countries should attain the following Primary and Secondary criteria before the launching of the African Monetary Union.

Primary Criteria

- Overall budget deficit/GDP ratio (excluding grants) of less than 3 per cent.
- Inflation rate of less than 3 per cent.
- Minimization of Central Bank financing of budget deficit.
- External reserves of equal to or more than six months of imports of goods and services.

Secondary Criteria

- Domestic fiscal receipts/GDP ratio of equal to or more than 20%.
- Salary mass/total domestic fiscal receipts ratio of less than 35%.
- Real exchange rate stability to be maintained by each country.
- The sourcing of minimum of 20% government investment capital from fiscal receipts.
- Interest rates - The maintenance of positive real interest rates.

3. Leveraging on ICP-Africa for GDP and price related criteria

3.1 Major requirement: statistical harmonization

GDP and inflation related indicators require relevant statistical systems to be harmonized at sub-regional and regional levels, in terms of:

- Proposing common definitions of indicators to be used to monitor convergence criteria;
- Underscoring the scope of the indicators, their main components or the indicators they are derived from, their main components, status as well as desired frequency;

- Determining the statistical framework which would ensure data comparability; and
- Providing guidelines for future activities in order to set up a harmonised statistical system in Africa.

3.2 Selected advantages of the ICP-Africa approach

Given the nature and features of the ICP-Africa, it is envisaged that it should be used by all African countries, the AfDB and all its other partners in the region as the reference framework for the harmonization of GDP and price statistics and the timely generation of relevant indicators for all African countries.

ICP price survey activities are conducted for all main uses of GDP: (i) household consumption; (ii) Equipment goods; (iii) Construction and civil engineering; and (iv) Non market services relating to Government consumption.

ICP household price surveys have a nationwide scope in most of the countries, covering all regions/provinces in each participating country. The geographical stratification provides for the urban/rural dichotomy to be taken into consideration in the identification of locations where prices are collected. Outlets in urban and rural areas were selected to adequately address poverty issues. While building on the existing CPIs wherever possible, the ICP surveys broaden the scope of CPI price collections. The samples of outlets are larger, including all possible categories of points of sales patronized by consumers. The baskets of goods and services represent all categories of household consumption as defined by international classification of individual consumption by purpose.

In this regard, AfDB developed the ICP-Africa classification that served as the basis for the selection and description of items to be priced. The AfDB and participating countries developed Structured Product Descriptions (SPDs) and defined about 3,000 products among which 853 were retained for actual pricing in the context of the program.

Price collection for Gross Fixed Capital formation is not yet part of countries' routine statistical activities. Countries are expected to take advantage of the implementation of the program to set up a permanent system of surveying equipment goods and construction and civil engineering works, using methods developed by the World Bank and the AfDB.

Surveys on equipment goods take place in all major cities or, depending on the structure of the national market for such items, restricted to capital cities. SPDs and a sample of about 500 items to be priced were designed by the World Bank and reviewed by the AfDB and the countries.

Price data for construction and civil engineering works are obtained from architects; contractors and quantity surveyors using a method of SPD-based basket of construction components (BOCC). 34 construction components representing the major categories of the construction and civil engineering sector were defined, comprehensively described and submitted to the countries for pricing by their construction specialists.

National Accounts activities constitute the backbone of the program, as the immediate objective of the program is to facilitate cross-country comparisons of real income, using PPP-deflated GDP expenditures. Given the poor quality of national accounts in most countries, due emphasis is put on the need for all participating countries to shift to the implementation of the 1993 System of National Accounts (SNA 1993) and improve the compilation of their GDPs.

4. Issues to be addressed in the harmonization process

Four types of issues are to be considered if the harmonization process is to be implemented effectively :

- General issues to be considered – require a common definition of inflation, covering all GDP components, to be agreed across the countries, the same GDP classification to be used (the ICP-Africa classification was successfully used by 48 African countries), and a clear distinction to be made between basic headings in the classification for which price indices can be computed directly from surveyed prices and other basic headings which reference price indices will be required.
- Issues pertaining to price statistics – point to the need to: (i) re-affirm general principles of item selection and leveraging on relevant methods used in the ICP-Africa such as the structured product description method (SPD); (ii) ensure effective outlet sampling and product-outlet mapping; (iii) use the ICP method of baskets of construction; (iv) build on existing ICP survey manuals and country's survey frameworks; (v) improve data quality by applying ICP quality control packages (SEMPER, SEMPER TIME LINE, ELFA); (vi) establish a system of measurement of regional inflation where weighting factors will be PPP-adjusted; and (vii) striving towards CPI-ICP integration.

- Issues related to National Accounts – are centered on the implementation of the 1993 SNA which needs to be improved by: (i) extending the production boundary and addressing the non-observed economy; (ii) assessing each country's implementation of the system using the SNA 1993 compliance check-list; and (iii) acknowledging NPISHs in National Accounts.

5. Conclusion

The availability of comprehensive, timely and accurate statistical information is crucial for effective national development policy making, decision taking as well as for establishing and monitoring economic convergence processes. In terms of convergence criteria, African countries will be expected to meet GDP related criteria and have sustainable price performance and their annual average inflation rate should not exceed a given threshold determined in relation to best-performing countries in terms of price stability. This requires a permanent statistical monitoring system to be put in place, which can build on relevant efforts being made at sub-regional level, as well as on lessons learned from the International Comparison program for Africa.

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