

What to Pay Local People: Purchasing Power Parity (PPP) as a Method for Fair Pay Abroad

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FORUM
ON EDUCATION
ABROAD



learning and action
beyond the classroom

- Social and community development
- Democratic movement-building
- Institutionalized inequities

Agenda

- Why we engage local practitioners
- Why it is difficult to determine their pay rates
- How to use purchasing power parity (PPP)
 - What it is
 - Real-world example
 - Shortcomings & advantages

Why Engage Local Practitioners?

- Sound pedagogy
- Diverse experiences
- Diverse ideologies
- Connection to community

Why Determining Pay Is Difficult

- Not easy to find data
- Not easy to define fairness

Purchasing Power Parity (PPP)

- PPP is the idea that in a global economy where capital moves freely, exchange rates should, over the long run, move toward the rate that would equalize prices for an identical basket of good and services in two countries.



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Real-World Example

- How we paid a Bangladeshi employee



Real-World Example

1. What we pay in the U.S. = \$10,000



Real-World Example

1. What we pay in the U.S. = \$10,000
2. PPP conversion factor for Bangladesh = 35.43



Where to get the PPP conversion factor:

United Nations Statistics Division (unstats.un.org)

http://unstats.un.org/unsd/mdg/SeriesDetail.aspx?srid=699

unstats | Millennium Indica... x

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Purchasing power parities (PPP) conversion factor, local currency unit to international dollar Last updated: 01 Jul 2013

