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Country-Income Level Classification: Relationship to Poverty



Paulo van Noije¹ and Julia Swart²

¹School of Applied Sciences, University of Campinas, Limeira, Brazil

²Utrecht School of Economics, Utrecht University, Utrecht, The Netherlands

Synonyms

[Country development level classification](#)

Definition

A country-income level classification is based on the level of income measured in monetary terms, and has not necessarily a correlation to the *development level* of that economy. In Economics, development has a broad and far-reaching meaning, encompassing diverse attributes such as access to high-quality education, health, housing, and food, among others. Ray (1998) argues that, even though “most of us would insist that a *minimal* requirement for a ‘developed’ nation is that the physical quality of life be high, and be so uniformly, rather than being restricted to an incongruously affluent minority,” it involves many other aspects which are not related to material well-being. Aspects such as political rights,

safety, and equality are also a pre-condition for being a developed nation. Such attributes are not necessarily present in a *high-income country*.

An income level classification is an artifact to group countries, based on, among others, their GDP (Gross Domestic Product), GNP (Gross National Product), or GNI (Gross National Income) level. The GDP is computed using the System of National Accounts, which is a standard agreed internationally on how to compile measures of economic activity. Such measures are useful to make cross-country comparisons or within a single country across time comparison. These are simple measures which, albeit not perfect, reflect the state of the economy. A classification of income level in low-middle-high clusters countries according to, for example, their GDP. Low-income countries in this case are represented by having a lower level of total final goods and services produced within the country’s territory, relatively to middle and high-income countries.

Introduction

Any attempt to classify countries according to their level of per capita income will present problems. First, the measurement of GDP – therefore, of aggregate income – is problematic, with difficulties, for example, in taking informal activities into account. In addition, a country may be experiencing GDP growth through the extraction and sale of non-renewable natural resources,

which in theory would be degrading the environment. Another underlying issue is that dividing GDP by the number of people in a country – to obtain GDP per capita – is something that proves to be intuitive as a tool for analyzing a country’s situation; however, it does not take into account how income is being distributed.

All the abovementioned issues are problems that are valid for each country in individual terms and are inherent to the process of measuring GDP. When trying to make international comparisons, other problems can be glimpsed. One is the difference in purchasing power of different currencies that are not fully captured by countries’ exchange rates. GDP measure by purchasing power parity (PPP) manages to remove some of the distortions caused by different exchange rates, by taking into account the population’s living costs and incomes, generating a better parameter for comparing purchasing power between an economy and another.

To obtain purchasing power parity, some basic products are chosen to form a kind of “international basket.” The price of this basket, in the local currency of each country, is compared to the price of the same basket in the reference currency, in this case the dollar. Since it is based on an estimate of prices, some problems can be seen in the use of PPP as a reference, since the price level in the market does not vary uniformly (e.g., inflation in food prices can be very different from inflation in prices of clothes). Finally, consumption patterns (the “basket” of each country) generally differ greatly from one country to another, which makes it difficult to use purchasing power parity as a benchmark for comparison between countries.

These same difficulties mentioned for measuring and comparing GDP between countries can be overcome in an attempt to create an extreme poverty line to estimate how many people live below that poverty line. Thus, there are methodological limitations in the attempt to compare countries. However, this does not mean that these attempts should be rejected. Firstly, there are ongoing efforts to improve the statistical databases and the mechanisms for measuring them. And more importantly, despite the possible measurement

flaws, the information provided allows at least to shed some light on the condition of countries, allowing decision-making to not be carried out entirely in the dark.

This work is divided into four sections, in addition to this introduction, definition, and final considerations. The first section covers “[Country-Income Classification](#),” showing that the World Bank’s income classification is based on the level of GNI per capita and is divided into four categories: low-income economies, lower middle-income economies, upper middle-income economies, and high-income economies. The second section addresses “[Income Level and the Sustainable Development Goals](#),” making a more general discussion as to whether we can link income classifications with the various Sustainable Development Goals (SDG), with more emphasis on SDG1. The third section presents “[The Impact of Income on Poverty Alleviation](#),” discussing the literature at the country level and seeking to analyze whether the poorest countries have more poverty. The fourth section shows the “[Income Level and International Cooperation](#)” that makes clear that achieving the SDGs, and the SDG1 in particular, depends on access to resources. There is a need for investments from development finance institutions and from official development assistance; nonetheless, many developed countries fall short on their target in transferring resources to those countries most in need.

