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PROPOSED NEW GROUPING IN WEO COUNTRY CLASSIFICATIONS: LOW-INCOME DEVELOPING COUNTRIES

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INTRODUCTION

1. This note develops a definition of a new category of countries (*Low Income Developing Countries* (acronym: LIDCs)) that can be deployed to (a) facilitate enhanced coverage of low income country issues in the Fund's flagship products and (b) serve as a standardized definition of the "low income country" universe in staff analytical work.[1] While use of the proposed definition in analytical work would be encouraged, it would not be required.

THE CURRENT FRAMEWORK

2. The WEO country classification system designates 34 member countries as advanced countries; the remaining 154 member countries are labeled "Emerging Markets and Developing Economies" (EMDEs). The EMDE category is not formally broken down into sub-groups of emerging markets (EMs) and non-EMs, although there is significant text discussion of the EM category and generally recognized EMs (e.g., the BRICS).

3. Some 73 EMDEs are eligible for concessional financial assistance from the Fund via the PRGT;[2] PRGT-eligible countries are often viewed as being synonymous with the category "Low Income Countries" (LICs). But the special treatment of small and/or vulnerable states in determining PRGT-eligibility ensures that: (a) one fifth of the PRGT-eligible countries have income levels above (and often far above) the standard income level set for graduation from the PRGT;[3] and (b) the PRGT-eligible grouping includes a disproportionately large number of small states,[4] which is problematic when analytical insights regarding low income countries as a grouping are derived from the behavior of medians or un-weighted averages or from cross-country regression analysis across the set of PRGT-eligible countries.

[1] Inclusion or exclusion from this category does not in any way affect the eligibility of a country to access resources from the Poverty Reduction and Growth Trust, nor does it have any implications for treatment of countries using Fund facilities for PRGT-eligible countries.

[2] The list of 73 countries excludes Georgia (which graduated from PRGT-eligibility in April 2014).

[3] We refer here to the income level for graduation for non-small states countries (twice the IDA operational threshold (IDA-OT), which was $1,195 in 2011); for small states, the income graduation level is thrice the threshold.

[4] In recent Fund analytical work, the category "small states" has referred to countries with a population of less than 1.5 million, excluding (a) those classified as advanced countries in the WEO and (b) three high-income fuel exporters (Bahrain, Brunei Darussalam, and Equatorial Guinea).

A PROPOSED NEW DEFINITION

4. We propose here the use of a new category—*Low Income Developing Countries* (LIDCs)—for use in flagship products and in staff analytical work on low income countries.[5] Specifically, LIDCs are those countries (60 in number; Table 1) that:

1) were designated PRGT-eligible in the 2013 PRGT eligibility exercise;[6] **and**
2) had a level of per capita Gross National Income (GNI) less than the PRGT income graduation level for non-small states (i.e., 2 * IDA-OT or $2,390).[7]

5. In developing an appropriate specification for LIDCs, the starting point was to choose an initial cut-off income level for defining "low income" status—with the choice made being to use the PRGT income graduation level for non-small states (2 * IDA-OT). This choice had the merit of being rooted in an important operational concept at the Fund, and also being related in a simple fashion to the IDA cut-off level (a key operational concept at the Bank).

6. An alternative choice might have been to adopt the Bank's cut-off level for distinguishing between low income (LIC) and lower middle-income (LMIC) countries—a per capita GNI of $1,025 as of 2011.[8] This was seen as a less attractive option because it placed countries very similar in developmental terms (e.g., Kenya (LIC) versus Ghana and Zambia (LMIC)) in different categories for no compelling economic reason.[9]

7. Three countries that met the income level criterion for categorization as a LIDC are not PRGT-eligible because they were deemed to have significant access to international financial markets—India, Pakistan, and the Philippines. It was decided not to include them in the LIDC grouping, given that they are typically viewed as emerging market economies (EMs), rather than LIDCs, by market analysts.

8. Having defined a core group of 60 countries as LIDCs, we then sought to identify countries with income levels above the chosen income cut-off level where key structural characteristics and/or the level of development were "similar" to those of the core LIDC group. The search focused on countries with per capita GNI levels that (a) exceeded the LIDC income cut-off level specified above

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[5] It is recognized that there are circumstances (e.g., work on Fund facilities) where the use of an alternative definition of "low income countries" may be warranted.

[6] An exception is made for Zimbabwe, which meets criterion 2 above (an income level below the proposed cut-off level) but is currently not PRGT-eligible because it has outstanding arrears to the PRGT.

