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Classification of Countries and G-20

The Turkish Presidency for the G-20 has declared inclusion as the main theme of their focus. Several meetings and conceptual papers are being circulated for wider debate, discussion and deliberation across different stakeholders. In this context, Turkey has recently circulated a paper on Low Income Developing Countries (LIDC) with a title 'Proposal for Work Under the Turkish Presidency: G-20 and Low Income Developing Countries'.

The idea of low income developing countries is not a new development. It has been there in the literature, particularly the International Monetary Fund (IMF) has used LIDCs as a reference point for addressing the problems of a specific group of countries. The paper throws up several conceptual issues which need to be examined in detail before we move further with the proposal from the Turkish Presidency. The World Bank has contributed to the paper by providing inputs for a framework study on the issue.

Proposal

The classification of countries on the basis of different parameters commenced with an exercise launched immediately after the Second World War. At that point, countries were grouped by their stage of development. The United Nations (UN) had the major responsibility for this exercise. In later years, the World Bank and subsequently the IMF contributed to making classifications robust and rationally sound as they sought to provide concessional finance to "very poor" countries. In the following analysis, we present the classification of countries as perceived by these three institutions and compare them *vis-à-vis* the proposal of the Turkish Presidency.

The United Nations (UN)

The Committee for Development Policy (CPD), a subsidiary body of the UN Economic and Social Council, at the behest of the UN General Assembly had classified a group of countries as the Least Developed Countries (LDCs) in 1971. The purpose of such a classification was to draw attention to the needs of specially disadvantaged countries during the implementation of the second UN Development Decade for the 1970s (Nielsen 2011). Since then the progress of LDCs has been monitored and the UN has prescribed the criteria that govern the graduation of countries from the category of LDCs.[1] However, the UN General Assembly has never established or followed any development taxonomy[2] that governed LDC membership (Nielsen, 2011). The indicators of measurement of development, as per the UN classification system, go well beyond the sole economic indicator of per capita GNI, and include a

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number of indicators to measure the social aspects of development. The UN Economic and Social Council adopts three broad measures or indicators to classify a country as a Least Developed Country (LDC). These three key criteria include: (i) per capita GNI, (ii) Human Asset Index, and (iii) Economic Vulnerability Index. It uses a number of sub indicators that capture both the economic and social aspects of development (Table 3). All three broad indicators have been assigned an equal weight and the threshold level of the different indicators has been identified. The threshold level for the first indicator, i.e. per capita GNI, has been fixed at US$ 992 or less.[3] The second indicator is an index of human asset, which includes four sub-indices: percentage of population undernourished, mortality rate for children aged five years or under, gross secondary school enrollment ratio and adult literacy rate. All these four indicators have been assigned an equal weight while estimating the Human Asset Index (HAI). The threshold HAI has been fixed at 60. The third indicator, i.e. the Economic Vulnerability Index (EVI), is composed of two sub-indices: exposure index and shock index. Both of these have equal weight. The Exposure Index is further composed of four sub-indices: size of population, location (remoteness), economic structure (merchandise export concentration and share of agriculture, forestry and fishery), and environment (share of population in low elevated coastal zones) with varied weights. On the other hand, the two sub-indicators, that constitute the Shock Index, are trade shock (instability of exports of goods and services) and natural shock (victim of natural disasters and instability of agricultural production). The Economic Vulnerability Index (EVI) threshold value has been fixed at 36.

United Nations Development Programme (UNDP)

The UNDP's classification of countries into developed and developing has historically been done on the basis of three core indicators that constitute the Human Development Index (HDI): GNI per capita, life expectancy at birth, and level of education which itself is composed of two indicators weighted equally – mean years of schooling and expected years of schooling.[4] The Human Development Index (HDI) is the composite index of the above three

Table 1: Macroeconomic Indicators: 2001-13

(% of GDP)