Country-Income Classification

First of all, it is important to mention that there is a difference between classifying countries according to their income and classifying them according to their degree of development, although there is a strong relationship between these classifications. Nielsen (2011) points out that throughout history, several attempts have been made to classify countries according to their degree of development. Some examples pointed out by the author are the *United Nations Development Programme’s Country Classification System* that is built around the Human Development Index (HDI), created

together with the Human Development Report (HDR) in 1990; the *World Bank's Country Classification Systems* which are used both for operational and analytical purposes; the *IMF's Country Classification Systems*, which, similarly to the World Bank's classification system, are used for both operational and analytical purposes.

In addition to the classification based on the development level, the World Bank has also classified countries according to their income level. According to Nielsen (2011), the reason to use income thresholds is that the World Bank considers GNI per capita to be the best single indicator of economic progress and capacity. This is not to state that the World Bank considers income as a proxy for development. A classification was introduced with the World Development Report in the late 1970s (WB 2020a), but countries were not classified consistently. The terminology used in that report was OECD membership was used to define "industrial" countries; "developing economies" were divided into low income and middle income; and other economies were listed as "centrally planned economies" and "capital surplus oil exporters." As explained below, this terminology was revised in 1989.

Nowadays the World Bank's income classification is based on the level of GNI per capita, using the World Bank Atlas method. Estimates of GNI are obtained from economists in World Bank country units. Income is measured in US dollars, converted from local currency. The population is estimated by World Bank demographers from a variety of sources, such as the UN's biennial World Population Prospects (WB 2020b).

The reason to use GNI per capita to classify economies into income groupings is that it is an easily available indicator that is well correlated with other non-monetary indicators of the quality of life, such as mortality rates of children, enrollment rates in school, and life expectancy at birth. On the other hand, it is known that GNI per capita has some limitations, as it does not completely summarize a country's level of development, and GNI does not reflect inequalities in income distribution. Additionally, GNI may be underestimated in lower-income economies that have more informal and subsistence activities. However, all

indicators are limited, and the use of GNI proved to be appropriate for making this classification in groups (WB 2020c).

The World Bank's country-income classification is divided into four categories: low-income economies, lower middle-income economies, upper middle-income economies, and high-income economies. This classification was established in 1989 based on operational thresholds that had previously been used. Table 1 shows this classification, based on what will be adopted in the 2021 fiscal year (WB 2020a, d).

Besides the income classification into four income groups, the World Bank's World Development Indicators database also provides aggregate data based on seven geographic regions. The range of countries is formed by all 189 World Bank member countries, added by 28 other economies with populations of more than 30,000. These countries are classified so that data users can compare statistical data of interest and for the presentation of key statistics (WB 2020b).

Table 2 shows the data classification provided by the World Bank by combining the classification of countries according to their income, with the one by geographic region. According to this table, the sub-Saharan Africa region is the one with the most low-income countries, 23 countries, while in other regions, the number is significantly lower (at most two). In addition, the sub-Saharan Africa region also ranks first in terms of the number of countries classified as lower middle-income countries, with 18 countries (37.5% of the countries in sub-Saharan Africa). In this same income group, the second closest region, East Asia and

Country-Income Level Classification: Relationship to Poverty, Table 1 World Bank Country-Income Classification in 2019. (Based on World Bank Country and Lending Groups (WB 2020d))

Classification	GNI per capita
Low income	\$1,035 or less
Lower middle income	Between \$1,036 and \$4,045
Upper middle income	Between \$4,046 and \$12,535
High income	\$12,536 or more

Note: this classification is used for the current 2021 fiscal year

Country-Income Level Classification: Relationship to Poverty, Table 2 World Bank's Country-Income Classification in 2019 by geographic region. (Based on World Bank's Country and Lending Groups (WB 2020d))

	Low income	Lower middle income	Upper middle income	High income	Total
East Asia and Pacific	1	12	10	15	38
Europe and Central Asia	1	4	15	38	58
Latin America and Caribbean	1	4	20	17	42
Middle East and North Africa	2	6	5	8	21
North America	0	0	0	3	3
South Asia	1	6	1	0	8
Sub-Saharan Africa	23	18	5	2	48
Total	29	50	56	83	218

Pacific, contains 12 countries (31.5% of the countries in East Asia and Pacific). According to these data, a first hypothesis that arises is that in order to deal with SDG1 – No Poverty – most likely a region that will deserve greater care is the African continent.

Table 2 also shows that high-income countries are concentrated mainly in Europe and Central Asia, Latin America and Caribbean, and East Asia and Pacific. In addition, North America has all three countries in this high-income classification. Thus, it is noted that there is an asymmetry in the division of countries according to the income classification, which has important implications for thinking about a strategy to combat poverty.