[7] The latest PRGT eligibility review (in 2013) used GNI data from 2011; GNI is estimated by the World Bank using the Bank's Atlas method. The IDA operational threshold was introduced in 1988 and is updated annually.

[8] This is the approach adopted in AFR's *Regional Economic Outlook; sub-Saharan Africa* (SSA).

[9] It is worth noting that weaknesses in national account methodologies undermine the reliability of estimated income differentials across a range of SSA countries in the neighborhood of the LIC-LMIC threshold.

(2 * IDA-OT) and (b) was less than the income level that the Bank uses to distinguish between lower middle-income (LMIC) and upper middle-income (UMIC) countries ($4,035 in 2011).

9. It is insightful to breakdown this set of 23 countries into three subgroups: (1) PRGT-eligible countries, (2) countries that had been, but no longer were, PRGT-eligible, and (3) others (see Table 2). Selected economic development indicators—poverty rate,[10] life expectancy at birth, the share of agriculture in GDP, the share of agricultural employment in total employment, and domestic credit to the private sector relative to GDP—were used to compare the developmental characteristics of these 23 countries with those of a) **the control group of LIDCs** and b) **a control group of EMs** (specifically, all EMDEs with income levels above the LIDC cut-off level, excluding these 23 cases).

10. Consider first the 16 non-PRGT eligible countries (subgroups (2) and (3)). In general, the selected development indicators for these countries much more closely approximated those in the EM control group than the corresponding average levels in the LIDC group: only in the case of Angola did the high poverty rate and low life expectancy make it appear more like an LIDC than an EM.[11]

11. Consider now the situation of the 7 PRGT-eligible countries (subgroup (1)), all small states. Comparison of the development indicators for these countries with those of the EM and LIDC groups suggested that these countries had much more "in common" with the EM group than with LIDCs: thus average life expectancy and credit/GDP ratios for these 7 countries are 70 years and 40 percent, compared with 60 years and 23 percent, respectively, for the LIDC group, and 72 years and 53 percent, respectively, for the EM group.

CONCLUSION

12. In conclusion, the one country whose income level exceeded the chosen LIDC income cutoff level that had important LIDC-like development characteristics was Angola, where the legacy of civil war and the dominant role of oil have produced a sharp dichotomy between income level and key development indicators.

13. It was decided, for simplicity and convenience, that Angola would not be included in the LIDC grouping—which would then remain as the group of 60 countries identified on the basis of the two criteria specified on page 3 above. The membership of the LIDC grouping will be reexamined on a regular basis, based on the evolution of income levels and the conclusions of PRGT-eligibility reviews.

[10] All indicators come from World Development Indicators (latest available year after 2002). The poverty rate is the share of the population living on less than US$1.25 a day (in purchasing power parities at 2005 prices).

[11] Angola's poverty rate is 43 percent compared to an average of 40 percent in the LIDC group; life expectancy is 51 years compared to an average of 60 years in the LIDC group.

Table 1. Low Income Developing Countries (LIDCs)[1]

1	$2,340	Mongolia	31	$780	Tajikistan
2	$2,210	Bhutan	32	$770	Bangladesh
3	$2,200	Congo, Republic of	33	$770	Myanmar
4	$2,150	Moldova	34	$720	Benin
5	$2,060	Kiribati	35	$700	Haiti
6	$2,010	Honduras	36	$690	Chad
7	$1,960	Bolivia	37	$670	Mali
8	$1,540	Nicaragua	38	$620	Burkina Faso
9	$1,500	Uzbekistan	39	$610	Nepal
10	$1,480	Papua New Guinea	40	$590	Zimbabwe
11	$1,410	Ghana	41	$570	Afghanistan
12	$1,320	Sudan	42	$570	Guinea-Bissau
13	$1,270	Vietnam	43	$560	Rwanda
14	$1,260	Nigeria	44	$540	Tanzania
15	$1,250	Lesotho	45	$510	Gambia, The
16	$1,240	São Tomé and Príncipe	46	$480	Central African Republic
17	$1,210	South Sudan	47	$480	Sierra Leone
18	$1,180	Zambia	48	$470	Togo
19	$1,140	Cameroon	49	$470	Uganda
20	$1,140	Côte d'Ivoire	50	$450	Mozambique
21	$1,120	Solomon Islands	51	$420	Madagascar
22	$1,110	Lao People's Democratic Republic	52	$400	Guinea
23	$1,110	Yemen, Republic of	53	$390	Eritrea
24	$1,030	Djibouti	54	$380	Ethiopia
25	$1,030	Senegal	55	$370	Somalia
26	$980	Mauritania	56	$360	Malawi
27	$900	Kyrgyz Republic	57	$330	Liberia
28	$830	Comoros	58	$330	Niger
29	$800	Cambodia	59	$220	Burundi
30	$800	Kenya	60	$200	Congo, Democratic Republic of

Sources: World Development Indicators; and IMF staff estimates.

