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LEAVE NO COUNTRY BEHIND

ENDING POVERTY IN THE TOUGHEST PLACES

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Global Economy
and Development
at BROOKINGS

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EXECUTIVE SUMMARY

The past 15 years saw the most rapid decline in global poverty ever, with the Millennium Development Goal (MDG) of halving the global poverty rate reached several years ahead of schedule. Building on this, governments around the world committed to a new set of Sustainable Development Goals (SDGs), including ending extreme poverty everywhere by 2030.

The pathway to achieving the SDGs will be qualitatively different from that which worked for the MDGs. In the MDG era, large, rapidly growing economies—including China, India, Indonesia, Bangladesh, and Ethiopia—drove development advances. Indeed, the world met the poverty MDG despite the fact that many of the poorest countries made little to no progress. Success during the SDG era, in contrast, depends precisely on what happens in these poorest countries. To achieve the goal of ending extreme poverty everywhere, we need a strategy that ensures no country is left behind.

This paper outlines such a strategy. First, it identifies those countries most at risk of being left behind: places we refer to as Severely Off Track Countries (SOTCs). Second, it diagnoses four core obstacles to development in these countries: low government effectiveness, weak private sector, conflict and violence, and natural hazards and environmental risks. Third, it suggests three ways in which partner country governments and donors need to adapt their standard practices to help countries get on track to ending poverty.

Identifying severely off track countries

To determine which countries are least likely to end extreme poverty by 2030, we project poverty rates for 195 countries around the world using the poverty line of $1.90 a day in 2011 purchasing power parity (PPP) terms. Based on current trajectories, 31 countries will have extreme poverty headcount ratios of at least 20 percent in 2030, our threshold for identification of SOTCs (see Figure A1). This group includes countries where poverty is falling, but from extremely high initial levels, as well as countries with moderate poverty but who are expected to make only minimal progress in coming years. We estimate that, by 2030, four out of every five people living in extreme poverty will be in the 31 SOTCs.

Obstacles to development in SOTCs

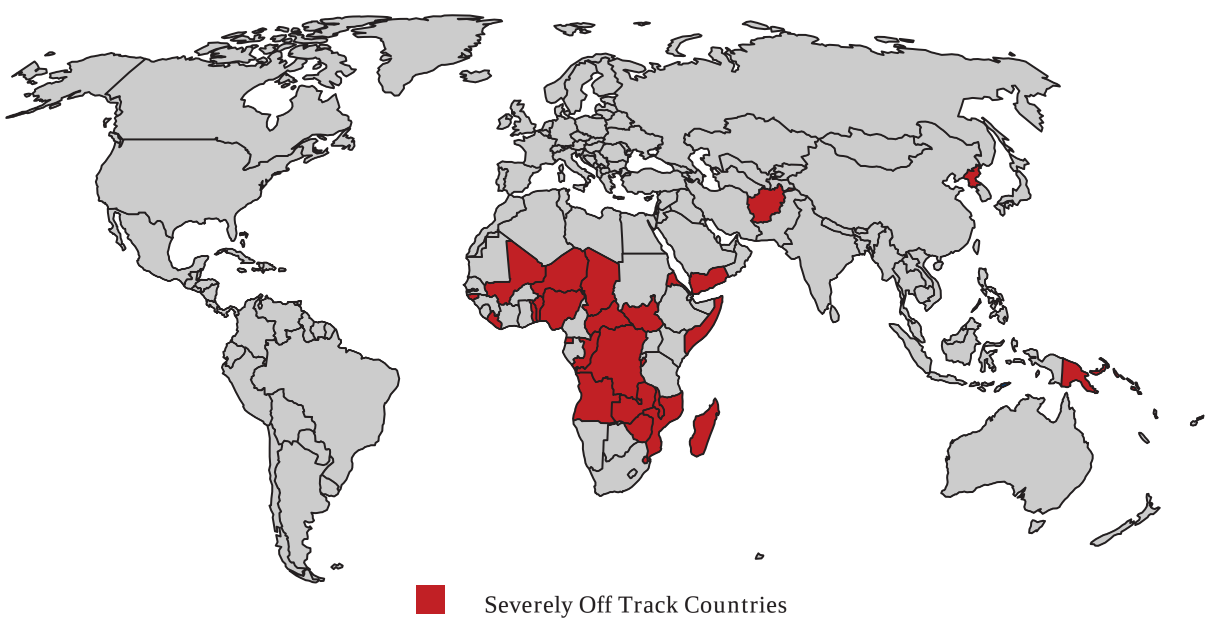
Are there common development challenges among SOTCs? Of the 31 countries, 24 are on either one or both of the World Bank's Fragile States list and the Fund for Peace's Fragile States Index. Yet the term "fragility" encapsulates many different concepts and masks important variation across countries. For this reason, rather than focusing on fragility, we look at four underlying obstacles to development that contribute to persistent poverty in SOTCs.

- **Low government effectiveness**: 16 of the SOTCs have low government effectiveness, defined as the government's inability to administer and enforce rules and deliver services. Countries with low government effectiveness are unable to implement the policies that they have agreed to in principle; their bureaucracies are rife with absenteeism and corruption, and they struggle to provide basic services.

- **Weak private sector**: 22 of the SOTCs have weak private sectors, where firms face significant obstacles to doing business, resulting in limited domestic and foreign investment. While there are often potentially profitable opportunities for the private sector even in very poor countries—in sectors including but not limited to natural resources—a series of market and government failures may make it difficult to realize these opportunities or translate them into financial gain for the investor.

- **Conflict and violence**: 12 SOTCs have high levels of conflict and violence. Organized violence often occurs in repeated cycles and at times spills across borders, disrupting development, destroying infrastructure, and breaking down social trust. Given the high costs of violence—in human, economic, and social terms—supporting

Figure A1. Severely Off Track Countries



Source: Authors' Calculations

conflict prevention is often a sound investment for both governments and donors.

- **Natural hazards and environmental risks**: Six SOTCs have significant natural hazards and environmental risks. Those living in poverty are often most vulnerable to natural disasters; they are more likely to live in risky areas such as alongside rivers and floodplains, and lack access to social services, infrastructure, and political processes that could mitigate or help them adapt to hazards. Countries with high risks of natural hazards face a dual challenge: enhancing resilience before disasters hit and improving humanitarian responses in the aftermath of events

Action plans for SOTCs

Our analysis suggests almost all SOTCs (28 of the 31) have significant challenges in at least one of these four areas, and 18 in multiple areas. To avoid being trapped in cycles where short-term success against one obstacle is offset by relapses in another, SOTCs must progress along a broad front. Given the scope of this challenge, the only way to achieve sustained development is through partnerships between SOTC governments and the international community. Working together, donors and SOTC governments can develop action plans for getting countries back on track to end extreme poverty.

Yet current international assistance to SOTCs is not commensurate with the scale of their development needs, nor is it designed to maximize effectiveness. SOTCs received 23 percent of global country programmable aid in 2015—a relatively small share when set against our projection that 80 percent of the world's extreme poor will live in these countries by 2030. On average, per capita aid is about the same in SOTCs as other countries, but considering the far larger development needs and lower scope for mobilizing non-aid resources (domestic and foreign), this leaves SOTCs at a financial disadvantage. Moreover, while some SOTCs are "donor darlings," others are "donor orphans," largely neglected by the international community.

Nevertheless, aid-financed projects in SOTCs appear to be about as successful as projects in other countries. This suggests it is not the case that it is simply too difficult to provide effective international assistance in these challenging contexts. Yet there is a paradox between this project-level success at the micro level and country-level stagnation at the macro level: successful projects are not translating into sustained, broader development progress. We suggest three ways donors and governments should change their practices in SOTCs to maximize development effectiveness:

- **Reimagine scaling up.** If a development intervention is financially profitable, market forces can be used to generate scale. If it aligns with a government's mandate and interests, the government can roll out a program at scale by replicating across local, provincial, and national bureaucracies. In SOTCs, however, neither the market nor the bureaucracy pathway is reliable. Private markets are often shallow and inefficient, and government bureaucracies are under-skilled and ineffective. This means donors and governments must reimagine how to scale up successful interventions, including through lowering transaction costs for private investment, supporting domestic resource mobilization and institutional capacity building, and experimenting with how to integrate successful local programs into a national network.

- **Redefine country ownership.** The New Deal for Engagement in Fragile States, signed in 2011 by several endorsing organizations as well as many countries, urged donors to partner more closely with recipient governments and work through their country systems whenever possible, even in difficult contexts. Partner countries in turn promised to strengthen their systems and build better state capabilities. In practice, however, donors have been reluctant to use country systems that they view as corrupt or inefficient, while partner countries' efforts to improve capacity have fallen short. This partly explains why the New Deal has achieved only modest take-up to date and why aid to fragile states has been falling. To overcome this binary choice between (perceived) inefficient reliance on country systems versus bypassing government systems altogether, donors should experiment with new forms of country ownership. For instance, in the transition period following Liberia's civil war, donors partnered with Liberia's government through the Governance and Economic Management Assistance Program (GEMAP), an innovative model where donors and government officials shared responsibility and oversight for improving core government functions. Similar compact-based approaches might be applicable in other SOTCs.

- **Rethink results-focused metrics.** Over the past decade, international development agencies have embraced monitoring and evaluation frameworks that emphasize measurable, time-based metrics to track success and improve accountability. While this more rigorous approach to evaluation has produced many benefits, it can backfire in SOTCs, where development progress is often non-linear, success takes decades, and it is impossible to define interim benchmarks precisely based on international best practices. Rather than evaluating projects against a predetermined set of time-based metrics, donors should consider granting greater autonomy to in-country offices, allowing them the flexibility to respond to changing circumstances and tailor their work to specific local contexts. Relatedly, donors should review their risk management strategies for SOTCs and make them less risk averse. Given the scale of the development challenge in SOTCs and the need to experiment with new approaches, some setbacks and failures are to be expected; donors should adjust their internal policies to allow for this.

Summary and conclusions

The world is shifting from an era where poverty was concentrated in large, rapidly growing economies to an era where poverty will increasingly be concentrated in a number of smaller economies facing deeper structural challenges. This shift has important implications for international development prospects, as well as for strategies to accelerate progress on the SDGs. SOTCs are now the heart of the development challenge, and should be the focus of the international community's attention.

The good news is that micro evidence—from both public sector aid projects and private sector investments—suggest development interventions in these contexts can be successful and profitable, just as they are in other developing countries. The challenge, for both donors and governments, is how to move from individual successful projects to sustained countrywide progress, given the significant development obstacles in SOTCs. This is arguably the most urgent question in development today. This paper has outlined some principles to guide strategies for ending poverty in SOTCs, but much more research—particularly at the country level, adapted to local contexts and reflective of country-specific constraints and opportunities—is needed to develop actionable country plans.

INTRODUCTION

In 2015, the members of the United Nations agreed to end extreme poverty by 2030, the first of 17 SDGs. For the world to achieve this, some 30 high poverty countries that have seen little to no poverty reduction in recent years will need to alter their current trajectories. These are the places where development is the most difficult, where entire countries and the people who live in them are at risk of being left behind.

The SDGs and the principle of "leave no one behind"

The SDGs provide a focal point and organizing structure for global action on international development through 2030. The SDGs, of course, are the successors of the MDGs, the first set of international development goals covering 2000-2015. Although the MDG era was one of significant advances in international development, these were uneven both within and across countries. Global poverty fell faster than ever, but with little progress in fragile states.[1] Similarly, impressive gains in child and maternal health occurred across the globe, but national averages concealed important within-country differences.

The MDGs, then, looked at trends but not at distributions or inequalities. The SDGs were designed to rectify this. Early on in the conceptualization and negotiation of the SDGs, international officials, civil society, and development experts coalesced around "leave no one behind" as a key principle for the new goals. The principle reflects the ambition of the goals—aiming for the *end* of extreme poverty, not just a decline—as well as a renewed concern with equity in international development. For despite the widespread development advances of the past decade, there was a growing recognition that many of those facing the greatest deprivations were missing out.

The concept of "leave no one behind" has generally been conceived in individual terms, implying a special focus on marginalized individuals and groups, including women, children, the elderly, the disabled, and disadvantaged castes. Yet the concept could equally apply to the importance of leaving no *country* behind. Indeed, some of the poorest countries in the world made only minimal development progress in recent years, and their prospects for future growth are dim. This lack of convergence implies worsening between-country inequalities: those that are starting out furthest behind could see the smallest gains.

Toward an action plan to leave no country behind

The overall development successes of the MDG era occurred *despite* the poorest countries languishing: strong average performance in many of the world's most populous developing countries drove aggregate gains. Success in the SDG era, however, depends largely on what happens in the poorest countries. As more and more individuals escape poverty in emerging economies, the global poverty challenge will increasingly be concentrated in a small set of countries. The crucial development challenge for the next 15 years is how to change the development trajectories of these countries.

This reality suggests that, as development agencies design strategies for contributing to the SDG target of ending absolute poverty, they need to give special

[1] See Laurence Chandy and Geoffrey Gertz, "Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015," Brookings Institution, 2011; and Homi Kharas and Andrew Rogerson, "Horizon 2025: Creative Destruction in the Aid Industry," Overseas Development Institution, 2012.

attention and effort to these countries. Rethinking how to catalyze sustainable development in areas where poverty has proven most intractable is an urgent priority for ensuring no one is left behind in the SDGs.