Finally, we conclude this section by noting that the World Bank's country-income classification is not exclusive. Other well-cited classifications are the ones by the IMF and the United Nations (see Nielsen 2011). Additionally, other terms are common in an attempt to divide the world into two opposing groups, a leading group and a group falling behind. Common terms are "advanced nations" versus "developing countries"; "North" versus "South"; and "Core" versus "Periphery." The final terms ("Core" and "Periphery") do not only consider countries' income level but is in particular attached to deeper historical roots, linked to colonialism, power, and specialization patterns (see, e.g., Prebisch 1949, whose classification of Latin America as a periphery was

decisive to propose specific policy recommendations to circumvent the bottlenecks associated to peripheral economies).

Income Level and the Sustainable Development Goals

The Sustainable Development Goals (SDGs) delineate a plan for countries to achieve a more sustainable, inclusive, and equitable future for all. As such, it focuses on increasing the level of economic development, instead of relying on economic growth as a panacea to the world's most pressing problems, such as poverty and climate change. That does not mean that economic growth is not an essential means to improve the quality of life in many underdeveloped economies. Goal 8 – *Decent Work and Economic Growth* – has at its core sustaining economic growth. Economic growth is, nonetheless, not equally important for every country to achieve the Sustainable Development Goals. Target 8.1 stipulates that economic growth be high in *least developed countries*. In countries with higher levels of income, the SDGs also apply (the Sustainable Development Goals are universal), but economic growth is not as relevant. In fact, some countries already have a high-level of income but still have a long way to achieve the Sustainable Development Goals.

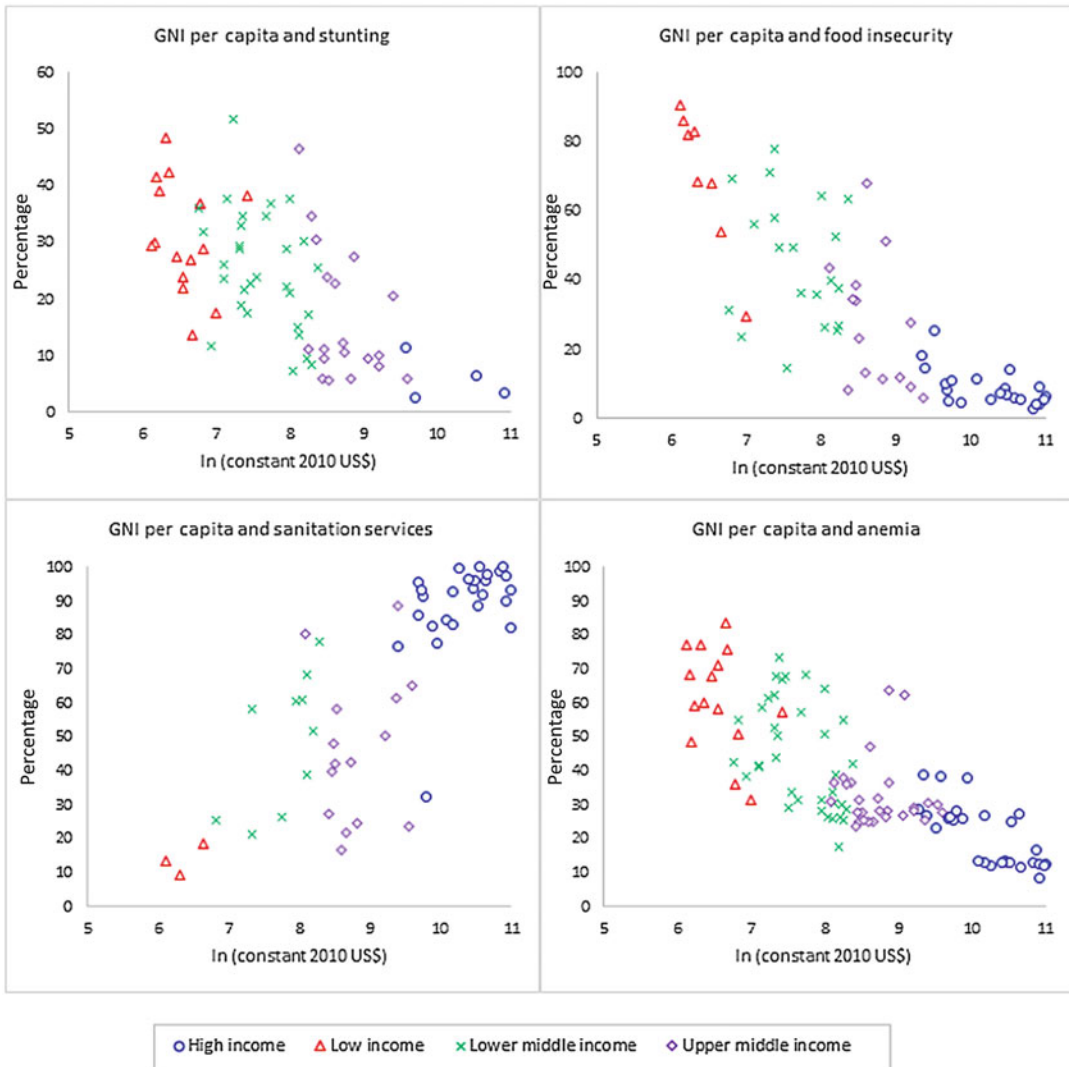
Take a country like the United States, a high-income economy, with a GNI per capita of \$55,296 (constant 2010) in 2018 (WDI 2020). The United States had the 7th highest GNI per capita, in that year. Nonetheless, in the same year, the infant mortality rate was 5.6 per 1,000 live births, scoring behind 39 other high-income economies, including Spain (2.5 per 1,000), Hungary (3.6 per 1,000), and Poland (3.8 per 1,000) (WDI 2020). A few upper middle-income economies also performed better than the United States with respect to the infant mortality rate measure (e.g., Montenegro, 2.3 per 1,000; Belarus, 1.6 per 1,000; and Cuba, 3.7 per 1,000). Similarly, although on average low-income economies tend to have higher poverty rates, countries across all income level classification can have the same level of poverty rates. For example, in 2017 the poverty headcount ratio at national poverty lines (% of population) was 29.5 in Tajikistan (a low-income economy), 29.2 in El Salvador (a lower-middle income economy), and 26.9 in Colombia (an upper middle-income economy) (WDI 2020).