[1] Countries that were designated PRGT-eligible in the 2013 PRGT eligibility exercise; **and** had a level of per capita Gross National Income (GNI) less than the PRGT income graduation level for non-small states (i.e., 2 * IDA-OT or $2,390).

Table 2. Selected IMF Member Countries Ranked from Highest to Lowest per Capita Income Level[1]

1	$4,020	Tunisia	43	$1,180	Zambia
2	$3,970	Angola (2010)	44	$1,140	Cameroon
3	$3,800	**Tonga**	45	$1,140	Côte d'Ivoire
4	$3,720	**Fiji**	46	$1,120	Pakistan (2010)
5	$3,610	**Cabo Verde**	47	$1,120	**Solomon Islands**
6	$3,530	Kosovo	48	$1,110	Lao People's Democratic Republic
7	$3,490	Armenia (2013)	49	$1,110	Yemen, Republic of
8	$3,480	El Salvador	50	$1,030	**Djibouti**
9	$3,340	**Timor-Leste**	51	$1,030	Senegal
10	$3,170	Paraguay	52	$980	Mauritania
11	$3,150	Ukraine	53	$900	Kyrgyz Republic
12	$3,080	**Micronesia, Federated States of**	54	$830	**Comoros**
13	$3,050	**Guyana**	55	$800	Cambodia
14	$2,970	**Samoa**	56	$800	Kenya
15	$2,940	Morocco	57	$780	Tajikistan
16	$2,930	Indonesia	58	$770	Bangladesh
17	$2,870	**Vanuatu**	59	$770	Myanmar
18	$2,850	Georgia (2014)	60	$720	Benin
19	$2,850	Guatemala	61	$700	Haiti
20	$2,830	**Swaziland**	62	$690	Chad
21	$2,760	Egypt (2000)	63	$670	Mali
22	$2,610	Syrian Arab Republic	64	$620	Burkina Faso
23	$2,580	Sri Lanka (2010)	65	$610	Nepal
***	$2,390	TWO times IDA operational threshold	66	$590	Zimbabwe
24	$2,340	Mongolia	67	$570	Afghanistan
25	$2,210	**Bhutan**	68	$570	Guinea-Bissau
26	$2,200	Congo, Republic of	69	$560	Rwanda
27	$2,200	Philippines (1995)	70	$540	Tanzania
28	$2,150	Moldova	71	$510	Gambia, The
29	$2,060	**Kiribati**	72	$480	Central African Republic
30	$2,010	Honduras	73	$480	Sierra Leone
31	$1,960	Bolivia	74	$470	Togo
32	$1,540	Nicaragua	75	$470	Uganda
33	$1,500	Uzbekistan	76	$450	Mozambique
34	$1,480	Papua New Guinea	77	$420	Madagascar
35	$1,450	India (2010)	78	$400	Guinea
36	$1,410	Ghana	79	$390	Eritrea
37	$1,320	Sudan	80	$380	Ethiopia
38	$1,270	Vietnam	81	$370	Somalia
39	$1,260	Nigeria	82	$360	Malawi
40	$1,250	Lesotho	83	$330	Liberia
41	$1,240	**São Tomé and Príncipe**	84	$330	Niger
42	$1,210	South Sudan	85	$220	Burundi
***	$1,195	IDA operational threshold	86	$200	Congo, Democratic Republic of

Sources: World Development Indicators; and IMF staff estimates.

[1] Lower middle income and low income countries are defined by the World Bank (countries with a per capita Gross National Income of less than $4,035 in 2011 using the Bank's *Atlas* method). Countries in green are PRGT-eligible countries, and Zimbabwe. Countries in yellow are former PRGT-eligible countries with the year of graduation indicated. Countries shown in bold typeface are small states. Gray colored rows are exogenous benchmarks. The proposed new country grouping (the LIDC) are the PRGT-eligible countries with per capita incomes below two times IDA operational threshold.