

Introduction

At the beginning of its fiscal year (July 1), the World Bank publishes the country income categories it will follow in administering its funds pursuant to its operational guidelines. Countries fall into one of four categories based on their previous year's (2012) per capita gross national income (GNI), or the measure of national income regardless of where in the world it is produced. This measure is calculated using the Bank's Atlas Method.¹ Because the thresholds are based on GNI, the Bank notes that it does not intend the income categories to denote welfare or development status. The snapshot examines country categories changes and their consequences. The term USAID-assisted in this snapshot denotes countries that received at least \$2 million in obligations of USAID assistance in fiscal year 2011.

Brief History

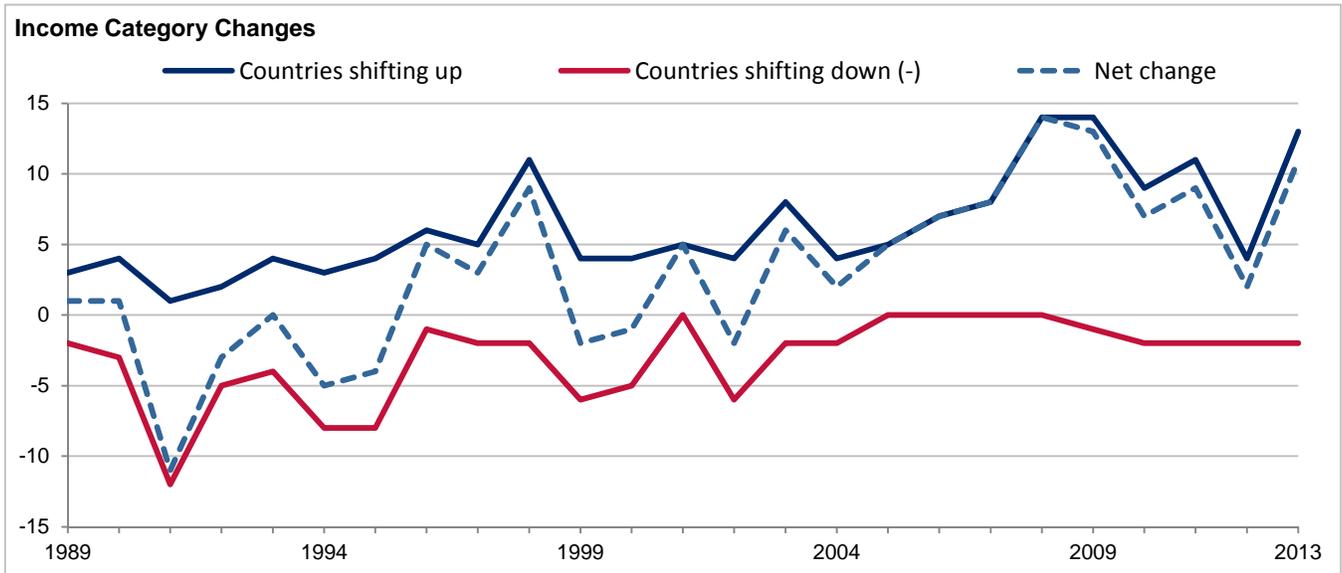
The thresholds that distinguish the income categories, as they are used today, were set in 1988 to classify countries in line with the Bank's operational guidelines, relying on GNI as the "best single indicator of economic capacity and progress." Countries under \$480 in GNI per capita were classified as low income (LI), countries with GNI per capita of \$481 through \$1,940 were categorized as lower-middle income (LMI), those with GNI per capita of \$1,941 through \$6,000 were upper-middle income (UMI), and countries with GNI per capita greater than \$6,000 were classified as high income (HI).²

New Income Thresholds and Category Changes

The income category thresholds change based on international inflation, calculated as the average inflation of Japan, the U.K., the U.S., and the euro zone. Thus, the income thresholds have increased significantly since the thresholds were established in 1988. This year, \$1,035 separates LI countries from LMI countries; the cutoff between LMI and UMI countries is \$4,085; and per capita GNI greater than \$12,615 identifies the HI countries. Concerning 2013 income category changes, four Eastern European countries moved to higher income categories. Latvia, Lithuania, and Russia all became HI countries and Albania returned to UMI after falling out of that category last year. In the Latin American and Caribbean region, Antigua and Barbuda, Chile, and Uruguay crossed over to the HI category and Belize became UMI. Iraq became UMI after a data revision boosted their GNI per capita to \$5,870. Also seeing upward shifts, the Pacific islands of Fiji, Marshall Islands, and Tonga became UMI and Mauritania returned to the LMI category after a year as LI, the only country in Africa to shift upwards. Only two countries shifted downward this year. Hungary fell to the UMI category and South Sudan fell to the LI category after its GNI per capita tumbled from \$1,210 to \$650 in one year. Of all category shifting countries, only Albania, Iraq, Mauritania, Russia, and South Sudan are USAID-assisted. A complete listing of all countries according to the World Bank's Income Categories may be found on the ESDB website at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countriesByWBIncome.