The lack of strong correlation between main indicators linked to the Sustainable Development Goals and GNI per capita (income classification) suggests that economic growth is not a sufficient condition for achieving the SDGs. Additionally, economic growth can be detrimental to achieving some of the SDGs, such as Goal 12 – Responsible Consumption and Production, and Goal 13 – Climate Action. Stewart (2015) argues that the Goals should have been set at a national level, to take into account that countries cannot achieve all targets at the same time. Furthermore, Stewart (2015) is critical to the emphasis on economic growth and its compatibility to the sustainability goals, since the explicit recommendation to sustain economic growth will have as a likely result that “. . . countries at every level of per capita income will continue to prioritize economic growth and this will threaten environmental sustainability” (p. 291). Despite these criticisms, the SDGs can be seen as a historical mark which integrates the diverse targets and goals. As such, it allows flexibility for each country to minimize possible trade-offs (such as a trade-off of promoting job creation through economic growth, based

on emission-intensive industries). Nilsson et al. (2016) propose a map of interactions between the Sustainable Development Goals and argue that “Countries must interpret the SDGs according to their national circumstances and levels of development.” Following this argumentation, policy makers should take into account possible synergies among the different targets and accommodate to the extent possible the trade-offs.

The main take-away point from the above discussion is that whereas economic growth is one of the targets of the SDGs (in particular for least developed economies), it is only to the extent that it promotes inclusion and increases well-being. The relation between income level and sustainable development can, thus, be seen as country-specific. To illustrate this, we focus below on SDG 1 – “No Poverty.” Figure 1 shows in four panels scatterplots of GNI per capita against different indicators associated with the SDG 1. The four panels suggest that on average countries with higher GNI per capita are better off in terms of poverty-related indicators than countries with lower GNI per capita. However, across countries in the same country-income classification, the correlation is much weaker.

Additionally, the correlation between the different indicators associated with the SDG 1 is not always perfect. For countries classified as low income, for example, stunting and food insecurity had a coefficient of correlation of 0.55, whereas stunting and prevalence of children with anemia among children had a coefficient of correlation of 0.04 (WDI 2020). The diversity in correlation coefficients indicates that different countries experience different challenges with respect to poverty eradication. These challenges are not solely dependent on the level of their income. Understanding the other correlates with specific poverty-related variables is fundamental to design effective country-specific policies to alleviate poverty. Burkina Faso, for example, one of the poorest countries in the world, had 86.2% of children under 5 with anemia in 2016 (WDI 2020), the highest-level in the world. Focusing solely on economic growth would not be the most effective way to decrease this figure in the short run.



Country-Income Level Classification: Relationship to Poverty, Fig. 1 GNI per capita and the SDG 1: Country-income classification. (Based on data from WDI (2020)). To construct these graphs, we used the most recent data from the years 2013–2019. Stunting refers to the variable

Magalhães and Clements (2011) show that anemia is worsened by diverse factors other than malnutrition, such as malaria and helminth infections. Malaria represents indeed a significant health burden in Burkina Faso, and reducing it should thus be part of the solution to decrease the prevalence of anemia among small children.