In this report, we make three contributions to current policy debates on ending poverty. First, we seek to identify which countries are most at risk of failing to meet the international goal of ending poverty by 2030. We refer to these places as Severely Off Track Countries (SOTCs). Our list is related to, but by no means congruent with, existing lists of fragile states, such as those compiled by the World Bank and the Fund for Peace. Second, we diagnose four critical challenges common to many of these countries: low government effectiveness, weak private sectors, conflict and violence, and high risk of natural disasters. While each country faces its own particular set of challenges, this framework provides generalizable insights for informing country-specific strategies. Third, we discuss how traditional aid practices need to adapt to be more effective in accelerating the end of poverty in SOTCs, while noting the continued need for further research on what works best in these contexts.

WHICH COUNTRIES ARE SEVERELY OFF TRACK?

To identify countries at risk of failing to end extreme poverty by 2030, we create country-level poverty projections for 195 countries around the world. We find that there are 31 countries which, based on current trajectories, are extremely unlikely to end poverty by 2030. This group includes countries where poverty is falling but from extremely high initial levels, as well as countries expected to make only minimal progress on poverty in coming years. We estimate that by 2030 these 31 countries will account for four out of every five people living in extreme poverty.

Projecting poverty in 2030

To project poverty headcounts for all countries between now and 2030, we combine existing household poverty surveys with estimates and projections of future household consumption growth and aggregate population growth.[2] Three caveats apply. First, while the timeliness and quality of household surveys have improved in recent years, considerable data gaps and shortcomings in measuring poverty remain. We rely on the World Bank's PovcalNet database of household surveys. While several countries—notably in Latin America—now regularly conduct annual surveys, in other countries there can be gaps of five years or more between surveys. Some countries have never conducted a nationally representative household poverty survey, including several countries important for international poverty analysis, such as Somalia, Eritrea, and North Korea.[3] Meanwhile, even when surveys exist, the data are not always reliable; for example, earlier this year the World Bank decided that recent poverty estimates for Cambodia were implausibly low, and removed the related surveys from the database pending further analysis. Nor are surveys always easily comparable across countries: for instance, some measure household income, while others measure household consumption. In many cases, household surveys have large discrepancies when compared with national account measures of aggregate household consumption. Research also suggests that differences in survey methodologies can result in large differences in estimated poverty rates.[4]

For a project focused on the world's poorest countries, these problems are particularly acute. Statistical capacity is lowest in countries with overall weak state capacity. Conducting household surveys is difficult if not impossible in many conflict areas—partially explaining why many fragile states have completed few, if any, household surveys. The good news is that there have been some notable advances in recent years; for instance the first survey of poverty in Myanmar was completed in 2015, and the first representative survey of Somalia was due to be carried out in 2017.[5] Yet overall, the state of poverty data remains poor, with significant

[2] The methodological annex describes this approach in detail.

[3] For these countries, we model estimated poverty headcount ratios based on GDP per capita and regional effects; see full description in methodology. There are six of these countries among the 31 SOTCs: Afghanistan, Equatorial Guinea, Eritrea, North Korea, Somalia, and South Sudan.

[4] See John Gibson, Kathleen Beegle, Joachim De Weerdt, and Jed Friedman. "What does Variation in Survey Design Reveal about the Nature of Measurement Errors in Household Consumption?" *Oxford Bulletin of Economics and Statistics 77*, no. 3 (2015): 466-474.

[5] Results from an earlier, preliminary wave of this survey were published earlier this year; see World Bank, "Somali Poverty Profile 2016: Findings from Wave 1 of the Somali High Frequency Survey," June 2017.

additional investments needed to measure poverty with greater coverage, timeliness, and reliability.[6]

The second caveat relates to the GDP per capita projections we use to estimate future household consumption growth. Such projections are subject to considerable uncertainty. Most importantly for our analysis, these projections cannot account for unforeseen shocks, such as a war breaking out or extreme natural disasters, which by definition are unpredictable. Yet over the next 13 years, there will likely be some such shocks among the world's poorest countries, even if it is impossible to say in which country and which year. Depending on their gravity, such shocks could lead to higher poverty rates than our projections suggest.

The third caveat relates to our assumption of distributionally equal income growth in the future, a simplification we adopt in the absence of any rigorous methodology for predicting future changes in income distribution. This assumption may lead us to underestimate future progress against poverty, given the World Bank's recent finding that, from 2008 to 2013, income growth for the bottom 40 percent of the population exceeded that for the richest 60 percent in 49 out of 83 countries.[7] However, this relationship was weakest in sub-Saharan Africa, the region home to the majority of SOTCs. While the extent to which the poor share in overall income gains will shape future poverty trends, modeling such trajectories is beyond the scope of this project.

To identify SOTCs, we focus on countries with projected 2030 poverty headcount ratios above 20 percent, based on the international poverty line of $1.90/day in PPP terms. While setting such a threshold is inherently subjective, we believe this is a reasonable baseline. This threshold is approximately twice today's global poverty rate. We are thus suggesting that, by the end of the SDG period, those countries whose poverty rates are still more than twice as high as the global rate at the outset of the SDG period are severely off track. The threshold is very conservative, as it excludes many countries that will bring their poverty headcount ratios under 20 percent while still falling short of ending poverty by 2030. Yet it draws attention to the countries that, based on a business-as-usual scenario, will not even come close to ending poverty. In other words, these countries must substantially shift their poverty trajectories.

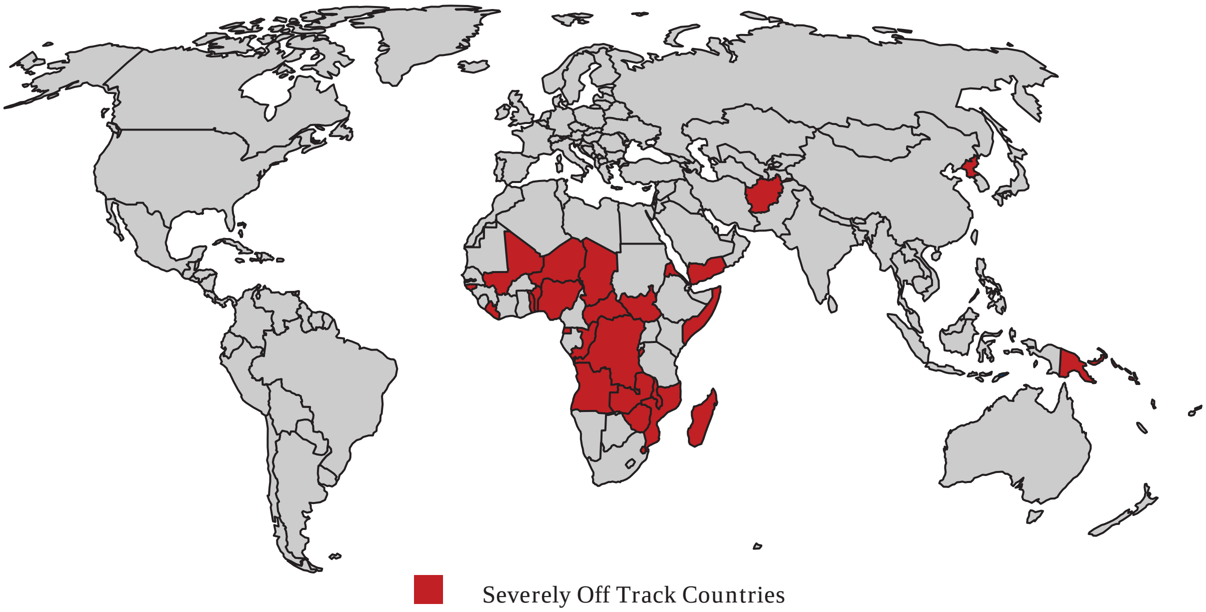
Identifying SOTCs

Figure 1 shows a world map identifying all 31 SOTCs, with 25 in sub-Saharan Africa and the remainder in the Middle East and Asia. Today, the poverty headcount ratio among the SOTCs averages 47 percent.

Figure 2 compares the 2000-2030 poverty trajectories of the 31 SOTCs to those of 108 other low- and middle-income countries. Almost all SOTCs have had high poverty rates for a long time. Notably, all but six of these countries had poverty headcount ratios above 40 percent in 2000: unsurprisingly, one correlate of future poverty is a history of high poverty. Yet equally, it is worth stressing that dramatic success in reducing poverty is possible—not all countries that had high poverty in 2000 remain extremely poor today. Indeed, countries such as India, Indonesia and Ethiopia all had extreme poverty rates close to 40 percent in 2000, and our estimates suggest all three will have effectively eliminated poverty by 2030.

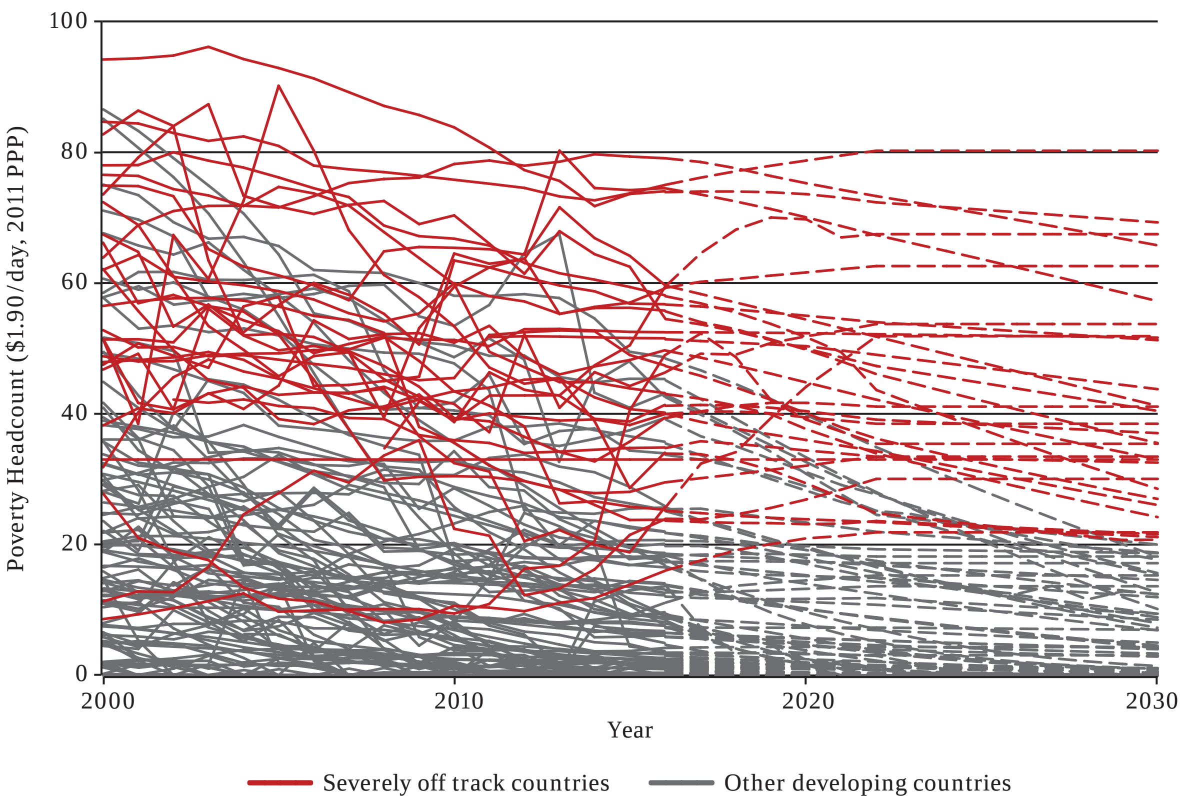
6 For an overview of these issues, see Laurence Chandy, "Counting the Poor," Brookings Institution, 2013.
7 World Bank, "Poverty and Shared Prosperity 2016: Taking on Inequality," 2016.

Figure 1. Severely Off Track Countries



Source: Authors' Calculations

Figure 2. Poverty Trajectories, 2000-2030



Source: Authors' Calculations

A second key finding that emerges from Figure 2 is that there is not necessarily any clear trend of falling poverty in SOTCs, even over extended periods. Of the 31 countries, we estimate 12 have higher poverty rates today than they did a decade ago; seven have higher poverty rates today than they did in 2000. Two SOTCs, Yemen and Zimbabwe, had poverty rates below 15 percent in 2000; each has suffered in major but unpredictable ways. Looking forward, on current trajectories, nine of the 31 SOTCs will have higher poverty rates in 2030 than they do today, as population growth outpaces modest (or even negative) income growth.