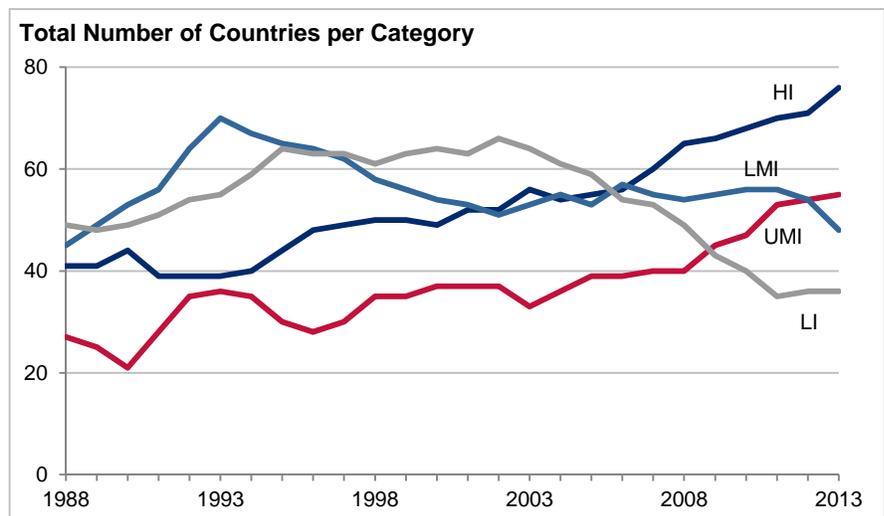


The chart below displays the overall direction of change among countries by subtracting the number of countries shifting to lower categories from the number of countries moving to higher categories. This year's overall change continues a decade long trend of positive overall change. Since 2003, no more than two countries have shifted to a lower category, while almost nine countries, on average, have shifted upwards each year. Furthermore, this year sees a significant increase in the number of upward shifts after several post-recession years of mostly declining numbers.

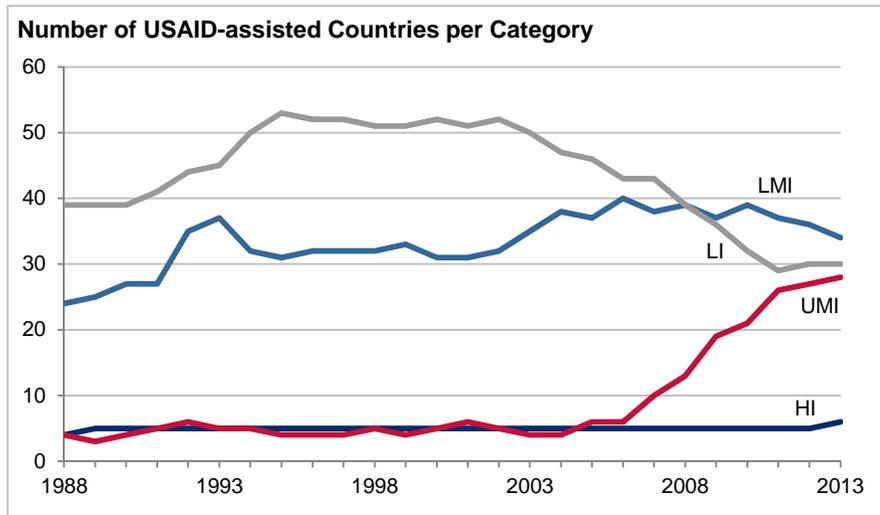


Number of Countries in Each Income Category

The past decade has seen significant changes regarding the number of countries in each category. During the last ten years, the number of LI countries has nearly halved, while the HI category has increased its ranks by 35 percent and the number of UMI countries has increased by two thirds. This movement of countries upwards illustrates that recent global economic growth has outpaced international inflation, the basis of the income category thresholds.