“prevalence of stunting, height for age (% of children under 5)”; food insecurity refers to the variable “prevalence of moderate or severe food insecurity in the population (%)”; and prevalence of children with anemia among children is taken a percentage of children under 5

The Impact of Income on Poverty Alleviation

Ending poverty is the top goal of the 2030 Agenda for Sustainable Development, adopted by the members of the United Nations General Assembly. This is an agenda for people to end poverty in all its forms that will demand focus on the most effective strategies to end extreme poverty. To

measure poverty, the most common measure is the one based on a poverty line. The World Bank, for example, sets an international poverty line, which is revised every few years to take into account changes in the costs of living. The World Bank changed, in 2015, the international poverty line to \$1.90 a day. This change incorporated new information on discrepancies in the cost of living across countries and conserved the real purchasing power of the previous line, which was of \$1.25 a day in 2005 prices in the world's poorest countries. Based on this measure and the available data, world's poverty remains concentrated in sub-Saharan Africa and South Asia (WB 2015). In 2015, about 10% of the population in the world still lived in poverty by this definition. Thus, finding solutions to this pressing problem is an ongoing research agenda.

According to Ravallion (2001), the recent debate against globalization has given new impetus to the discussion on whether the poor benefit from economic growth. On the one hand, it is argued that globalization raises incomes and that growth helps the poor, because their incomes rise by about as much as the other incomes. On the other hand, it is pointed out that income disparities are getting higher because of globalization and the current patterns of growth, and these are contributing to slowing-down poverty reduction. The author points that it is possible to reconcile these different views.

First of all, Ravallion (2001) argues that there is a data issue. The surveys are likely missing a share of the consumption gains. However, one interpretation considers that the problem is related with the consumption by the nonpoor and that would underestimate the rate of increase in inequality. The other interpretation ponders that the surveys underestimate the consumption of the poor, concluding that poverty is reducing faster than what the survey data indicates.

Beyond that, Ravallion (2001) shows that in a situation of distribution-neutral growth, given existing inequality, the income gains to the rich will be greater than the gains to the poor. How much the poor share in growth is affected even by small changes in overall distribution, because the pace of poverty reduction that is accomplished at

any given rate of growth is influenced by inequality. Poverty is falling on average even in the countries in which inequality is rising with growth in average living standards; however, the reduction happens at a slower rate when compared with countries undergoing more equitable growth.

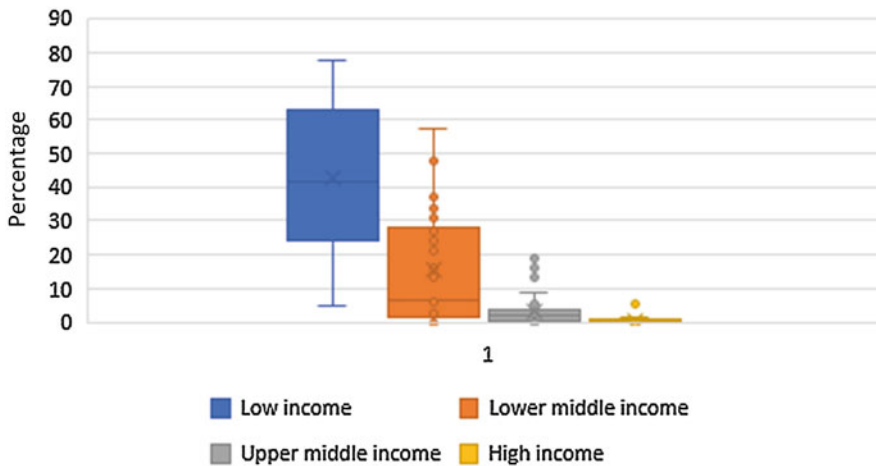
This means that the poverty reduction through growth is being harmed by high or rising inequality. A high initial level of inequality can reduce prospects for pro-poor growth even when inequality is not rising. On the other hand, in an economy where inequality is persistently low, it can be expected that the poor will probably gain a higher share of the gains from growth rather than in an economy in which inequality is high (Ravallion 2001).

The poor will gain in absolute terms if distributional shares persist on average, meaning that contraction is poverty increasing and growth is poverty reducing. Although this is not a new point, the empirical relationship shows that the occurrence of absolute poverty in developing countries tends to fall with growth. Complementing this idea, even though the overall poverty rate may move rather little, one can find that many people have fallen into poverty and others have escaped poverty. Understanding that is important for economic reforms in developing countries that can create opportunities for poor people. The conditions for that are related to reducing the differences in access to physical and human capital (Ravallion 2001).