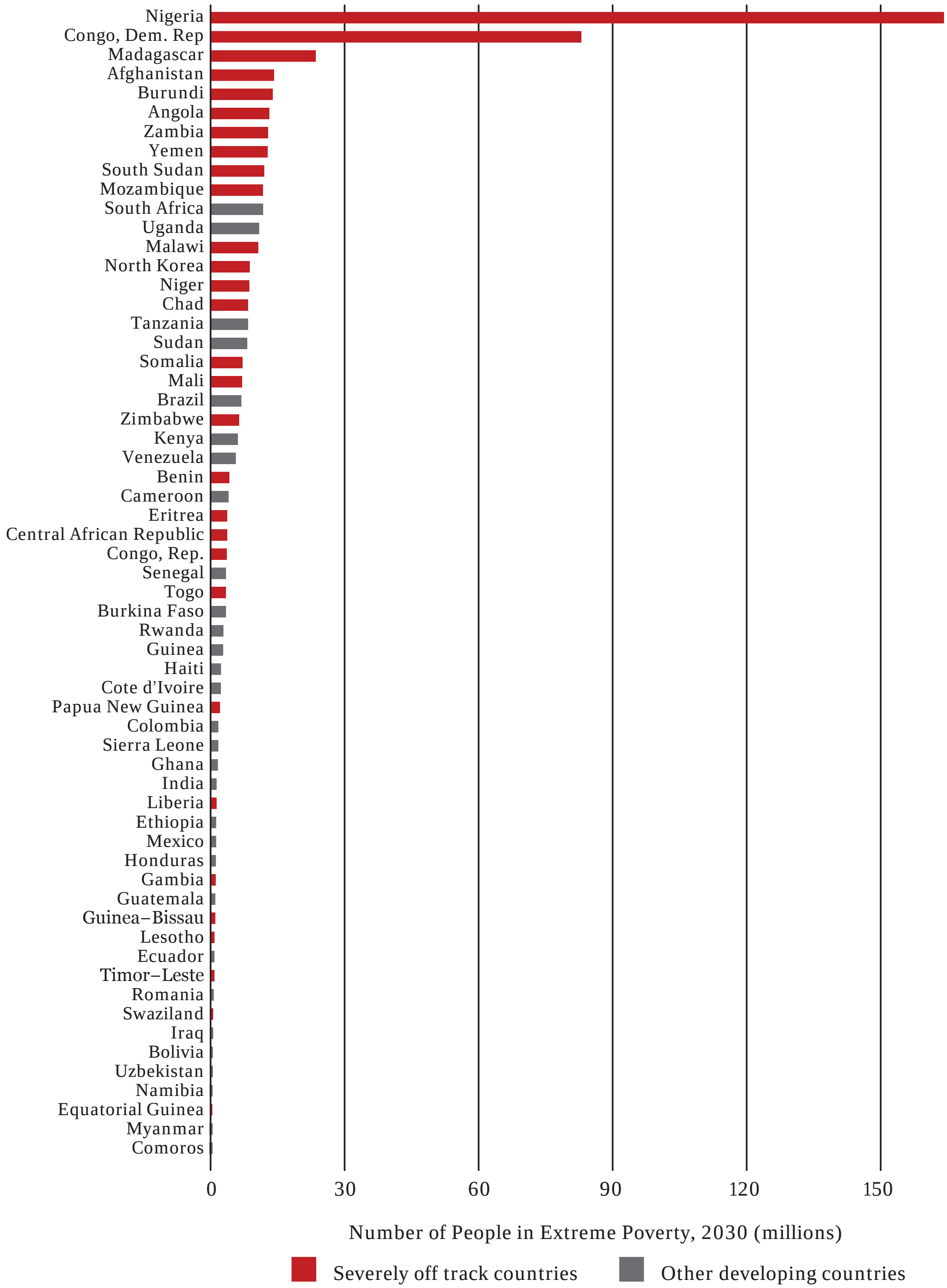
The heart of the development challenge

During the MDG era, poverty was concentrated in countries where the poverty rate was declining quickly. In 2000, the ten countries with the largest number of poor people—collectively accounting for over three quarters of global poverty—were China, India, Nigeria, Indonesia, Democratic Republic of the Congo, Bangladesh, Myanmar, Pakistan, Tanzania, and Ethiopia (in descending order based on absolute numbers of poor people). We estimate that between 2000 and 2015, seven of these ten countries cut their poverty headcount ratios by at least 70 percent. The success of these countries drove aggregate progress against global poverty.

During the SDG era, by contrast, poverty will increasingly be concentrated in a set of countries without established track records in fighting poverty. We estimate that by 2030, 82 percent of all people living in absolute poverty will be in the 31 SOTCs. The ten countries with the largest poor populations are all among these countries (see Figure 3). Thus, the nature of the poverty challenge will be fundamentally different in the coming years. Unless SOTCs substantially shift their poverty trajectories, the rate of global poverty reduction is likely to slow considerably, as poverty is concentrated in lagging economies rather than in rapidly expanding economies.

This is why SOTCs are at the heart of the development challenge in the years ahead. Diagnosing their core vulnerabilities and identifying successful strategies for fighting poverty in these locations should be a top priority for the international development community.

Figure 3. 2030 Poverty Projections



Note: The figure shows data for all countries projected to have at least 200,000 people living in extreme poverty in 2030.
Source: Author's Calculations.

OBSTACLES TO DEVELOPMENT IN SOTCs

This section identifies some of the core vulnerabilities and challenges common to SOTCs.

One starting point is the fact that the majority of SOTCs frequently appear on lists of fragile states. Table 1 shows that, of the 31 countries, 24 are on either one or both of the World Bank's Fragile States list and the Fund for Peace's Fragile States Index.

Yet in and of itself, understanding that many of these countries are fragile states tells us little about their underlying challenges and vulnerabilities. Indeed, the term "fragile state" itself encapsulates many different concepts (and means different things to different people).[8]

For this reason, it is more helpful to look at various underlying obstacles to development that contribute to persistent poverty in SOTCs. Here we focus on four such obstacles: low government effectiveness, weak private sectors, conflict and violence, and risk of natural disasters.

As an initial diagnostic, we assess how the 31 SOTCs fare compared to other developing countries on each obstacle. We rely on quantitative indices to measure the severity of each obstacle: the Economist Intelligence Unit's government effectiveness measure,[9] the World Bank's Doing Business Indicators,[10] the Small Arms Survey's data on violent deaths,[11] and INFORM's risk of natural disasters index.[12] We consider an obstacle to be a priority development challenge in a given country if it ranks in the bottom third of all low- and middle-income countries on the respective index.

Figure 4 maps the overlap of these obstacles across the 31 SOTCs. The figure reveals significant variation among the countries, underlining the importance of looking beyond headline measures of fragility.

Two countries—Afghanistan and Somalia—have significant vulnerabilities across all four obstacles, while three—Malawi, Niger, and Zambia—are not vulnerable in any of the four. Notably, 18 of the countries have multi-dimensional obstacles, suggesting a need to make progress on multiple fronts. For instance, of the 22 countries with a weak private sector, 15 also have low government effectiveness; of those 15, seven also have high levels of conflict and violence.

The remainder of this section examines each of these four obstacles in detail.

Low government effectiveness

Sixteen of the SOTCs have low government effectiveness. While this is a term with many different meanings, we define it as the government's ability to administer and enforce rules and deliver services. We are primarily interested in the ability of the executive and bureaucracy to implement its chosen policy preferences,

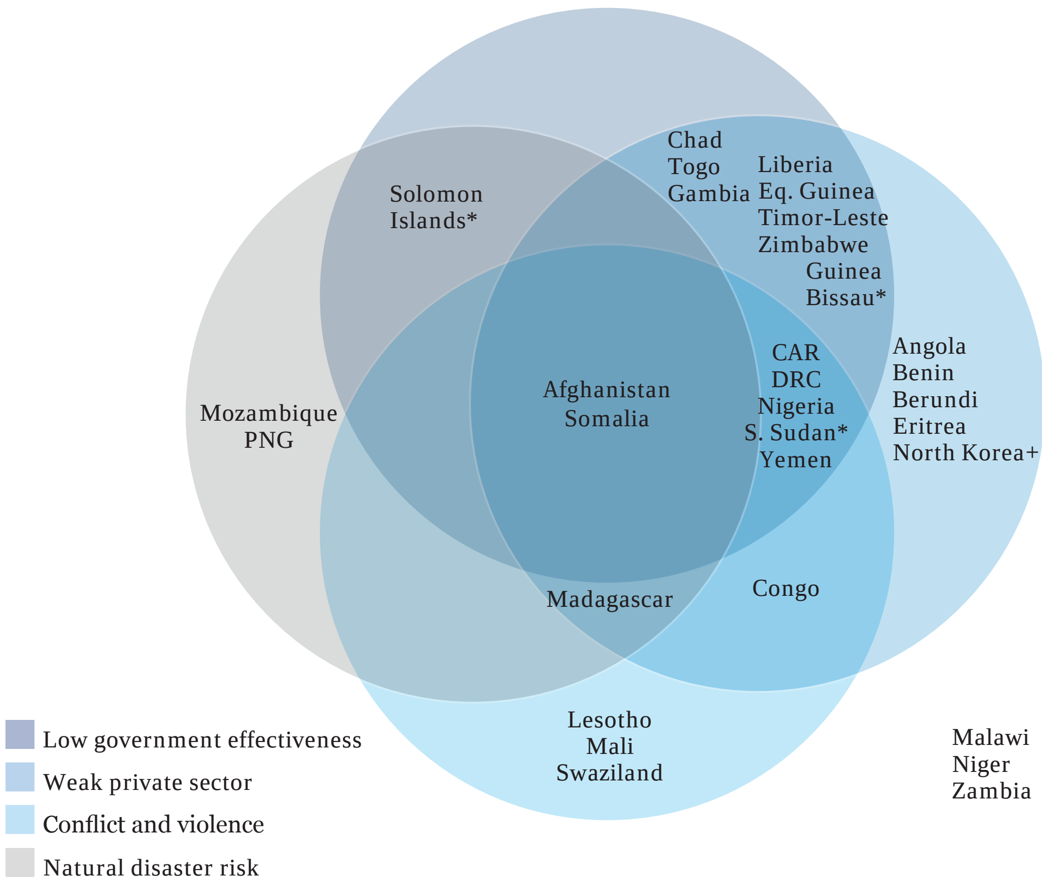
8 See related discussion in OECD, "States of Fragility 2016: Understanding Violence," 2016.
9 This is an average of the EIU's "Quality of bureaucracy / institutional effectiveness" and "Excessive bureaucracy / red tape" measures, sourced from the World Governance Indicators. Data available at http://info.worldbank.org/governance/wgi/index.aspx#doc-sources.
10 Data available at http://www.doingbusiness.org/.
11 This combines data on intentional homicides and deaths in conflict; data are 2010-2015 averages. Data available at http://www.smallarmssurvey.org/tools/interactive-map-charts-on-armed-violence.html.
12 Data available at http://www.inform-index.org/.

Table 1. The Overlap between SOTCs and Fragile States

Country	Fragile States Index	World Bank List
Afghanistan	X	X
Angola	X	
Benin		
Burundi	X	X
Central African Republic	X	X
Chad	X	X
Congo, Dem. Rep.	X	X
Congo, Rep.	X	
Equatorial Guinea		
Eritrea	X	X
Gambia, The		X
Guinea-Bissau	X	X
Korea, Dem. People's Rep.	X	
Lesotho		
Liberia	X	X
Madagascar		X
Malawi		
Mali	X	X
Mozambique		
Niger	X	
Nigeria	X	
Papua New Guinea		X
Solomon Islands		X
Somalia	X	X
South Sudan	X	X
Swaziland		
Timor-Leste	X	X
Togo		X
Yemen, Rep.	X	X
Zambia		
Zimbabwe	X	X

Note: For Fragile States Index, includes all countries classified as 'Alert' (index score above 90). Countries included if they appeared on the relevant list for any year between 2015-2017.
Source: Authors' calculations based on World Bank, Fund for Peace data.

Figure 4. Overlapping Obstacles to Development in SOTCs



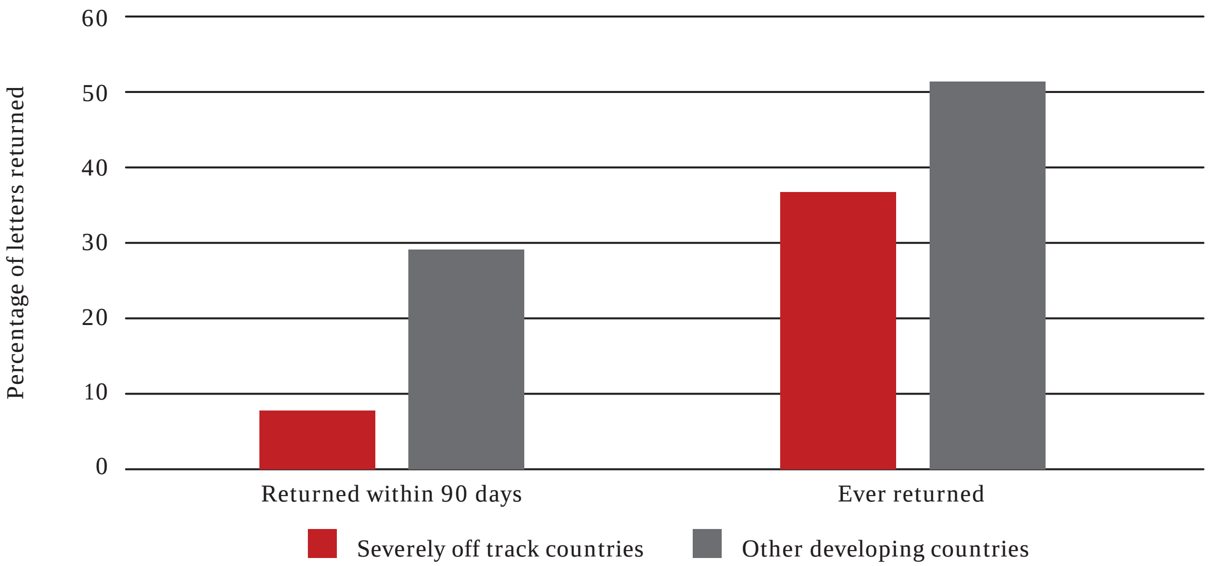
*Notes: See text for explanation of country placement. * Government Effectiveness score unavailable in the EIU dataset; scores instead based on Worldwide Governance Indicators. + Doing Business Indicators score unavailable; estimated position. Source: Authors' Calculations.*

rather than "thicker" definitions of good governance that include aspects such as democratic accountability, transparency, and voice. Countries with high government effectiveness are able to implement complex policies at scale, on time, and at reasonable cost; countries with low government effectiveness are not.

Low government effectiveness takes many forms, manifesting in the day-to-day operations of basic government service delivery, including health care, education, and utilities. It occurs when government offices are incapable of delivering in practice what in principle they have agreed to do. Inefficient bureaucracies tend to face absenteeism and corruption, and incentives to encourage the rational, impartial execution of policy are absent.