Income Group	GDP per capita Growth	Gross Fixed Capital Formation	Export of Goods and Services	Export Balance	Gross Domestic Savings	Foreign Direct Investment	Value added in Industry	Value added in Mfg GDP
Low and Middle Income	4.4	27.5	30.4	0.6	29.7	3.1	36.6	21.8
LDCs	3.5	23	26.2	-8.6	15.2	3.1	27	10.9
Low Income	3.3	22.4	20.9	-11.9	11.2	2.7	22.4	12.4
Lower Middle Income	4.3	25	27.3	-2.9	24.2	2.2	32.1	17.3
Upper Middle Income	5	28.5	31.6	2.1	32.1	3.4	38.6	23.6

Source: World Development Indicators. http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators

1 The four countries to have graduated out of the LDCs category up to 2014 are Botswana, Cape Verde, Maldives and Samoa. On 4 December 2013, the General Assembly agreed that Equatorial Guinea and Vanuatu will graduate in 3 1/2 and 4 years, respectively. See the UN-OHRLLS Criteria for Identification and Graduation for LDCs. (http://unohrlls.org/about-ldcs/criteria-for-ldcs/)

2 In country classification system, ordering or grouping countries on the basis of their level of development is called development taxonomy (Neilsen, 2011).

3 The threshold level of per capita GNI is proposed to be fixed at US$ 1035 in 2015 .

4 This new index for education was introduced in 2010. Earlier the education index was composed of an adult literacy index with two-thirds weight and a gross enrolment index with a weight of one-third.

variables, which reflect the standard of living. The Human Development Report has been published by the United Nations Development Programme (UNDP) since 1990 which divided countries into three categories on the basis of the level of human development: low, medium, and high. The threshold values were 0.5 and 0.8 (Nielsen 2011). In the 2009 *Human Development Report* a new category was introduced, i.e. countries with very high human development with a threshold value of 0.9 (Nielsen 2011). India, Indonesia and many other emerging economies fall under the category of medium level of human development, according to the UNDP criterion.

The World Bank Group

In the World Bank Group classification of different categories of economies, the per capita GNI has been the sole criteria that determines the level of development. The World Bank classifies the economies into three major groupings: the Low Income Countries (LICs, per capita GNI US$ 1045 or less in 2013), Middle Income Countries (MICs, per capita GNI between US$ 1046 and US$ 12746) and High Income Countries (HICs, per capita GNI US$ 12746 and above). It furthers subdivides the MICs into the Lower Middle Income Countries (LMICs) and the Upper Middle Income Countries (UMICs). The World Bank classification covers 34 LICs, 50 LMICs, 55 UMICs and 75 HICs. India falls under the category of MICs and more, particularly under the LMICs group, according to the World Bank.

International Monetary Fund (IMF)

Similarly, the IMF uses per capita GNI as the key indicator to define the groupings. As per the IMF's *World Economic Outlook* classification system, 34 countries are classified as advanced countries. The remaining 154 member countries are classified as 'Emerging Market and Developing Economies'. Further for analytical purposes, the IMF has classified 25 countries as 'Emerging Market' countries. Recently, in 2014 the IMF came up with a new grouping which is labelled as 'Low Income Developing Countries' (LIDCs). As per the IMF criteria, currently there are 60 LIDCs. There are two key criteria that determine the LIDCs group: (i) countries

Table 2: Some Social Indicators

Indicator	Low Income	Lower Middle Income	Upper Middle Income
Poverty below $1.25	47	22	5
Poverty below $2	74	51	14
Secondary Enrollment*	44	65	88
Mortality Maternal	440	240	57
Infant	53	44	16
Child	76	59	20
Malnourishment	37	35	8
Immunisation against DPT	80	76	94
Immunisation against Measles	80	76	95
Incidence of TB	241	182	82
Access to sanitation	37	47	74
Access to safe water	69	88	93

Note: Primary enrollment figures are excluded as they are over 100 per cent for all groups of countries.