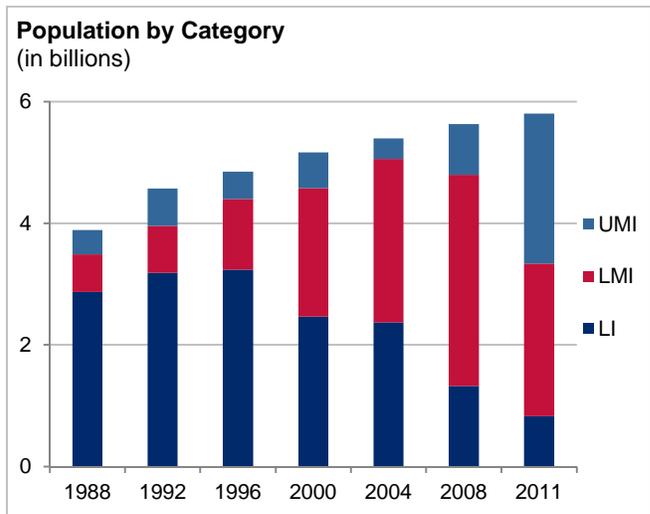
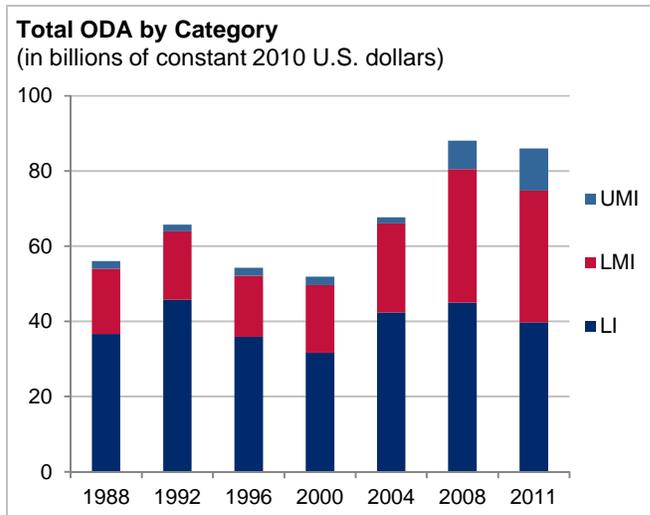
Among the latest set of USAID-assisted countries, a similar upward moving trend is clear. Many of the USAID-assisted countries have recently moved out of the LI category into the LMI category, while LMI countries have shifted into UMI category. This has resulted in an explosion of the number of USAID-assisted countries being classified as UMI and a large decrease in the number being classified as LI. While many countries have become HI in the past 20 years, Russia is the only USAID-assisted country to do so.



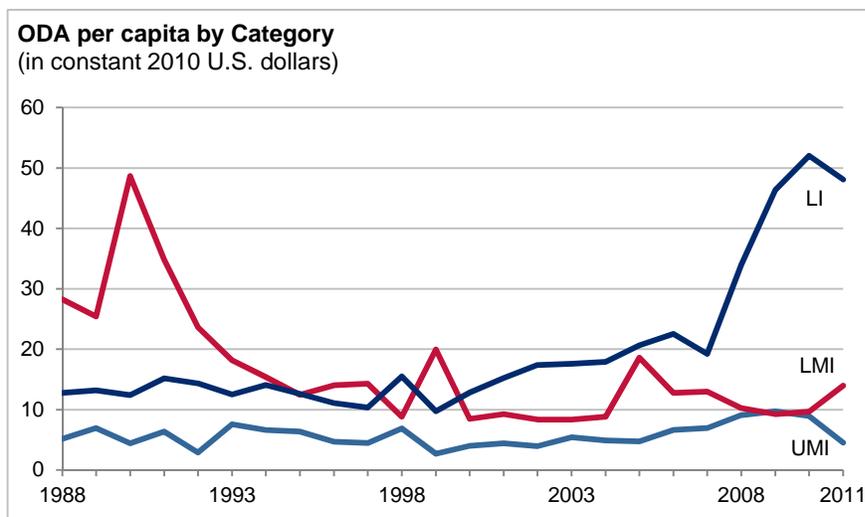
Official Development Assistance by Category

The distribution of official development assistance (ODA) among the low and middle income categories has changed over the past quarter century.³ Examining ODA in constant 2010 U.S. dollars, assistance to both LMI and UMI countries has increased substantially. LMI countries received approximately \$35 billion in 2011, twice what they received in 1988. ODA to UMI countries has increased fivefold between 1988 and 2011 to \$11 billion in 2011. The LI category is the only category to remain relatively stable. ODA going to this category has fluctuated between \$30 and \$55 billion over the past 25 years.

Important to this topic, the populations living in these income categories have also shifted substantially. The proportion of people living in LI countries has steadily fallen as countries grew out of this category and became LMI and UMI income countries. Thus, the LMI and UMI income categories expanded from 25 percent of the population living outside HI countries in 1988 to over 85 percent nearly 25 years later.



These population shifts among income categories mean ODA per capita displays a very different picture than what total ODA shows. ODA per capita to LI countries has risen dramatically as the number of people living in LI countries has fallen yet the ODA to LI countries has remained more or less constant. From approximately \$12 at the turn of the century, ODA per capita to LI countries jumped to just under \$49 in 2011. Conversely, ODA per capita to LMI countries has fallen from a high of



\$51 in the early 1990s to less than \$15 in 2011 even with an increase in total ODA to LMI countries. Along these same lines, despite ODA to UMI countries significantly increasing, ODA per capita has never risen above \$10. From this it is easy to see that ODA has gradually shifted to the perpetually poor countries that have not managed to grow out of the LI category.

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. See the World Bank's "A Short History" at <http://data.worldbank.org/about/country-classifications/a-short-history> for more details.
3. The World Bank Income Category classifications differ slightly from the income category criteria used by the OECD/DAC to determine ODA eligibility. For more information, see the DAC List of ODA Recipients at <http://www.oecd.org/investment/stats/daclistofodarecipients.htm>.

Additional Information

For questions or more information, please contact the author, Darren Enterline, at denterline@devtechsys.com.

To access the complete dataset from the World Bank's World Development Indicators, including GNI and assistance figures, 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, US 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.