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan															15.41	16.71	16.75	19.05	22.51	19.60	21.77	22.30
Albania		4.71	14.90	26.78	31.99	33.54	36.73	47.80	56.78	55.78	53.99	54.14	57.43	56.43	56.21	55.65	54.33	55.08	54.81	54.76	56.52	57.36
Algeria	10.98	13.26	16.95	19.85	24.96	31.51	36.33	37.54	38.79	38.96	37.82	38.33	38.27	39.02	39.51	38.74	38.40	38.70	39.09	41.47	42.40	42.96
Angola	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.15	0.31	1.05	4.33	10.64	21.88	42.41	59.28	70.50	77.39	84.46	91.48	104.41	117.59	129.35
Antigua and Barbuda									2.20	2.18	2.13	2.10	2.11	2.11	2.09	2.07	2.04	2.01	2.04	2.04	2.07	2.08
Argentina	0.31	0.81	0.98	1.06	1.07	1.08	1.05	1.03	1.02	0.99	0.95	0.91	1.13	1.25	1.28	1.35	1.45	1.54				
Armenia				1.23	54.31	145.79	168.10	187.19	200.32	197.30	189.34	189.93	188.95	193.48	201.55	196.19	195.55	198.51	208.28	216.15	230.06	240.08
Australia	1.39	1.39	1.37	1.37	1.37	1.37	1.38	1.37	1.38	1.37	1.38	1.41	1.42	1.46	1.44	1.46	1.50	1.51	1.53	1.54	1.56	1.53
Austria	0.95	0.94	0.95	0.96	0.96	0.96	0.95	0.95	0.94	0.93	0.91	0.93	0.91	0.90	0.89	0.89	0.88	0.88	0.87	0.87	0.86	0.87
Azerbaijan		0.00	0.00	0.00	0.06	0.32	0.37	0.37	0.36	0.33	0.32	0.32	0.32	0.32	0.33	0.35	0.37	0.42	0.49	0.50	0.52	0.54
Bahamas	0.94	0.96	0.99	0.99	0.98	0.97	0.95	0.94	0.94	0.93	0.91	0.90	0.91	0.92	0.90	0.89	0.88	0.88	0.88	0.90	0.90	0.90
Bahrain	0.43	0.41	0.40	0.40	0.39	0.39	0.38	0.38	0.37	0.36	0.35	0.33	0.33	0.32	0.32	0.32	0.32	0.32	0.32	0.33	0.33	0.32
Bangladesh	17.77	18.13	18.24	18.25	18.73	20.10	19.99	20.57	21.95	22.80	22.54	22.36	22.74	23.50	24.62	25.49	26.37	27.97	29.34	31.04	33.02	35.43
Barbados	1.45	1.47	1.52	1.49	1.45	1.44	1.43	1.51	1.47	1.46	1.45	1.44	1.42	1.41	1.39	1.43	1.49	1.50	1.57	1.63	1.70	1.80
Belarus			0.00	0.03	0.70	5.53	8.21	13.15	22.39	86.27	224.16	351.28	492.88	618.81	711.80	759.62	787.64	830.28	918.23	1040.80	1103.22	1638.72
Belgium	0.96	0.95	0.94	0.94	0.95	0.94	0.94	0.94	0.96	0.95	0.91	0.91	0.90	0.93	0.92	0.92	0.93	0.92	0.92	0.91	0.91	0.90
Belize	1.59	1.59	1.59	1.56	1.56	1.56	1.62	1.60	1.56	1.51	1.47	1.44	1.45	1.46	1.46	1.46	1.48	1.47	1.51	1.50	1.49	1.40
Benin			174.38	170.12	229.68	255.73	260.66	263.53	274.43	269.43	271.49	274.55	276.99	274.87	270.04	275.19	276.67	272.49	283.27	290.41	292.32	291.06
Bhutan	9.22	9.93	11.18	12.07	12.59	13.41	14.17	14.75	16.06	16.78	16.88	16.98	17.13	17.01	18.13	18.46	18.78	19.20	20.03	20.98	22.09	23.31
Bolivia	1.39	1.61	1.76	1.85	1.95	2.09	2.28	2.33	2.47	2.47	2.50	2.47	2.45	2.48	2.52	2.57	2.60	2.74	3.01	3.13	3.15	3.36
Bosnia and Herzegovina																0.87	0.88	0.89	0.93	0.91	0.91	0.90
Botswana	1.28	1.37	1.55	1.72	1.85	1.99	2.13	2.26	2.37	2.50	2.63	2.72	2.90	3.09	3.22	3.38	3.66	3.81	4.13	4.48	4.71	4.98
Brazil	0.00	0.00	0.00	0.03	0.57	0.93	1.04	1.09	1.11	1.14	1.18	1.22	1.31	1.46	1.52	1.57	1.59	1.60	1.63	1.71	1.77	1.83
Brunei Darussalam	1.32	1.28	1.26	1.28	1.28	1.32	1.30	1.30	1.27	1.24	1.22	1.19	1.14	1.12	1.10	1.08	1.05	1.03	1.01	1.02	1.01	1.00
Bulgaria	0.00	0.00	0.00	0.01	0.02	0.03	0.05	0.57	0.65	0.66	0.67	0.71	0.70	0.69	0.71	0.73	0.75	0.77	0.80	0.81	0.81	0.79
Burkina Faso	204.94	200.86	191.07	186.62	227.67	237.98	245.30	245.26	253.79	245.69	236.94	241.97	243.37	242.81	235.53	242.42	240.32	233.12	248.43	255.82	249.77	248.80
Burundi	114.42	119.64	118.24	125.97	141.01	163.58	200.93	257.43	285.18	288.52	346.97	368.62	357.89	387.61	407.14	447.04	445.23	468.99	560.53	624.31	653.55	695.23
Cambodia					1363.99	1316.17	1370.13	1445.41	1634.05	1663.16	1596.09	1542.90	1567.79	1551.54	1570.39	1615.30	1660.95	1738.72	2093.00	2086.57	2134.94	2182.99
Cameroon	241.01	231.35	224.52	211.09	277.92	294.85	297.70	304.82	309.68	308.72	302.30	306.99	310.76	305.76	298.48	294.50	299.89	294.26	298.51	308.69	307.59	306.94
Canada	1.29	1.31	1.29	1.30	1.28	1.27	1.26	1.26	1.27	1.27	1.27	1.27	1.29	1.29	1.27	1.26	1.29	1.28	1.30	1.31	1.30	1.29
Cape Verde	67.99	71.46	71.52	73.49	74.10	78.10	80.40	85.28	87.67	89.53	84.46	84.89	85.14	84.24	80.49	78.17	79.80	81.01	83.30	84.42	84.79	85.87

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Real-World Example

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4. Actual exchange rate = 88.58



Real-World Example

1. What we pay in the U.S. = \$10,000
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3. $10,000 \times 35.43 = \text{BDT } 354,300$
4. Actual exchange rate = 88.58
5. $354,300 / 88.58 = \$4,000$



Where to get the price-level ratio:

World Bank: World Development Indicators: Exchange rates and prices

	Ratio of PPP conversion factor to market exchange
	2011
Afghanistan	0.4
Albania	0.5
Algeria	0.6
American Samoa	..
Andorra	..
Angola	0.9
Antigua and Barbuda	0.7
Argentina	..
Armenia	0.6
Aruba	..
Australia	1.5
Austria	1.2
Azerbaijan	0.7
Bahamas, The	0.7
Bahrain	0.9
Bangladesh	0.4
Barbados	0.7
Belarus	0.5

Shortcomings of the PPP method

- Does not account for quality
- Does not account for public goods
- Variable data sets

Advantages of the PPP method

- Thoroughly studied and refined
- An international standard
- Transparent
- Brings trust to a new relationship

Thank you!