Source: World Development Indicators. http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators

Table 3: Criteria for Classification used by Different Organisations

UN*	World Bank / IMF	Turkey (G20)
Least Developed Countries (LDCs) (UN Economic and Social Council)	**Low Income Countries (LICs)**	**Turkey (G20 Presidium)**
Based on 3 criteria: 1. Per capita GNI US$ 992 or less (US$ 1035, 2015 review, projected) 2. Human Asset Index (HAI): a. Percentage of population undernourished (1/4) b. Mortality rate for children aged 5 years or under (1/4) c. Gross secondary school enrollment ratio (1/4) d. Adult literacy rate (1/4) HAI Threshold - 60 (2012 Review) 3. Economic Vulnerability Index (EVI): i. Size (1/8) # Population (1/8) ii. Location (1/8) # Remoteness (1/8) iii. Economic structure (1/8) # Merchandise export concentration (1/16) # Share of Agriculture, forestry and Fishery (1/16) iv. Environment (1/8) # Share of Population in low elevated coastal zones (1/8) b. Shock Index (1/2): i. Trade shock (1/4) # Instability of exports of goods and services (1/4) ii. Natural Shock (1/4) # Victims of Natural Disasters (1/8) # Instability of Agricultural Production (1/8) EVI Threshold: 36 (2012 review) **<u>Developing Countries (UNDP)</u>** Criteria: Countries with less than HDI threshold Development Threshold - 75 percentile in the HDI distribution HDI Index: a. Life expectancy at birth b. Education: Mean years of schooling and expected years of schooling c. Standard of Living: GNI per capita **India, Indonesia and many other emerging market countries fall under this category (UNDP Developing Countries).** **Currently, there are 48 LDCs.**	Criteria: Per capita GNI of US$ 1045 in 2013 or less GNI Per capita in US$ is estimated by converting from the local currency using the Atlas Method Atlas method: Atlas conversion factor for any year is the average of a country's exchange rate for that year and its exchange rate for the two preceding years, adjusted for the difference between the rate of domestic inflation and the rate of international inflation **<u>Middle Income Countries (MICs)</u>** Criteria: Per capita GNI more than US$ 1045 and less than US$ 12, 746 Lower Middle Income Countries (LMICs): Per capita GNI between US$ 1046 and US$ 4125. Upper Middle Income Countries (UMICs): Per capita GNI between US$ 4126 and US$ 12746. **India falls under MIC and LMIC.** **Currently, there are 34 LICs, 50 LMICs and 55 UMICs.** **IMF** **<u>Low Income Developing Countries (LIDCs)</u>** Proposed in June 2014 Purpose: for IMF flagship programmes and for staff analytical work on low income countries A new WEO classification Criteria: 1. Countries designated PRGT eligible in the 2013 PRGT eligible list 2. Per capita GNI less than the PRGT income graduation level for non-small states (i.e., 2*IDA-OT or US$ 2390) **<u>Emerging Market</u>** No formal definition IMF classification mentions Emerging Markets and Developing Economies (EMDE) Possess some features of developed markets Has the potentials of developed market in future **India and 2 other economies fall under LIDCs as per the criteria.** **However, the IMF clubs India under the Emerging Market Economies.** **Currently, there are 60 LIDCs.** **Number of Emerging Economies is 25 as per IMF grouping.**	LIDC Criteria: 1. Per capita GNI of US$ 4125 or less in 2013 2. Country not a part of G20 Based on World Bank Groups classification of LIC (per capita GNI of US$ 1054 or less in 2013 and, World Bank's Low Middle Income country (LMICs) classification (GNI per capita between US$ 20146 and US$ 4125) **As per the World Bank LMIC criteria, India falls under this category.** **However, India does not fall under this category as per the Turkish Presidency criteria.**

Note: *The Committee for Development Policy (CPD), a subsidiary body of the UN Economic and Social Council, has been analysing the development progress of existing and prospective LDCs since 1971. The above task has been mandated by the United Nations General Assembly and the UN Economic and Social Council (DESA, UN and UN-OHRLLS).

Source: Compiled by authors from various sources.

designated PRGT (Poverty Reduction and Growth Trust) in the 2013 PRGT eligible list, and (ii) countries with per capita GNI less than the PRGT income graduation level for non-small states (US$ 2390). India and two other countries actually fall under the LIDCs as per the criteria. However, the IMF clubs India under the Emerging Market Economies. Currently, there are 60 LIDCs and 25 Emerging Economies as per the IMF classification.