In line with these proposals, in 2018 the World Bank Group launched the Human Capital Project, a worldwide effort to accelerate, increase, and improve investments in people to achieve more equity and economic growth. The mission of the World Bank Group centers on two predominant goals: (1) end extreme poverty by 2030 by dropping the share of the global population living on less than \$1.90 a day and (2) encourage common prosperity by increasing the incomes of the poorest 40% of people in every country (WB 2019). Table 3 shows that the rate of extreme poverty is decreasing in all regions over the period between 2010 and 2019 (with the exception of the case of Middle East and North Africa in 2019). However, despite these positive numbers, the

Country-Income Level Classification: Relationship to Poverty, Table 3 Extreme poverty (% population below \$1.90 a day, 2011 PPP). (Based on World Bank (2019))

Region/year	2000	2010	2019
Africa	53.3	46.5	41.0
East Asia and Pacific	29.7	11.2	2.3
Europe and Central Asia	6.0	2.4	1.5
Latin America and the Caribbean	11.8	6.1	3.9
Middle East and North Africa	3.4	2.3	4.2
South Asia	38.6	24.6	16.1



Country-Income Level Classification: Relationship to Poverty, Fig. 2 Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population) by country-income

classification. (Based on data from UNstat (2020), using data from 2015 (or the closest years with available data))

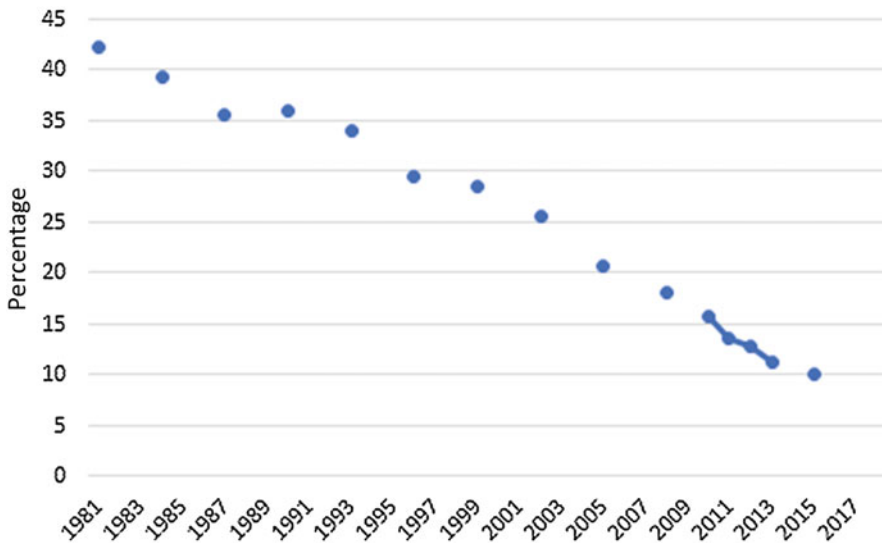
observed trend does not indicate that the goal of eradicating extreme poverty will be reached in 2030, mainly in the regions of Africa and South Asia.

When analyzing data on extreme poverty disaggregated by the World Bank's country-income classification (Fig. 2), considering the percentage of the population living on less than \$ 1.90 a day at 2011 international prices, it is possible to note that low-income and low middle-income countries still have a very large proportion of their population in poverty. Additionally, the variance among the low-income countries is relatively high. On the side of the high poverty rates are countries like Madagascar (77.6%) and Congo (76.6%). On the other extreme, we find Tajikistan (4.8%) and Gambia (10.1%), which have better rates than many low-

income countries, indicating that extreme poverty can be reduced even in very poor countries.

Additionally, Fig. 2 shows that the majority of upper middle-income and high-income countries have already managed to practically end extreme poverty. However, in high middle-income countries, there are still some cases with a high rate of people in extreme poverty, such as South Africa (18.9%) and Botswana (16.1%). Although these numbers indicate that we still have regions that are far behind and that will hardly be able to eliminate extreme poverty by 2030, the good news is that the proportion of people below this extreme poverty line has been falling (Fig. 3).

According to Fig. 3, 42.3% of people in 1981 were below the poverty line, whereas in 2015, 10% of people were in this condition, a remarkable decline. Such progress (albeit in relative terms – in absolute terms, this still represents



Country-Income Level Classification: Relationship to Poverty, Fig. 3 Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population) in the World. (Based on data from UNstat (2020))

over 700 million individuals) allows us to glimpse that at some point extreme poverty will be eradicated, even if it is not in 2030.