Measuring government effectiveness can be tricky and subject to bias. If a country is performing poorly, it is all too easy to believe that its government is ineffective. For this reason, indicators of government effectiveness based on expert surveys and judgments cannot clearly determine a causal link from government effectiveness to development progress. One recent study gets around this empirical problem by providing a direct measure of government effectiveness for 159 countries around

Figure 5. What Share of Letters Did the National Postal Authority Properly Return to Sender?



Note: Difference in means for letters returned within 90 days is statistically significant at the 1 percent level; difference in means for letters ever returned is significant at the 5 percent level.
Source: Authors' Calculations based on Chong et al (2014) data.

the world that is independent of expert views. There is an international consensus among postal systems that undeliverable mail should be returned to the sender's address. To test government bureaucracies' ability to implement this policy, Chong et al (2014) mailed ten deliberately misaddressed letters to every country, and tracked whether and how long it took for national postal authorities to send the letters back to a return address in the United States.[13] The results showed substantial variation in postal systems' ability to execute this basic function. Several countries—including rich countries such as Finland, New Zealand, and Canada, but also developing countries such as El Salvador, Uruguay, and Morocco—returned all the letters, while others did not return even one. Notably, SOTCs were significantly less likely to return the letters than other low- and middle-income countries; across the 24 SOTCs included in the study, on average only 7.5 percent of the letters were returned within 90 days (see Figure 5), compared to 29 percent in the other 86 low- and middle-income countries under study.

Of course, it is difficult to know if the low effectiveness of SOTCs' postal systems is indicative of their effectiveness in other areas of public administration. Variation occurs both across different ministries within countries and across geographic areas; for instance, there may be effectively administered cities even within countries with overall low government effectiveness. Yet in general, this objective indicator of government effectiveness broadly aligns with the expert survey indicators more commonly used to measure government effectiveness.

[13] Alberto Chong, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "Letter Grading Government Efficiency." *Journal of the European Economic Association* 12, no. 2: 277–299, 2014.

Improving government effectiveness

Given that low government effectiveness is a core vulnerability in many SOTCs, what do we know about how to improve it? Useful research is ongoing, yet much of the emerging literature suggests we should modulate our expectations about what development interventions can achieve in this area. To begin with, history shows that developing government capabilities is an extremely long and slow process; indeed, for most developing countries, there is little evidence of any progress in improving government effectiveness.[14] Thus, any development actors aiming to improve government effectiveness should prepare for a decades-long endeavor.

Additionally, no clear template or policy prescription exists for how to improve government effectiveness. Historically, interventions to promote capacity development typically take the form of trainings, conceived as the transfer of technical skills. Matt Andrews, Lant Pritchett, and Michael Woolcock describe this as a problem of "isomorphic mimicry": the practice of attempting to replicate the form of effective government institutions in developed Western states, rather than focusing on achieving *functioning* institutions.[15] Instead of mimicking Western institutions, countries with low government capacity need to experiment, adapt, and iterate to build their own institutional capabilities fitted to their own contexts. There are no short cuts or quick fixes to this problem.

This experimental approach to building government effectiveness succeeds most often when carried out at the local level. Community-driven development (CDD) practices seek to empower local actors to identify their own priorities and design their own solutions to these challenges, putting resources under the direct control of local communities. This flexible method capitalizes on local knowledge and citizen participation to improve accountability. When national governments integrate CDD programs into a cohesive national strategy, they can often deliver basic services at scale more effectively than centralized government bureaucracies can. For instance, in Afghanistan, the National Solidarity Program worked through 35,000 community-elected Community Development Councils in 34 provinces to implement 88,000 community-level infrastructure programs.[16] Though overall government capacity in Afghanistan remains low, the National Solidarity Program demonstrated that local communities can deliver effective services, even in very difficult conditions.

Working around or working through governments?

Given modest expectations for improving government effectiveness in the short and medium term, aid agencies working in these countries face a dilemma: is it better to rely on ineffective governments to implement projects or to administer projects by working around the government? The latter option may be more likely to achieve satisfactory project outcomes, at least judged by the relatively narrow and technical definitions of success used in project evaluation. For urgent projects to meet basic human needs—including most notably humanitarian assistance—this may be the best approach.

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14 Matt Andrews, Lant Pritchett and Michael Woolcock, *Building State Capacity: Evidence, Analysis, Action*, Oxford University Press, 2017, p14-24.

15 Ibid, p 29-52.

16 See World Bank, "Community Driven Development: Results," available at http://www.worldbank.org/en/topic/communitydrivendevelopment.

Yet in the end, working around ineffective governments will hinder the state's own capacity to deliver services to the population. It is only through implementing policies that the public sector will develop greater capacity; the more governments experiment and learn, the quicker they will improve.

Weak private sector

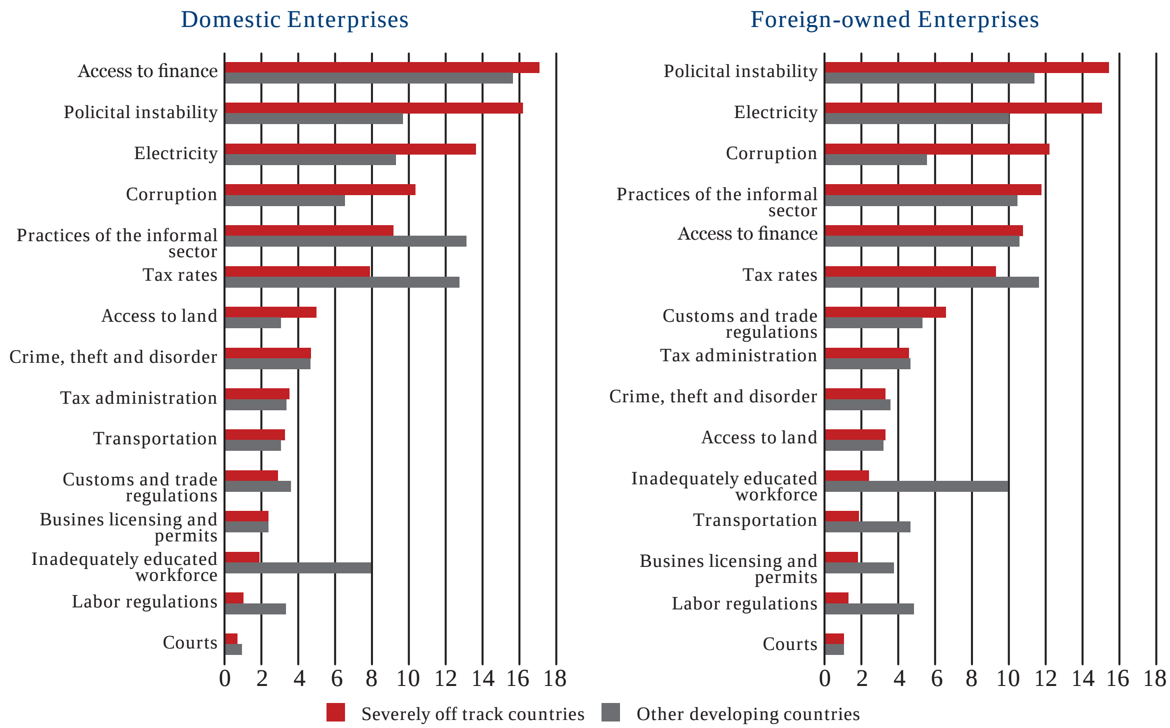
Twenty-two of the SOTCs have weak private sectors. The private sector is the primary engine of economic expansion, and ultimately, sustainable private sector growth will be necessary to achieve widespread and lasting poverty reduction. While there are often potentially profitable opportunities for the private sector even in very poor countries—in sectors including but not limited to natural resources—a series of market and government failures may make it difficult for these opportunities to be realized.

What obstacles do businesses face in SOTCs?

To assess constraints to private sector growth, Figure 6 compares firms' self-reported constraints to doing business in SOTCs relative to all other developing countries, using data from the World Bank's Enterprise Surveys.

Three obstacles are particularly important in SOTCs: political instability, electricity, and corruption. Foreign businesses operating in SOTCs rank these as the top three obstacles, while domestic businesses rank them between second and fourth. (Access to finance is the

Figure 6. What is the Biggest Obstacle to Doing Business?



Note: Y-Axis measures percentage of firms identifying given constraint as most important obstacle to doing business.
Source: Authors' Calculations based on World Bank Enterprise Surveys data.

top obstacle of domestic businesses, in both SOTCs and other developing countries.) Across all businesses, 16.7 percent cite political instability as their top obstacle in SOTCs, relative to just 9.8 percent in all other developing countries. These results underline the importance of an effective and legitimate state as a foundation for private sector growth.

It is also notable what challenges appear less important in SOTCs: tax rates, inadequate workforces, and labor regulations. This suggests that government attempts to lure businesses by cutting taxes or weakening labor regulations are unlikely to significantly spur greater investment in these contexts. Similarly, development interventions focused on worker training may not address the binding constraints to private sector growth; well-educated and trained workers will still not be productive if their employers face a litany of other obstacles, and interventions may end up training workers for jobs that do not exist.

Managing formal and informal sectors

One particular challenge in many SOTCs is a large informal sector. Informal enterprises are not incorporated or registered with the government; often do not pay (at least some) taxes, may not abide by labor or environmental regulations, and lack access to some public services. They operate largely beyond the reach and observation of the state. Informal sector employees have highly precarious jobs and lack social security coverage and workplace protections. Most importantly, informal firms do not innovate or grow fast, nor do they invest in the human capital of their workers. This makes it all but impossible for countries with large informal sectors to transform into higher value-added, higher productivity economies.[17]

The persistence of large informal sectors is evidence of the breakdown in the social contract between governments and business. That contract broadly states that firms agree to be regulated and taxed by the state, in return for which the state provides various benefits (such as infrastructure and stable regulatory frameworks) and protections (from expropriation by the state or predatory practices and contract breaches by private parties) to businesses. When governments are unable to provide these benefits and protections, firms see little benefit to formalizing. Yet without greater formalization of the private sector, governments are unable to build up the resources and capabilities necessary to provide the benefits and protections in the first place. Firms and governments are thus stuck in a bad equilibrium, forgoing a relationship that could be mutually beneficial and is imperative for successful long-run development.

In most SOTCs, agriculture continues to make up a substantial share of both economic output and employment. Many of the same challenges that urban informal workers and firms face also hold back small family-run farms and rural enterprises. These challenges include a lack of access to capital, low savings rates, and minimal progress in innovation and productivity. Indeed, agricultural productivity tends to be particularly low in SOTCs: of the 29 SOTCs with available data, 25 have cereal yields below 2 tons per hectare.[18] If SOTCs are able to increase agricultural productivity, this could help spur economic activity in adjacent industries, such as food processing and trade.

[17] For more on this issue, see Carol Newman, John Page, John Rand, Abebe Shimeles, Måns Söderbom, and Finn Tarp, "Why Industry Matters for Africa," in Newman et al, *Made in Africa: Learning to Compete in Industry*, Brookings Institution Press, 2016.

[18] Based on data from Food and Agricultural Organization's FAOStat.

In countries with large informal sectors, there are two—at times competing—policy objectives for improving the private sector: encourage informal firms to formalize, and alleviate obstacles to firm growth and entrepreneurship within both formal and informal sectors. For the first objective, recent research suggests that interventions designed to encourage formalization are rarely successful (and often come at high cost).[19] In general, informal firms very rarely formalize.[20] Although average productivity levels are much higher in the formal sector than the informal, it is unclear whether formalizing has a significant causal effect on firm performance.[21] While there are social/public benefits to firm formalization—both from higher taxes received by the government, and more generally by bringing more economic activity under the scope of government regulation—for most informal firms the costs of formalization appear to outweigh the private benefits.

The question thus remains regarding what, if anything, governments and other actors can do to create more jobs, boost productivity, increase wages, and improve working conditions in the informal sector. Limited access to finance is one of the most important business obstacles for many informal firms, and new technologies in mobile banking could help alleviate this constraint.[22] Similarly, cash transfer programs may provide the necessary start-up capital to allow informal firms to invest in productive assets. Finally, it is also important to remember that, while unregulated, informal markets are nonetheless subject to existing social and political norms and institutions. Interventions to make these institutions more inclusive and effective—such as by decreasing crime and improving gender equity—will benefit informal firms.

How to catalyze foreign investment

Many SOTCs have relatively low domestic savings rates, and thus outside sources of capital may be necessary to finance new investments. One such source of capital is foreign direct investment (FDI) from multinational corporations. FDI can create jobs and generate tax revenue, and create positive spillovers for local domestic firms. Figure 7 shows that FDI inflows as a share of GDP are substantial in several SOTCs, particularly in Liberia, Mozambique, and Congo. At the same time, many other SOTCs receive little to no FDI, including Afghanistan, Swaziland, South Sudan, and Yemen.

