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

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• 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.
Big Mac Index

The Economist
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)
Real-World Example

1. What we pay in the U.S. = $10,000
2. PPP conversion factor for Bangladesh = 35.43
3. $10,000 \times 35.43 = BDT 354,300
Real-World Example

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3. 10,000 x 35.43 = BDT 354,300
4. Actual exchange rate = 88.58
Real-World Example

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2. PPP conversion factor for Bangladesh = 35.43
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio of PPP conversion factor to market exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>0.4</td>
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<tr>
<td>Albania</td>
<td>0.5</td>
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<td>Algeria</td>
<td>0.6</td>
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<td>American Samoa</td>
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<td>Andorra</td>
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<td>Angola</td>
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<td>Antigua and Barbuda</td>
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<td>Argentina</td>
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<td>Bahamas, The</td>
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<td><strong>Bangladesh</strong></td>
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<td>Belarus</td>
<td>0.5</td>
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</tbody>
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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!