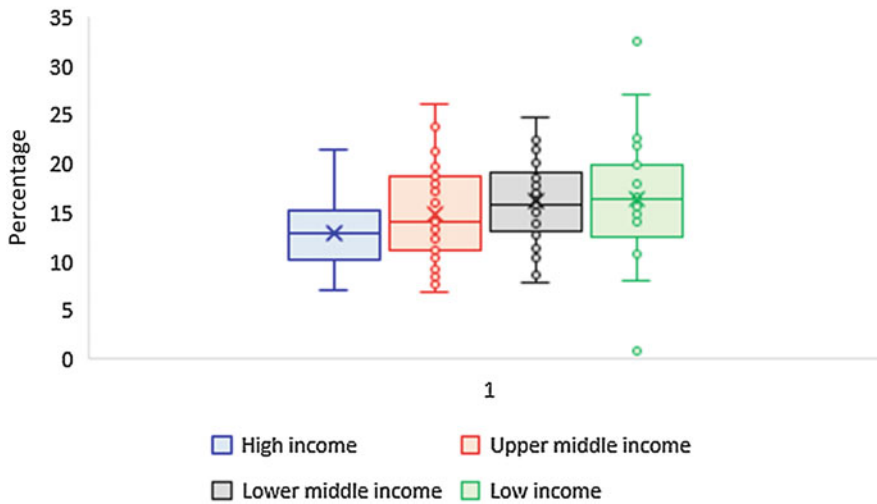
Income Level and International Cooperation

Within the SDG 1 – “No Poverty”, Target 1.A is to:

“Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programs and policies to end poverty in all its dimensions” (UN 2020a). This target, once more, makes clear that achieving the SDGs, and the SDG 1 in particular, depends on access to resources. Although resources can be understood in broader terms (encompassing among others, know-how, equipment, human capital, etc.), having a secure flow of financial resources is essential to implement programs and policies to eradicate poverty.

UN (2020b) suggests two indicators for Target 1.A, both of which relate to government spending. The first indicator refers to government spending

on poverty alleviation programs, and the second indicator refers to government spending on education, health, and social protection. Empirical literature provides some support for the positive impact of government spending on education and health care on economic growth, poverty alleviation, and decrease in income inequality (see, e.g., Barro 1991; Tanzi and Chu 1998; Fan et al. 2000), albeit with respect to the impact on poverty alleviation ambiguity still persists (see discussion below). Figure 4 depicts recent data for the second indicator, disaggregated by the World Bank’s country-income classification. Given the overall bad performance of low-income countries in terms of poverty, one would expect that the government from these countries would spend significantly more on education, health, and social protection. Figure 4 shows that indeed the government from these countries spend on average slightly more than the other country groups, but not significantly more. Additionally, the variance among the low-income countries is relatively high. On the side of the lower spenders on essential services are countries like South Sudan (0.88%) and Liberia (8.06%), both of which with a recent past of civil war and conflict. On the other extreme, we find Sierra Leone (32.47%) and Ethiopia (27.10), both of which have experienced a



Country-Income Level Classification: Relationship to Poverty, Fig. 4 Proportion of total government spending on essential services (education, health, and social

protection). (Based on data from UNstat (2020), using the most recent (estimated or country-based) data from 2014–2018)

significantly more stable period associated with relatively high economic growth rates.

Anderson et al. (2018) explain the ambiguity of the effect of government spending on poverty alleviation, which they identify in the literature, through a meta-regression analysis based on 19 studies. Overall, the authors find that there is no strong evidence that higher government spending reduces income poverty in low- and middle-income countries. Nonetheless, they find that this relationship is less negative for government consumption spending, health, and education spending. Their evidence also implies that the relationship between government spending and income poverty in low- and middle-income countries has become less negative over time. Finally, the authors report that there might be an underrepresentation in the literature of positive estimates of the relationship between government spending and poverty.

In line with Anderson et al. (2018), another strand in the literature analyzes cash transfer programs in developing countries. Since the start of the 1990s, there has been an overall increase in these programs, which is desirable due to its progressive nature (Goni et al. 2011). Saavedra (2016) conducts a review of the evidence about the impacts of conditional cash transfers programs

on poverty reduction, human capital accumulation, and well-being. With respect to poverty alleviation, the authors find that there is evidence in the literature that these programs have been successful in decreasing poverty among the program participants. Such programs depend on the financial support from governmental and non-governmental organizations, to secure regular payments to the poor.