One key constraint to FDI in SOTCs is political risk, particularly in countries with unstable governments just recovering from conflict (where the threat of a relapse into conflict is high). To catalyze FDI into risky areas, both host governments and international development agencies are introducing new mechanisms to de-risk investments. For example, the World Bank recently launched its new Private Sector Window (PSW) for low-income countries, a joint initiative of the International Development Association (IDA), the

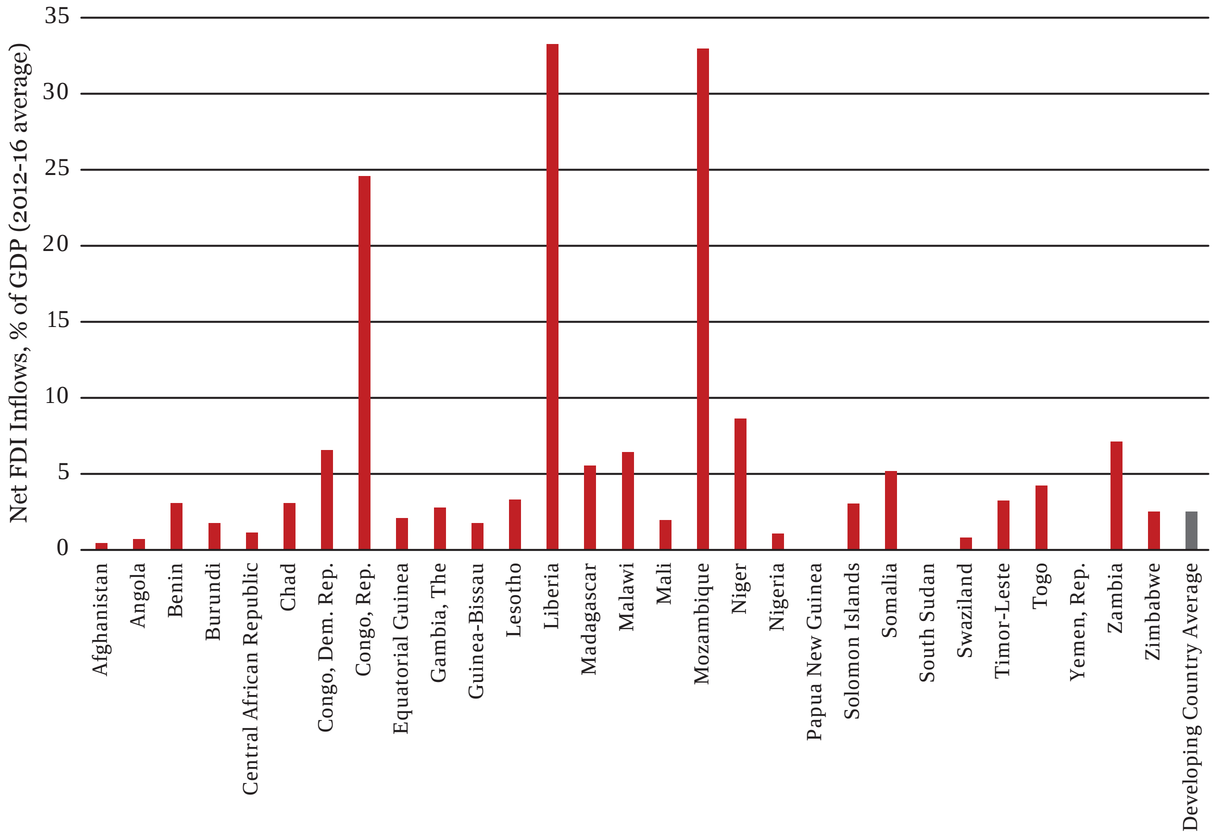
[19] Najy Benhassine, David McKenzie, Victor Pouliquen, and Massimiliano Santini. "Can Enhancing the Benefits of Formalization Induce Informal Firms to Become Formal? Experimental Evidence from Benin." World Bank Policy Research Working Paper 7900, November 2016.

[20] Rafael La Porta and Andrei Shleifer. "Informality and Development." *Journal of Economic Perspectives* 28, no. 3 (2014), pp 109-126.

[21] See Rafael La Porta and Andrei Shleifer. "The Unofficial Economy in Africa." NBER Working Paper No. 16821, 2011; and Benhassine et al (2016).

[22] Peer Stein, Oya Pinar Ardic, and Martin Hommes. "Closing the Credit Gap for Formal and Informal MSMEs." IFC Advisory Services Report, 2013.

Figure 7. Some SOTCs attract lots of FDI, others very little



Source: Authors' Calculations based on World Bank World Development Indicators.

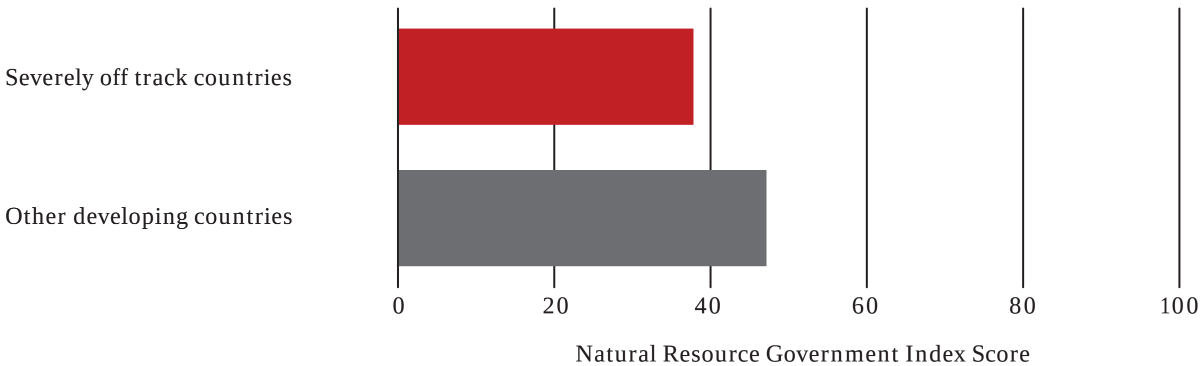
International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The PSW offers guarantees and blended financing that mitigate some of the risks and uncertainties hindering private investment in low-income countries. While it remains to be seen how successful this program will be, the PSW's creation underlines the new appreciation for the contribution private investment can make to sustainable development.

The natural resource sector has consistently attracted FDI despite high levels of political risk. Investor surveys reveal that multinational firms in extractive industries tend to be less sensitive to political risk, as they base their locational decisions more on the availability of reserves than governance quality.[23] FDI in natural resources typically generates fewer jobs and economic linkages than investment in manufacturing and services, thus its direct contributions to development are limited. Yet the taxes and royalty payments received by governments from foreign natural resource companies can be a crucial revenue source used to finance public investments, service delivery, or even cash transfers directly to the public.

To maximize the benefits countries receive for their natural resources, governments need to negotiate contracts and licensing agreements favorable to the state.

[23] Caroline T. Witte, Martijn J. Burger, Elena I. Ianchovichina, and Enrico Pennings. "Dodging Bullets: The Heterogeneous Effect of Political Violence on Greenfield FDI." World Bank Policy Research Working Paper 7914, December 2016.

Figure 8. On average, resource governance is worse in SOTCs than in other developing countries



Note: Index scores reflect the quality of resource governance. Based on data for 19 SOTCs and 48 other low- and middle-income countries. Difference in means significant at the 5 percent level.
Source: Authors' Calculations based on NRGI (2017).

This demands a high level of legal and regulatory expertise often lacking in countries with low government effectiveness. Indeed, according to the Natural Resource Governance Index, which rates the regulatory environment in jurisdictions with natural resources, SOTCs have significantly worse natural resource regulatory frameworks than other low- and middle-income countries (See Figure 8).

Given legal and regulatory capacity constraints in many countries, there is a case for subsidizing outside legal advice and training for governments negotiating with multinational natural resource companies. Initiatives such as the African Legal Support Facility, hosted at the African Development Bank, help African governments negotiate complex commercial transactions with foreign investors. Given the stakes in such negotiations for many SOTCs, donor agencies may want to invest further in assisting governments in their relations with multinational companies.

Conflict and violence

Twelve SOTCs have high levels of conflict and violence. This includes both countries experiencing civil wars and violent political conflicts, as well as those with high levels of homicides and other criminal violence. (Moreover, in many instances, these forms of conflict overlap and sustain each other, blurring any distinction between the two.) Organized violence often occurs in repeated cycles and at times spills across borders, disrupting development, destroying infrastructure, and breaking down social trust. Given the human, economic, and social toll of such violence, supporting conflict prevention may be a sound investment, though more research is needed on which strategies are most likely to succeed.

Intra-state conflict

Following the end of the Cold War, inter-state conflict declined sharply, and today is extremely rare. Intra-state military conflicts, however, are on the rise. Intra-state conflicts, or civil wars, are sustained political violence between an armed group representing the state and one or more non-state actors. At present, nine of the SOTCs have ongoing intra-state conflicts (defined as those with at least 25 battle deaths per year): Afghanistan, DRC, Mali, Mozambique, Nigeria, Niger, Somalia, South Sudan, and Yemen. Several others—

including Central African Republic, Eritrea, Solomon Islands, and Timor-Leste—had serious conflicts in the relatively recent past.

Achieving significant development progress amidst ongoing large-scale conflicts is all but impossible. During conflicts, warfare takes over productive economic activity. Damage from fighting destroys productive assets and infrastructure. Large populations are often displaced, either internally or as refugees. Destruction occurs very quickly, and rebuilding is difficult; economies frequently contract sharply during conflicts, and recover very slowly (and sometimes never fully). For instance, during the 1998-2003 conflict in Solomon Islands, annual per capita income dropped by 29 percent, from $2,141 to $1,521. Over the course of the 2012-2014 civil war in Central African Republic (CAR), annual per capita income fell by 36 percent, from $946 to $602. Income in Rwanda collapsed by 49 percent in 1994, from $942 to $492. Rwanda took a full decade to regain its pre-conflict level of GDP per capita; and this is an oft-cited example of a *successful* post-conflict recovery.

Countries seeking to overcome intra-state conflict face two challenges: first, they need an immediate end to hostilities, and second they need to sustain peace and avoid conflict relapse. How do wars end? There are three typical paths: either one side achieves a near total victory, the two sides fight to the point of exhaustion before reaching a stalemate compromise, or mediators—often with the backing of international diplomats—encourage a negotiated settlement.[24] Whatever form conflict settlement takes, evidence suggests that agreements underpinned by inclusive elite pacts will be more stable and long lasting.[25] Ensuring all politically powerful and relevant actors have a stake in the political settlements that emerge in the wake of conflict reduces incentives for any viable rivals to challenge the legitimacy of a peace agreement.

Looking to the longer term, recent research identifies three priorities to help countries escape cycles of conflict: citizen security, justice, and jobs.[26] Countries that can build legitimate institutions to provide these three foundational building blocks to peaceful societies are less likely to see relapses into conflict. Yet as always, this institution building is slow and difficult, often lasting a generation. During this precarious recovery period, external shocks—particularly conflict and stresses from neighboring countries—can reignite dormant conflicts.

Violence and crime

While civil wars and conflicts attract more headlines, much of the worst violence in the world occurs in non-conflict contexts. Indeed, far more deaths that are violent occur outside of conflict than in conflict each year, and only a minority of the countries with the highest rates of violent death are in active conflict. Like civil conflict, high levels of violence and crime also impose substantial development burdens on poor populations.

In addition to the lives lost, the direct costs of high violence include spending on health care, police and prison costs, as well as private spending on security, which often serves as an additional tax on firms. Indirect costs include lower investment in human capital and labor force participation, if fears of violence and crime keep people from school or work. Where the threats of violence and crime fall disproportionately on

[24] Bruce Jones, "No Development Without Peace: Laying the Political and Security Foundations." In Laurence Chandy, Hiroshi Kato, and Homi Kharas, editors, *The Last Mile in Ending Extreme Poverty*, Brookings Institution Press, 2015.
[25] Ibid.
[26] World Bank, *World Development Report 2011: Conflict, Security, and Development*.

girls and women, this exacerbates underlying gender inequities. The prevalence of violence can deter both foreign investors and tourists. Where high violence is driven by large-scale transnational criminal activity—such as drug cartels—these organized criminal networks can undermine effective governance and trust in local institutions. In extreme cases, criminal networks compete with the state in providing services and security to local populations.

Effective and legitimate police and judicial services are necessary for countering high levels of crime and violence. Yet building up effective formal national police forces is difficult, particularly in divided and post-conflict societies. In many places, the police are viewed by local populations with suspicion and fear—more as a threat of violence than an antidote to it. In countries with weak governments, hybrid approaches to policing—which combine state and non-state actors, such as community and tribal elders as well as unarmed local informal policing groups—are prevalent.[27] International interventions to promote security and justice are often more effective when they build off these locally legitimate institutions, reflecting a preference for expedient solutions that work for people on the ground, rather than seeking to impose formal, state-run systems.[28]

Can we effectively prevent conflict?

As the sections above make clear, the development costs of ongoing conflict are extreme. For this reason, successful investments in conflict prevention can provide the highest rate of return of any development spending. In practice, however, successfully identifying and intervening to prevent incipient conflicts from escalating has proven difficult. In this decade alone, the international community struggled to respond to the Arab uprisings, conflict in the CAR and South Sudan, and the current refugee crisis in Myanmar.

There are, however, also several recent volatile political clashes which could have deteriorated into violent conflict but did not; occasionally efforts to avoid potential violence do succeed. Nigeria, for instance, navigated a highly contested election in 2015, amidst ongoing conflict with Boko Haram and rising tension between the north and south of the country. Ultimately the challenger won the election and the country achieved a peaceful, democratic transfer of power (though Boko Haram remains a serious threat). While there were several limited violent episodes related to the election, the dire outcomes many international observers feared did not materialize.[29] While it is extremely difficult to draw any clear causal conclusions from such "dogs that didn't bark," it does appear that the international community's work to prevent crisis escalation played at least some part in this successful outcome. A full year before Nigeria's election was initially scheduled to take place, the International Crisis Group—the leading international NGO working on crisis prevention—began prominently warning both local and international leaders of the risks inherent in this election, and pushing all sides to commit to peace. In the run-up to the election both U.S. Secretary of State John Kerry and former U.N. Secretary-General Kofi Annan visited Nigeria

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[27] Matthew Schwartz, "Policing and (in)security in fragile and conflict-affected settings." Global Center on Cooperative Security Working Paper, May 2015.