Turkey Presidium

As per the criteria laid down by the G-20 Turkish presidium, the Low Income Developing Countries (LIDCs) classification is the combination of the World Bank's LICs (34 countries) and LMICs (50 countries). In total 84 countries fall under this category (per capita GNI US$ 4125 in 2013), including India and Indonesia. However, as both India and Indonesia are part of the G-20, they have been excluded from this Grouping of LIDCs.

Comparison of Approaches

Countries have been classified into different categories based on different indicators of development and there exists no consensus on a generally accepted particular system of classification. This lack of consensus among countries and stakeholders stems from a lack of consensus on the definition of development. What constitutes development and an appropriate methodology, that can evaluate the different dimensions of development, has remained at the core of this debate. Each institution uses a definition that helps it achieve its objectives. The definitions of development have been widely debated as they involve resource transfers, which affect the economic interest of many countries (Nielsen 2011). Countries fulfilling the per capita income criteria for being a low income country have been provided funds at a cheaper rate by the World Bank and the IMF. For instance, the per capita income determines whether a country is eligible to borrow from the World Bank or not. Secondly, the per capita income determines whether the country is eligible to borrow from International Development Assistance (IDA), namely on soft terms, or from the World Bank on harder terms or a blend of the forms of finance. For operational purposes the criteria used by the World Bank and the IMF is simple. The indicators used to classify different countries in terms of their level of development by the UN institutions have been more comprehensive, but have not had the same operational significance

Policy Suggestions

The purpose of the classification proposed by the Turkish Presidency needs further clarification. A possible rationale could be to provide a new method for aid distribution. Another possible rationale, particularly in the context of the adoption of new sustainable development goals, could be to assist in the achievement of these goals through provision of enabling factors other than financial resources. There is a substantial difference in the economic conditions of low income countries from that of lower and upper middle income countries (Table 1). The low income and low middle income countries are falling behind the upper middle income groups in all key macroeconomic indicators. The GDP per capita growth, the rate of investment and saving rate of the upper middle income countries are higher than the low income and low middle income countries. Similarly, the upper middle income countries are also favourable destinations for Foreign Direct Investment (FDI) and during the last decade they have recorded a better external balance. The share of value addition in industry and manufacturing is also higher in the upper middle income countries. A comparison between the low income countries and the low middle income countries demonstrates that by all key macroeconomic indicators the low income countries are worse off. Given their greater economic needs, the purpose of grouping them together is not clear. One possible objective of the combined grouping could be to give IDA money to poorer groups in lower middle income countries as has been suggested.[5] If so, it should be explicitly stated. But without an explicit objective the rationale for this new grouping is not clear.

[5] See Moss and Leo (2011).

Achievement of the new Sustainable Development Goals (SDGs) might require more than finance only. It might need more technical assistance and capacity building. The new grouping might be accompanied by stressing the need for such a shift in focus on international cooperation.But again there is a considerable gap between social indicators in low income countries from those in lower middle income countries (Table 2). Again the rationale for the joint grouping is not clear.

The exclusion of India from the LIDC group, as suggested by the Turkish Presidency, would take away India's leadership on several global issues that concern the interest of the developing countries. The Turkish proposal while, on the one hand, takes away India's leadership on the development concerns and interests of the developing countries, on the other hand, it is likely to affect India adversely, given the fact that India still continues to remain a developing country by any set of development and social indicators. As per the country classification of several international organisations, India still falls under the category of developing countries.

India should seek greater clarity regarding the purpose of the proposed new grouping. Unless the proposed grouping serves some important purpose, cluttering up the existing classifications with another one would serve no purpose.

India should take the leadership to ensure that the new enlarged grouping does not lead to reduced financial and other resources being placed at the disposal of low income countries. Since there are no low income countries in the G-20, this might require India to act outside the framework of the G-20. India could also try to utilise the UN, as the UNDP has been in the forefront of studies and other analyses to help the least developed countries.

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