UN (2019) argues that key to achieving the Sustainable Development Goals is an alignment of both national and international financial systems with the goals. Additionally, developing countries should not rely solely on the private sector, but there is a need for investments from development finance institutions and from official development assistance. According to this United Nations report, developing countries face an estimated annual investment gap of \$2.5 trillion to be able to implement the Sustainable Development Goals. As such, official development assistance is more pressing than ever in developing countries.

Two targets were set out by many developed countries to provide official development assistance according to their gross national income. The first is a target of 0.7% of their gross national income in official development assistance in general. The second is a target of 0.15–0.20% of gross

national income to least-developed countries. Both these targets were established by the Monterrey Consensus (2002) and the Doha Declaration on Financing for Development (2008) (UN 2015, 2016). Later, in 2015, the Addis Ababa Action Agenda was endorsed and reaffirmed these two targets.

According to the UN (2019), the Sustainable Development Goals and thus the 2030 Agenda have shifted the Official Development Assistance toward humanitarian expenditure and refugee spending in the last decade. Moreover, the 2030 Agenda has also contributed to the increase in South-South cooperation (although still small), reflected on a rising of development cooperation from developing countries in the period 2015–2017. Nonetheless, many developed countries fall short on their target of 0.7% of their gross national income. More concerning is not attaining the target toward the least-developed countries, which is crucial for those countries to achieve the Sustainable Development Goals and thus eradicate poverty. In this respect, the Addis Ababa Action Agenda is emphatic; priority should be given to those countries with most need of resources. Additionally, the Agenda also defends the need to decrease aid tying (countries only offer aid on the condition that the aid is used to procure goods or services from the country providing the aid), in particular for least-developed countries. This is in line with the findings that tied aid increases the costs of a project significantly and therefore limits the overall aim of the aid, such as poverty alleviation.

Concluding Remarks

Despite some difficulties pointed out in this work, both in the methodological part of measuring the data and in the very precarious condition in which some countries find themselves (some with more than half of the population below the poverty line), it is important to realize that the quantity and proportion of people below the poverty line shows a consistent downward trend over time – as shown, the proportion of the poorest below the poverty line went from 40% in the early 1980s to

10% in 2015. In addition, the vast majority of regions have practically eradicated or are close to eradicating extreme poverty, which indicates that extreme poverty is concentrated in a few regions – especially in sub-Saharan Africa and South Asia, and it is also concentrated in low-income countries (poverty headcount ratio at \$1.90 a day was 44.7% in 2015).

In this sense, elaborating the classification of countries according to their income is an important task, as it allows identifying which countries and which regions are lagging behind in the eradication of extreme poverty, facilitating the development of focused policies to achieve this objective of ending extreme poverty. Likewise, such classification has proven useful to analyze other developments linked to the Sustainable Development Goals (e.g., gender equality, sustainability, human rights, etc.). By classifying countries in a group representing their gross national income, it is easier to analyze trends and relationships between relevant variables. If high-income countries consistently perform better in certain indicators (e.g., gender equality), then relevant research agendas can be designed to understand the possible causality between the indicator and gross national income. The classification is thus a convenient tool to visualize data, formulate hypotheses, and analyze relevant changes across the different groups.

The year 2020 brought an additional challenge for any economic and social objective, which was the pandemic generated by COVID-19. Even before COVID-19, baseline projections suggested that 6% of the global population would still be living in extreme poverty in 2030, missing the target of ending poverty. “The fallout from the pandemic threatens to push over 70 million people into extreme poverty” (UN 2020a). It is too early to know exactly what the impacts will be; however, it is already possible to know that it will bring an economic recession in most countries of the world; therefore, as discussed in this entry (in the section “[The Impact of Income on Poverty Alleviation](#)”), this aspect is likely to cause an increase in the proportion of people living in extreme poverty or at least a reduction in the rate of decline in their rate. The effects of such

pandemic are likely to differ between countries in the different country-income classification, as high-income countries have, in general, better institutions in place to implement a safe-net to the most vulnerable.

The impacts generated by COVID-19 are still unclear, and their causes have not yet been resolved – which could happen, for example, if a vaccine is created. However, perhaps even more important than the current impact is to take into account that other pandemics (caused by another virus or bacteria) or catastrophic events (generated, e.g., by climate changes observed in the globe) may be on the short-term horizon. This creates the need to expand efforts to meet SDG1, especially item 1.5, which advocates that “By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters” (UN 2020a). This means that it is not enough just to think about strategies for economic growth, income distribution and poverty eradication but also to increase people’s resilience.

Cross-References

- ▶ [Global South-Global North Differences](#)
- ▶ [Human Development Index as an Indicator of Social Welfare](#)
- ▶ [Poverty and Globalization](#)

References

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