[28] Peter Albrecht and Helene Maria Kyed, "Introduction: Non-state and Customary Actors in Development Programs." In Peter Albrecht, Helene Maria Kyed, Deborah Isser, and Erica Harper, editors, *Perspectives on Involving Non-State and Customary Actors in Justice and Security Reform*, International Development Law Organization, 2011.

[29] For an example of the expectations of violence and unrest in the run-up to the election, see Aryn Baker, "Why Nigeria's Elections Could Trigger Renewed Violence," *Time*, March 26, 2015.

to encourage a peaceful election; Annan oversaw the signing of the "Abuja Accord" between the presidential candidates, pledging them to prevent political violence before, during, and after the elections. Ultimately, these efforts to build strong domestic and international constituencies committed to a peaceful election appear to have helped convince the defeated incumbent to concede the result.[30]

What does Nigeria's experience tell us about what works in conflict prevention? First, deep political analysis and research is crucial for early warning systems; while quantitative risk assessments are useful, in-depth, context-specific political, social, and economic knowledge are a vital complement. Second, where risks are present, inclusive, high-level political dialogue and diplomacy can be effective. By engaging with a broad spectrum of political elites as well as civil society and marginalized groups, early-warning interventions can help build consensus around preserving peace.[31] Third, international efforts to prevent conflict will likely be most successful when the international community presents a united front. In the Nigerian case, the U.S., EU, and African Union all clearly expressed their interest in a peaceful election, and no outside power had strong incentives to see any particular leader stay in power. Conversely, geopolitical rivalries are likely to make conflict prevention far more difficult in the Middle East, Eastern Europe and the South China Sea.

Ultimately, it remains difficult to predict conflict, and even when early warning signs detect it, the international community has not always been willing or able to act. Yet even if the odds of success is slim, given the stakes, increased investment in conflict prevention is likely a sound proposal.

Natural hazards and environmental risks

Six SOTCs face significant natural hazards and environmental risks. Natural disasters can compound existing development challenges, and set back progress for decades. Disasters result in lost lives, damaged homes and infrastructure, closed businesses, and children out of school. Those living in poverty are often most vulnerable to natural disasters; they are more likely to live in risky areas such as alongside rivers and floodplains, and are excluded from social services, infrastructure, and political processes that could mitigate or help them adapt to hazards. Urbanization—particularly the growth of unplanned slums—is concentrating populations in smaller areas, increasing the risk of high-impact natural disasters.

Since 2000, the 31 SOTCs have experienced over 400 natural disasters, including droughts, earthquakes, floods, landslides, and wildfires (see Table 2). Collectively, these disasters affected over 175 million people; droughts and floods account for the vast majority of this impact.

Moreover, looking forward, the incidence of natural disasters is likely to increase. Climate change is expected to cause more extreme weather events, and many SOTCs are among those likely to be hardest hit. This is particularly the case for small island countries (Solomon Islands, Papua New Guinea) and for sub-Saharan African countries already in arid and drought-prone areas.

Countries with high risks of natural hazards face a dual challenge. First, they must act now to increase resilience

[30] See International Crisis Group, "Against the Clock in Nigeria: Preventing election violence in Nigeria," April 22, 2016.
[31] International Crisis Group, "Seizing the Moment: From Early Warning to Early Action," Special Report No. 2, June 2016.

Table 2. Natural Disasters in SOTCs Since 2000

	Number of Events	People Impacted
Droughts	81	140,189,268
Earthquakes	27	237,543
Floods	272	34,710,887
Landslides	25	329,059
Wildfires	7	58,503
Total	**412**	**175,525,260**

Source: Authors' calculations based on the Emergency Events Database (EM-DAT).

before disasters hit so they are better prepared for the next shock. Second, they need to improve their humanitarian response practices and policies to minimize suffering in the aftermath of events. These two priorities are interlinked: investments in resilience will make post-disaster response easier and more cost effective.

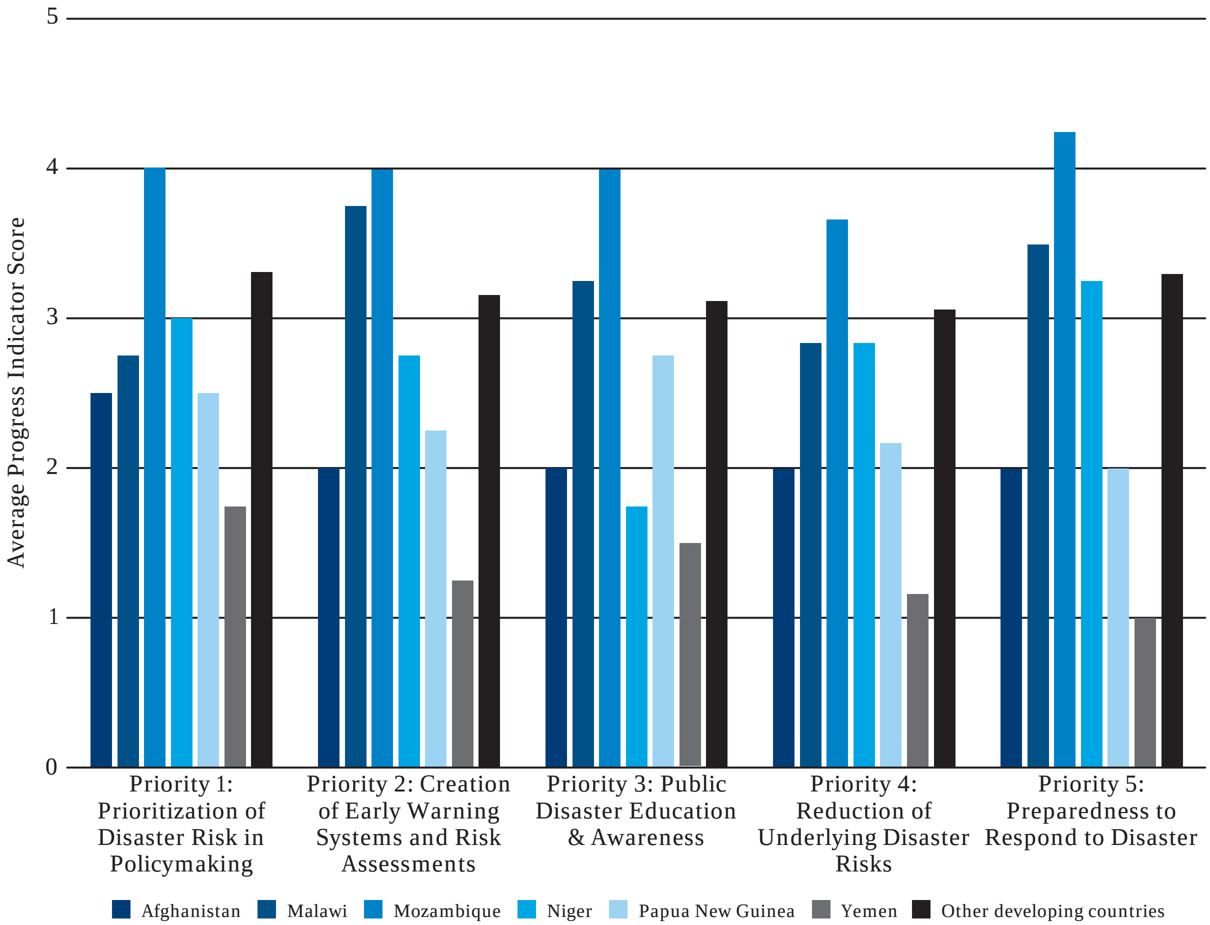
Building resilience

Countries facing the greatest threat of natural disasters are not necessarily the same as those facing the greatest natural hazards. Natural hazards are determined by geological, physical forces; natural disasters, on the other hand, occur when natural catastrophe strikes in countries lacking the preparation and resilience to recover.[32] Notably, there are several countries with very high risks of natural hazard—such as Japan—that nevertheless experience far less loss of life and destruction of infrastructure from natural disasters than countries with lower natural hazards. Strong governance and investments in prevention allow countries like Japan to avoid severe disasters, despite their high underlying risk of natural hazards.

In 2005, the members of the U.N. adopted the Hyogo Framework for Action (HFA), a 10-year agreement to strengthen disaster preparedness. The HFA identified five key actions for improving disaster preparedness: ensure that disaster risk reduction is a national and local priority; improve risk assessment and early warning systems; increase education, information and public awareness about disasters; reduce underlying risk factors; and strengthen preparedness for response. While data are limited, national progress reports on implementation of the HFA suggest SOTCs are falling behind. In the most complete reporting cycle, using 2009-2011 data, six SOTCs—Afghanistan, Malawi, Mozambique, Niger, Papua New Guinea, and Yemen—reported on their progress toward the HFA indicators and targets. Of these six, only Mozambique received scores above the average for all other low and middle-income countries (see Figure 9). Among all 101 countries with available data, Afghanistan, Papua New Guinea, and Yemen, were all in the bottom 10. The HFA has since been succeeded by the Sendai Framework for Disaster Risk Reduction, which sets international priorities and targets for the 2015-2030 period; the HFA experience suggests SOTCs will have significant work to do to realize the Sendai Framework vision.

[32] World Bank, *Natural Hazards, UnNatural Disasters: The Economics of Effective Prevention*, 2010.

Figure 9. Do SOTCs Meet International Targets for Disaster Preparedness?



Source: Authors' Calculations based on data from the HFA National Progress Query Tool.

One key area of disaster preparedness is investing in resilient infrastructure systems, including roads, ports, power, telecommunications, water, and sanitation. Crucially, investments in resilience must not only account for existing risks but also expected changes in the environment in the years and decades ahead. Climate-proofing infrastructure may add to upfront construction costs, but ultimately incorporating climate-proof concerns into initial design will be far cheaper than ignoring resilience risks and later needing to retrofit already built infrastructure.

A challenge for many SOTCs in providing resilient infrastructure is ensuring ongoing maintenance and repair. Countries with low government effectiveness may struggle with upkeep of infrastructure networks; governments facing budget pressures may opt to forgo maintenance costs, as such spending cuts are not immediately felt and may be less politically painful than other austerity measures. Yet letting maintenance lapse can severely undermine resilience over the long run, and any cost savings on foregone repairs are minimal relative to potential losses. There is a risk that governments and donors focus their attention primarily on new projects and initiatives, and pay insufficient attention to proper maintenance of existing infrastructure.

Improving humanitarian responses to disasters

Strong disaster preparedness can mitigate many of the worst impacts of disasters. Yet even with effective preparedness, disasters will still hit SOTCs, and how governments and international donors respond to these disasters can have both immediate and long term effects on a country's development trajectory. Current practices could be improved in several ways to ensure disasters do not undermine SOTCs' development prospects.

The rapid diffusion of accurate and up-to-date information in the immediate aftermath of a disaster is crucial for organizing and executing humanitarian responses. SOTCs' information strategies can be rapidly improved in the aftermath of disasters via the use of new technology. For instance, mobile phone penetration is high even in many very poor societies, improving the spread of information to otherwise unconnected and hard-to-reach places. Similarly, satellite data can provide rapid updates on flooding and crops in areas that are difficult to reach on the ground, speeding the distribution of resources to areas where they are most needed.

Additionally, the current financing system for disaster responses—centered around ad hoc, voluntary appeals in the aftermath of disasters, where pledges of support are often fulfilled only very slowly if at all—is woefully inadequate. An alternative approach would involve assessed contributions to a permanent financing facility, which could more quickly disburse funds in the event of disasters.[33] Another option is extending the use of insurance mechanisms so that households, communities, and sovereign governments could claim insurance payouts following disasters. The InsuResilience initiative, launched by the G-7 at their summit in Elmau, Germany in 2015, aims to offer insurance against climate risks to an additional 400 million poor and vulnerable people in developing countries by 2020. InsuResilience members have committed $550 million to this program.

Beyond sources and mechanisms for financing disaster recovery, a related question is what processes are most effective for disbursing humanitarian funds. Recent research suggests spending money through local, rather than international, organizations maximizes development effectiveness. Local organizations typically best understand what is happening on the ground, and have established networks and connections that allow them to act more quickly. At the 2016 World Humanitarian Summit, governments pledged to allocate at least 25 percent of humanitarian funding to local organizations by 2020, compared to a paltry 2 percent at present.[34] Similarly, a new consensus is emerging in favor of spending a greater share of humanitarian aid in the form of cash transfers, rather than delivering commodities such as food, shelter, and water.[35] Cash is often the most efficient and transparent means of providing

[33] See, for instance, Edward Tsui, Review of the Potential for Assessed Funding for the Central Emergency Response Fund (CERF), February 2015. Available at http://www.unocha.org/cerf/sites/default/files/CERF/Funding%20CERF%20through%20UN%20assessed%20contributions.pdf

[34] David Speckhard, "World Humanitarian Summit: Laudable, but short on hard political commitments," Brookings' Future Development Blog, June 1 2016. Available at https://www.brookings.edu/blog/future-development/2016/06/01/world-humanitarian-summit-laudable-but-short-on-hard-political-commitments/

[35] See "Doing Cash Differently: How cash transfers can transform humanitarian aid," Report of the High Level Panel on Humanitarian Cash Transfers, Overseas Development Institute and Center for Global Development, September 2015.

support, giving affected populations greater choice and control over their own recovery spending.

The ultimate challenge for SOTCs is how to integrate disaster responses and humanitarian relief into longer-term development strategies. For instance, in Ethiopia the government has successfully developed a safety net program targeted at communities living in drought-affected areas, which has built in contingency plans to scale up during drought periods, bringing new beneficiaries into the program.[36] The project simultaneously helps populations adjust to shocks from natural disasters while also investing in communities' long-term development. Greater integration and coordination of development and humanitarian aid would better reflect the on the ground realities and perspectives of beneficiaries, who in practice often perceive little difference between humanitarian aid and other development interventions.

