Introduction

At the beginning of its fiscal year (July 1), the World Bank publishes the country categories it will follow in administering its funds pursuant to its operational guidelines. Countries fall into one of four categories based on their previous calendar year's per capita Gross National Income (GNI), as calculated using the Bank's Atlas Method.[1] So, GNI figures cited here refer to 2011. Because the thresholds are based on GNI, the Bank notes that it does not intend the income groups to denote welfare or development status. This snapshot examines a few consequences of country category changes by focusing on countries that received at least $2 million in USAID assistance in fiscal year 2010[2] plus South Sudan.
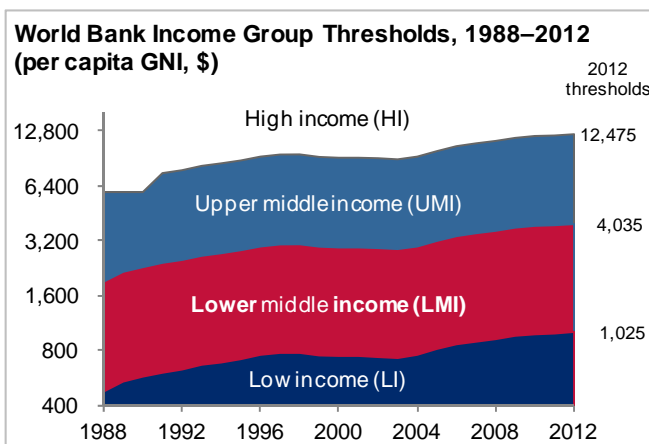
Brief history

The thresholds that distinguish the income groups, as they are used today, were set in 1988 to classify countries in line with the Bank's operational guidelines, relying on GNI as the "best single indicator of economic capacity and progress." Countries under the "Civil Works Preference" cutoff of $480 in GNI were classified as Low Income (LI). Countries with GNI from $481 through $1,940 were eligible for 17 year IBRD loans and were categorized as Lower Middle Income (LMI). Countries with GNI of $1,941 through $6,000 were Upper Middle Income (UMI); and countries with GNI greater than $6,000 were classified as High Income (HI).[3]

New income thresholds

This year, $1,025 separates LI countries from LMI countries; the cutoff between LMI and UMI countries is $4,035; and per capita GNI greater than $12,475 identifies the HI countries. Two countries' income grouping fell this year: Albania shifted from UMI to LMI, and Mauritania from LMI to LI. Four countries shifted upward: Angola, Turkmenistan, and Tuvalu went from LMI to UMI, while St. Kitts and Nevis rose from UMI to HI. Of these, Albania, Angola, and Turkmenistan received at least $2 million in USAID assistance in FY2010.

Number of countries in each category

The income thresholds change only by reflecting international inflation—calculated as the average inflation of Japan, the U.K., the U.S., and the Euro Zone—not economic growth. (Charting GNI in a logarithmic scale demonstrates that the thresholds all grow at the same rate.) Therefore, countries cross income thresholds by growing faster or slower than inflation.
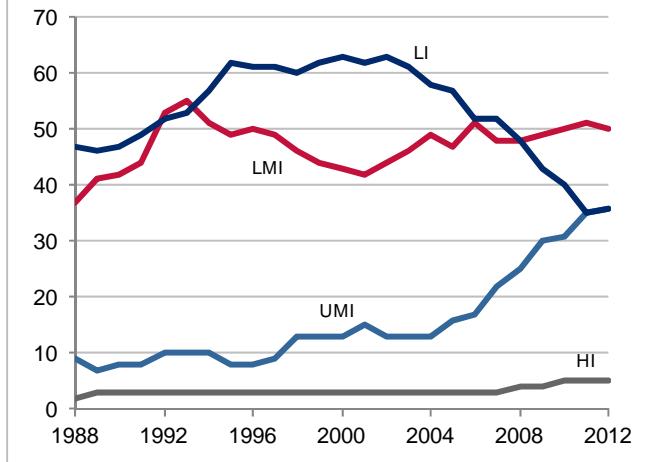
World Bank Income Group Thresholds, 1988–2012 (per capita GNI, $)

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A consequence of this design is that a large number of countries have "grown out of" their income categories—from LI to LMI and from LMI to UMI—such that the number of LI countries has fallen dramatically since 2002. While LI countries have shifted to the LMI category, countries that had been LMI concurrently shifted to the UMI category, leaving the overall number of LMI countries relatively steady.
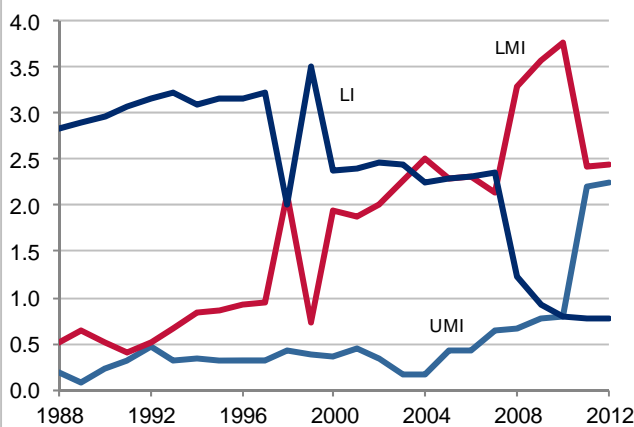
Population and poverty by category