[36] World Bank, "Moving Away from Humanitarian Appeals to Managing Droughts in Ethiopia," May 2, 2017. Available at http://www.worldbank.org/en/news/feature/2017/05/02/moving-away-from-humanitarian-appeals-to-managing-droughts-in-ethiopia.

ACTION PLANS FOR SOTCs

As the Venn diagram in Figure 4 revealed, many SOTCs face multiple obstacles to development and must progress on multiple fronts simultaneously; otherwise, they risk being trapped in cycles where short-term success against one obstacle is offset by relapses in another. For instance, even if a country substantially improves its investment climate, businesses are not going to invest if they believe the threat of conflict is high. Similarly, a government may have a sound strategy for responding to environmental emergencies in principle, but it will be impossible to implement such a plan without an effective government bureaucracy. Obstacles to development are often overlapping and reinforcing.

Given the scale of the development challenges in most SOTCs, thus, the only way to achieve persistent progress is through sustained partnerships between SOTC governments and the international community. National governments, of course, will remain the key actors responsible for driving their country's development. Yet the international community can and should play a significant supporting role in helping SOTCs get on track to ending poverty.

To date, however, international support for SOTCs has been modest. Country-programmable aid (CPA) to the SOTCs increased only moderately over the last decade, from $15.1 billion in 2007 to $20.8 billion in 2015 (the latest year for which full data is available; see Figure 10).[37] About half of this financing goes to just four countries—Afghanistan, Nigeria, Mozambique, and DRC (in decreasing order of funds received). As a share of aid to all countries, CPA to SOTCs has barely increased, from 22 percent in 2007 to 23 percent in 2015. In addition to CPA, donors disbursed $3.5 billion in humanitarian assistance in SOTCs in 2015, accounting for 33 percent of global humanitarian assistance in that year.

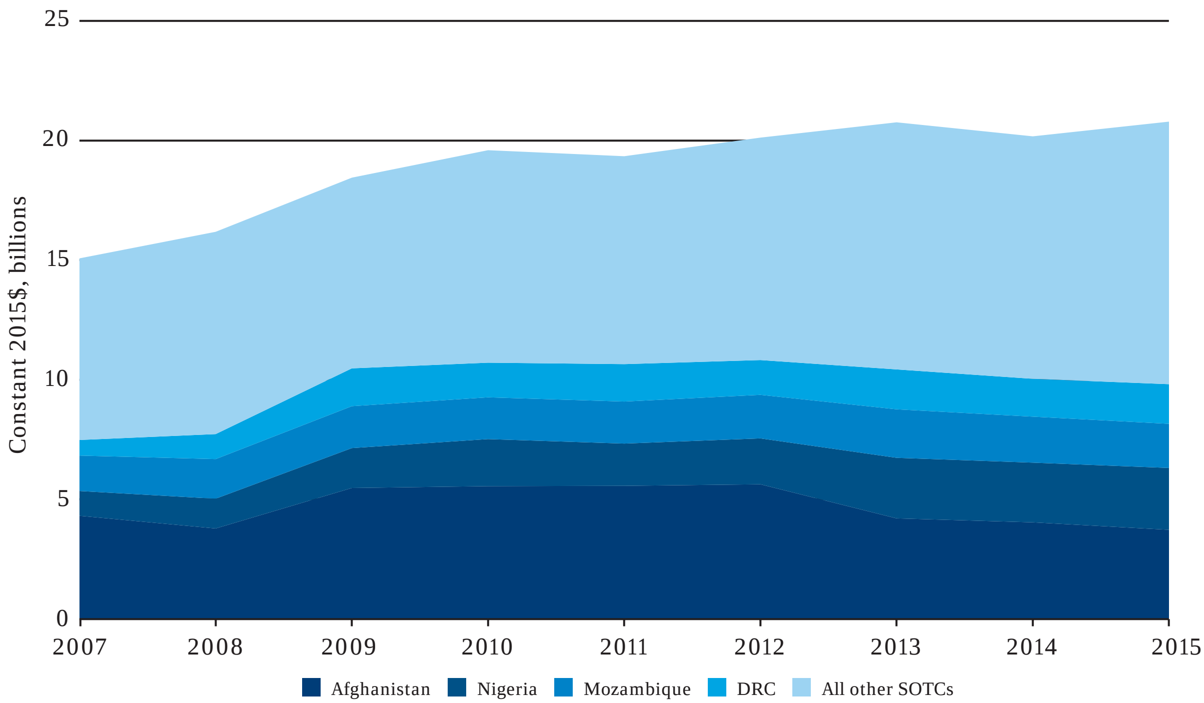
This relative stability in CPA to SOTCs masks significant variation both across and within countries. First, there is huge variation across SOTCs in per capita aid levels: some are "donor darlings," swamped with aid financing, while others are "donor orphans," largely neglected by the aid community. Figure 11 shows the distribution of per capita aid levels in SOTCs, as well as that for all other developing countries. The median developing country receives $47 per capita in CPA.[38] Fourteen SOTCs receive more than this median, including Solomon Islands ($382), Timor-Leste ($175), Afghanistan ($152), Liberia ($118), and Lesotho ($103). Meanwhile, 17 SOTCs receive less than the median for all developing countries, including Eritrea ($17), Equatorial Guinea ($14), Nigeria ($13), Angola ($12), and North Korea ($2). Despite the fact that all SOTCs face substantial development needs, the international aid community engages with them quite differently.[39]

[37] The OECD defines CPA as: "the proportion of aid that is subjected to multi-year programming at country level, and hence represent a subset of ODA outflows. It takes as a starting point data on gross ODA disbursements by recipient but excludes spending which is: (1) inherently unpredictable (humanitarian aid and debt relief); or (2) entails no flows to the recipient country (administration costs, student costs, development awareness and research and refugee spending in donor countries); or (3) is usually not discussed between the main donor agency and recipient governments (food aid, aid from local governments, core funding to NGOs, aid through secondary agencies, ODA equity investments and aid which is not allocable by country). (4) CPA does not net out loan repayments, as these are not usually factored into aid allocation decisions."

[38] All aid figures in this paragraph are in constant 2015$, and averages for the 2011-2015 period.

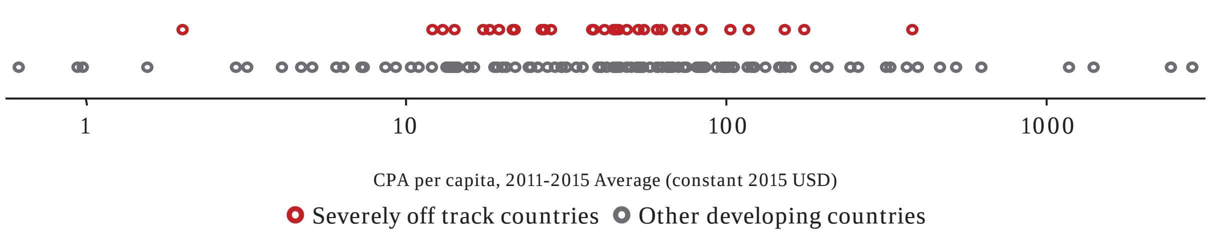
[39] Of course, there are often very legitimate reasons why donors may not want to engage with certain governments, and aid may not be allowed in closed off regimes like North Korea.

Figure 10. Country Programmable Aid to Severely Off Track Countries



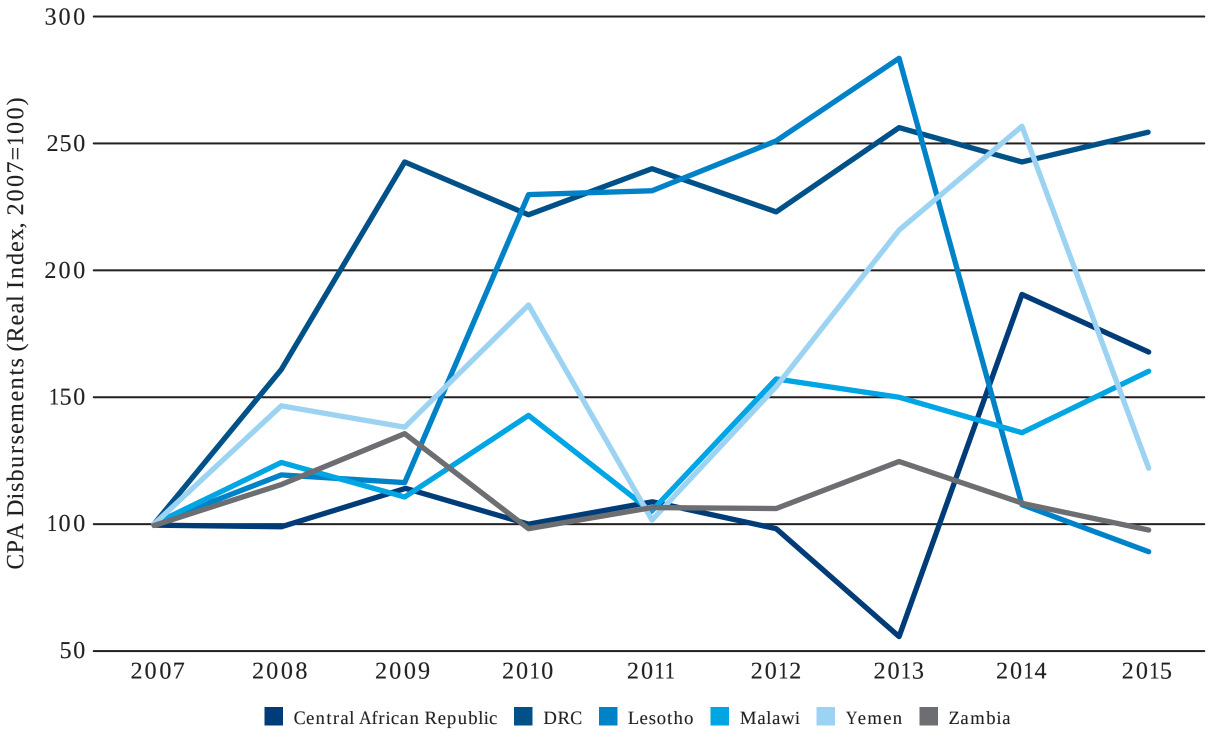
Source: Authors' Calculations based on OECD data.

Figure 11. Some SOTCs Receive Lots of Aid, Others Barely Any



Note: Each dot represents a country. Axis is in logarithmic scale.
Source: Authors' Calculations based on OECD data.

Figure 12. Aid to Off Track Countries is Very Volatile (select countries)

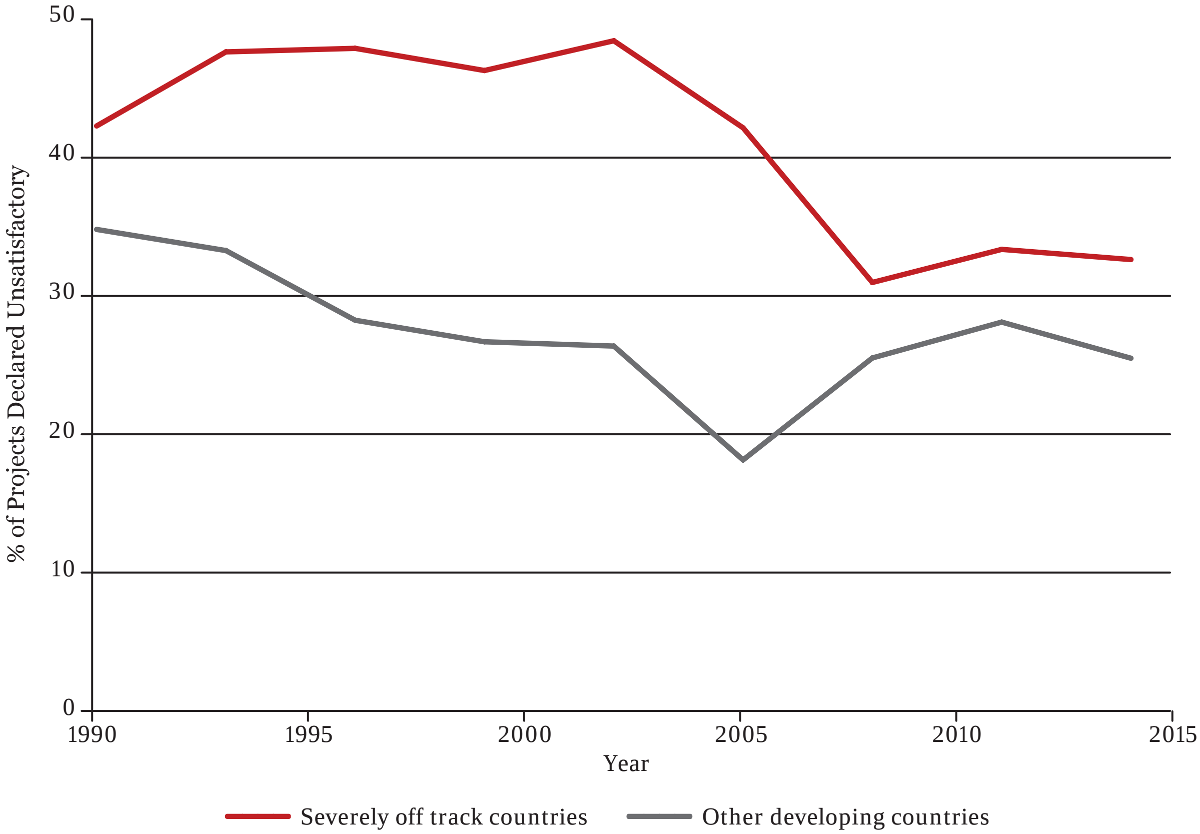


Source: Authors' Calculations based on OECD data.