Analysis in terms of population and poverty is more incisive, however. Movements by high population countries (China, India, Indonesia, Brazil, etc.) between income groups have signified large shifts in the

Number of Assisted Countries per Group, 1988–2012

number of people categorized as living in Middle Income countries. The volatility in the chart on population bears this out. The upward and downward spikes in the late 1990s are due to China shifting from the LI group to LMI in 1998, back to LI in 1999, and then again to the LMI group in 2000. Indonesia also dropped from LMI to LI in 1999—compounding the LI group's growth that year—and then returned to LMI in 2004; and Brazil fell from UMI to LMI in 2003, which compounded that period's growth of the LMI group. India's transition from LI to LMI explains the population shift in 2008, and was shortly followed by Pakistan and Nigeria. Finally, China's move into the UMI category underlies that group's population spurt of last year.
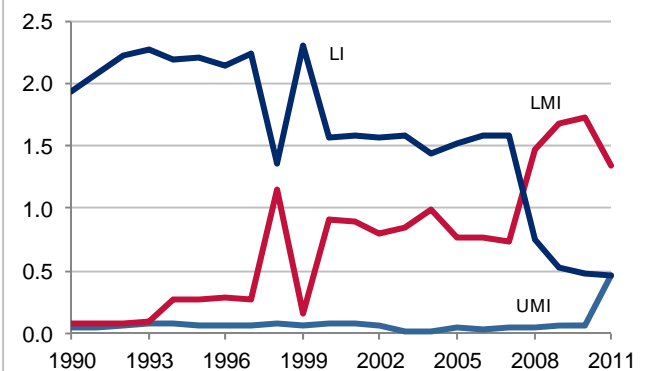
Population per Income Group, 1988–2012 (in billions)

SOURCE: U.S. Census Bureau, International Database, July 2012.

Population Living on Less Than $2/day, 1990–2011 (in billions)

SOURCE: World Bank, World Development Indicators 2012 and U.S. Census Bureau, International Database.

The result of seeing these large population shifts between income groups is that a great number of people living on less than $2 a day end up classified as living in Middle Income countries. When China was classified as a Low Income country in the early 1990s, the World Bank estimated that over 900 million Chinese lived on less than $2 a day. That number has fallen dramatically in the last 20 years; but it means that while China is counted as an Upper Middle Income country today, almost 400 million of its people still live in poverty. Similar stories can be told about Indonesia and Pakistan.

While countries may shift between income categories, the number of people living in poverty does not necessarily change. Today, over 2 billion people live on less than $2 a day, 90 percent of whom are in Middle Income

countries. The Bank states that its income categories do not denote "welfare or success in development;" instead, these categories are meant to guide how the Bank allocates its resources. With the large number of poor people its system now categorizes to be in Upper Middle Income countries means it may have to revisit its categorization system soon—and the same goes for other organizations that rely on it.

Number of People Living on Less Than $2 a Day, selected years

Year	LI countries	LMI countries	UMI countries	Total
1990	1,929,860,248	81,726,863	47,518,079	2,059,105,190
1997	2,230,860,387	278,491,256	72,685,937	2,582,037,580
1998	1,365,543,782	1,145,184,991	82,675,497	2,593,404,271
1999	2,298,353,638	153,710,339	69,034,938	2,521,098,914
2000	1,571,148,198	909,674,342	77,864,362	2,558,686,902
2006	1,577,510,760	775,736,051	33,131,743	2,386,378,554
2007	1,583,898,259	732,511,622	56,232,118	2,372,641,999
2008	757,422,826	1,463,362,045	52,833,614	2,273,618,486
2009	533,448,668	1,680,922,939	64,420,431	2,278,792,038
2010	484,041,679	1,722,320,941	63,391,645	2,269,754,265
2011	463,960,252	1,346,107,909	460,433,757	2,270,501,917

Endnotes

1. Information on the Atlas Method is available from the World Bank at http://data.worldbank.org/about/country-classifications/world-bank-atlas-method.

2. U.S. assistance data is available at the *Greenbook* website: http://gbk.eads.usaidallnet.gov/.

3. See the World Bank's "A Short History" at http://data.worldbank.org/about/country-classifications/a-short-history for more details.

Additional Information

For questions or more information, please contact the author, David Colin, at dcolin@devtechsys.com. To access the complete dataset from the World Bank's World Development Indicators, including GNI and poverty estimates, please visit the Economic and Social Database (ESDB) at http://esdb.eads.usaidallnet.gov/. U.S. Census Bureau population estimates are also available at the ESDB's website.

The ESDB website offers related datasets from the IMF, World Bank, U.S. government agencies and other sources. Through the ESDB website, you can also access standard country profiles, utilize analytical tools such as the population pyramids, and generate customized tables and graphs.