Second, within individual countries, aid flows are often highly volatile from one year to the next. Year-on-year increases and decreases of 25 percent or more are not uncommon (see Figure 12). In some cases, aid volatility is linked to political instability in recipient countries, and aid will peak or wane as a particular regime falls into or out of favor with Western governments. In other cases, however, aid volatility is driven more by unstable aid programming and domestic donor politics and is completely out of recipient countries' control. High aid volatility makes it difficult for countries to implement long term strategies, a particular problem in SOTCs given the timeframes needed to improve institutions.

Has international aid been effective in promoting development in SOTCs? The answer largely depends on the definition of "effective." In a narrow sense, individual aid projects in these countries are about as likely to achieve their stated objectives as projects in other countries. For example, Figure 13 looks at the percent of World Bank projects rated as unsatisfactory in ex post evaluations, comparing the three-year rolling average in SOTCs to that of all other developing countries. During the 1990s, a much higher share of projects in SOTCs received unsatisfactory evaluations, relative to projects in other countries. Since the early 2000s, however, this gap has narrowed considerably, and today there is only a modest difference in project evaluations between the two groups.

Figure 13. The Gap in Project Evaluation Scores between SOTCs and Other Countries has Narrowed



Note: Data are first averaged at the country level using three-year rolling averages, then averaged across countries.
Source: Authors' Calculations based on World Bank Independent Evaluation Group data.

Aid experts continue to debate the drivers and meaning of this shift.[40] Has aid performance actually improved in difficult contexts? Has the portfolio of projects in these countries shifted to simpler, easier to execute tasks? Have project evaluators begun grading on a curve, more willing to overlook faults in some countries than others? In any case, at a minimum these findings complicate the narrative that aid can only be effective in "good governance" countries, that it is too difficult to execute projects in countries with low government capacity and high risks of conflict and instability.[41] This view justified devoting a larger share of aid portfolios to well-governed countries, even though poorly governed countries often faced the greatest development challenges. However, if today's donors are doing as good a job implementing projects in SOTCs as in other countries, we should not a priori assume aid will necessarily be less effective in these difficult settings.

[40] See, for instance, Joel Hellman, "Surprising Results from Fragile States," Future Development Blog, October 15, 2013. Available at http://blogs.worldbank.org/futuredevelopment/surprising-results-fragile-states.

[41] See discussion in Laurence Chandy, "Ten Years of Fragile States: What Have We Learned?" Brookings Institution, 2011.

Yet the fact that individual projects are completed successfully in SOTCs does not tell us much about whether international assistance in these countries is actually contributing meaningfully to their long-term development. Indeed, using this broader conception of aid effectiveness, support to SOTCs has been much less successful. While individual projects are completed satisfactorily, for the most part this hasn't added up to macro results—governance is improving very slowly if at all in most countries, and there is little evidence of any fundamental shifts in development trajectories that will be needed for SOTCs to achieve the SDG poverty goal. In other words, while foreign assistance in off track countries is achieving many important micro successes, there is little evidence this support is helping these countries get back on track.

This paradox, between project-level success and country-level stagnation, has sparked two contrasting viewpoints on the role and usefulness of aid in difficult contexts. On the one hand, optimists look at the record of successful individual projects and conclude that the normal way of doing business is working, and the aid community should continue with existing practices. While there is perhaps a need to increase funding levels to be commensurate with the needs of SOTCs, a significant rethink of how aid is delivered in these countries is not warranted. On the other hand, pessimists look at the broader macro failures and conclude development assistance in these places is too difficult and unlikely ever to have substantial effects. Aid can help alleviate suffering in some specific contexts, but it is not worth trying to catalyze broader development.

Challenging both of these narratives, we argue that development aid can be effective even in difficult contexts, and can accomplish more than the mere successful execution of individual projects. Working together, donors and SOTC governments can develop action plans to help countries overcome the linked obstacles of low government effectiveness, weak private sectors, conflict and violence, and natural hazards and environmental risks.

Our focus is not on identifying particular development interventions to address these four obstacles, as the question of which specific intervention is likely to be most effective will vary by country, based on local economic and political contexts. For this reason, it is impossible to generalize across all SOTCs when defining and evaluating menus of potential development interventions to tackle these obstacles. Rather, we focus on three meta-challenges to successful, transformative development that are common across interventions to address all four obstacles. We argue that, to get the most out of a sustained development partnership, donors and SOTC governments must do three things differently, across their development portfolios: they must reimagine scaling up, redefine country ownership, and rethink results-focused metrics.

Reimagine scaling up

In all development contexts, scaling up—the expansion, replication, adaption, and endurance of successful projects and policies in space and over time, to reach a greater number of beneficiaries[42]—is vital to maximizing effectiveness. Too many development interventions are one-off, short-term, and limited in scale; thus, even successful projects have only minimal impact on their societies. Scaling up is how successful individual interventions can translate into transformative

[42] This definition is adopted from that used in Artaud Hartmann and Johannes Linn, "Scaling Up: A Framework and Lessons for Development Effectiveness from Literature and Practice." Wolfensohn Center for Development Working Paper No. 5, Brookings Institution, 2008

outcomes. While not all interventions are suited for scaling up, donor agencies are beginning to think more rigorously about the scaling process, and consider plans for scaling up during the initial project design phase.

Yet scaling up in SOTCs poses special challenges. The two primary pathways to scaling up are through the market or through government bureaucracies. If a development intervention is financially profitable, market forces can be used to generate scale; demonstration effects will allow private actors to replicate and spread successful interventions. Alternatively, if a development intervention aligns with a government's mandate and interests, the government can roll out a program at scale by replicating across local, provincial, and national bureaucracies. In SOTCs, however, neither the market nor the bureaucracy pathway is reliable. Private markets are often shallow and inefficient, and government bureaucracies are under-skilled and ineffective.

In light of this, donors and governments should look for ways to strengthen both market and bureaucracy pathways to scaling up in SOTCs. For instance, one reason pathways involving the private sector often fail in SOTCs is that transaction costs for participating in markets are prohibitively high. In the case of the International Finance Corporation (IFC), the World Bank's private sector arm, there is no evidence that activities in fragile states have worse financial profitability than similar activities in other countries, but the financial returns to IFC are far lower in fragile states than in other places. That is because projects tend to be far smaller in scale, so total profits do not cover higher up-front costs of preparing projects in difficult environments, undertaking adequate due diligence, and supervising projects during implementation.[43] Donors wishing to strengthen scaling up through markets, then, could reasonably focus on subsidizing some of these transaction costs, perhaps working through their development finance institutions (DFIs); they can also use various instruments to de-risk projects to augment their expected profitability.

Similarly, donors and governments can work together to make it easier for bureaucracies to scale up successful interventions. This might include donor support for domestic resource mobilization (DRM), which would provide governments with the financial resources necessary to take programs to scale, as well as institutional capacity building. Donors and governments should also experiment with how to integrate successful local programs into a national network, which may involve hybrid forms of governance. For instance, Afghanistan's National Solidarity Program kept key decision-making power at the local, community level, but linked community-driven interventions into a national network in which the government set the overall legal framework and managed financing. The central government also organized national conferences convening community representatives to share ideas and lessons with one another, and with national leaders.[44] This provides one example of how to strengthen government effectiveness at scale.

Whether scaling through markets or bureaucracies, donors may need to take a longer-term outlook when scaling up in SOTCs. While in other contexts donors

[43] Raj M. Desai, Homi Kharas, and Magdi Amin. "Combining Good Business and Good Development: Evidence from IFC Operations." Global Economy and Development Working Paper No. 103, Brookings Institution, 2017.

[44] See Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World,* Oxford University Press, 2008, p206-08, as well as World Bank, "Fifth National Consultative Conference of Community Development Councils" November 25, 2015, available at http://www.worldbank.org/en/news/feature/2015/11/25/fifth-national-consultative-conference-of-community-development-councils.

may be able to demonstrate the potential of pilot projects and then hand off development interventions to local actors, in SOTCs, donors should prepare to engage directly throughout the scaling up process.

Ultimately, in SOTCs as in other countries, successful scaling up requires leadership and political commitment. Donors and governments should think through how to put in place incentives to encourage local and national political leaders to embrace taking successful development interventions to scale.

Redefine country ownership

Country ownership—the principle that recipient countries should set their own development strategies with donors working through local institutions and systems rather than implementing interventions themselves—is a cornerstone of aid effectiveness, enshrined in both the Paris Declaration and the Accra Agenda for Action. For many years, however, there have been debates about whether country ownership could and should be applied in weak governance contexts. Experts worried that many governments were unprepared or unwilling to take on ownership, and donors were unprepared or unwilling to cede control. The New Deal for Engagement in Fragile States, agreed between the g7+ group of conflict-affected states and international donors in 2011, sought to advance country ownership even in fragile and weakly governed contexts. The New Deal calls on donors to support nationally-owned and led development plans in fragile states, working through their country systems whenever possible. Partner governments, in turn, promised to strengthen their systems and to build better state capabilities.

Six years on, the New Deal has achieved only modest take-up in its quest to bring country ownership to weakly governed countries. In practice, donors have been reluctant to use country systems that they view as corrupt or inefficient. Meanwhile, partner countries have fallen short in their efforts to improve capacity.[45] This ongoing impasse partially explains why aid to fragile states fell in recent years, even as international attention to fragile states as a shared global priority has increased.

To overcome this binary choice between (perceived) inefficient reliance on country systems versus bypassing government systems altogether, donors and governments should experiment with new forms of country ownership. One example of such an approach comes from Liberia's post-conflict transition, where donors partnered with Liberia's government to share responsibility and oversight for improving core government functions through the Governance and Economic Management Assistance Program (GEMAP). GEMAP emerged in response to donor concerns regarding endemic corruption in Liberia's transition government, and the threat that such corruption could simultaneously squander donor resources and undermine the nascent peace process. Following months of difficult negotiation, international partners and Liberia's transitional government reached an agreement that embedded outside experts in key government agencies, and granted these experts co-signatory authority on significant financial transactions, including budget and procurement contracts. GEMAP also featured a steering committee, co-chaired by Liberia's President and the American ambassador, which provided a structured forum for discussing governance and

[43] For an analysis on measuring aid effectiveness in fragile states, see Laurence Chandy, Brina Seidel, and Christine Zhang, "Aid Effectiveness in Fragile States: How bad is it and how can it improve?" Brooke Shearer Series Working Paper No. 5, Brookings Institution, 2016.

corruption concerns among Liberian officials and international partners. GEMAP was controversial, both inside and outside of Liberia, for infringing on the country's sovereignty; yet it did achieve at least some success in strengthening controls over public spending, increasing government revenues, and improving transparency.[46]

Does GEMAP provide a model for international engagement in other SOTCs, where donors may be reluctant to turn over control to government officials? Perhaps, although there were particular circumstances that led to GEMAP's success. Most importantly, Liberia's government under President Ellen Johnson Sirleaf was deeply committed to the reform agenda supported by international donors. Without similar political leadership from the top, GEMAP likely would have been far less successful. (Indeed, the program achieved only minimal results before Sirleaf came to power, as donors and the Liberian transitional government clashed over the country's priorities.) So credible political leadership is likely a necessary condition for similar arrangements.

More generally, however, the GEMAP experience demonstrates that donors and governments can find creative ways to implement country ownership that balance government-led policymaking with input and influence of international experts. In Liberia's case, this allowed the international community to be significantly involved in the country's rebuilding, despite deep initial concerns about corruption and weak institutions. Ultimately, the goal of such partnerships must be to build up country systems, and this requires providing governments the space to experiment and implement policy. Nevertheless, there is scope to calibrate how involved donors and international experts are in these processes.

Rethink results-focused metrics

Over the past decade, both donors and governments have begun to more rigorously monitor and evaluate their development programming, to maximize value-for-money in development spending. The outcome has been an important shift away from tracking simply how much money is spent and toward measuring results. This has contributed to improving effectiveness and accountability in development.

Yet in many SOTCs, measuring development success against time-based metrics may paint a misleading picture of effectiveness, and could in fact discourage donors and governments from pursuing the most needed projects. As former USAID Administrator Andrew Natsios has noted, development agencies' organizational emphasis on measurable results "ignores a central principle of development theory—that those development programs that are most precisely and easily measured are the least transformational, and those programs that are most transformational are the least measurable."[47] In SOTCs, the most transformational interventions are typically related to building local institutions and capacity attuned to SOTCs' particular contexts and challenges.

The reasons why such interventions are ill suited to time-based, results-focused metrics are threefold:

[46] Raymond Gilpin and Emily Hsu, "Is Liberia's Governance and Economic Management Assistance Program a "Necessary Intrusion?" US Institute of Peach Briefing, May 2008.

[47] Andrew Natsios, "The Clash of the Counter-bureaucracy and Development." Center for Global Development Essay, July 2010, p 3.

First, the timeframes for success are typically extremely long. Building institutions can take decades or longer. Thus, reporting that focuses on monthly, quarterly, or even annual indicators will be unable to distinguish between success and failure. And if bureaucratic reporting requirements limit development agencies' work to projects that can be scored over short- or medium-term time frames, then agencies may be unable to effectively partner with governments for the decades-long process of building local capacity.

Second, in addition to simply taking a long time, progress in institution building may be non-linear and non-incremental. That is, successful institution building does not follow a straightforward trajectory organized into clear, discrete measurable steps. Long periods may go by with little obvious signs of progress, even though behind-the-scenes political structures may be subtly shifting to be more open to reform initiatives. Similarly, while reforms may be introduced and even adopted, the key long-term challenge is whether reforms will be *sustained over time*. In this context, attempts to measure results at any point along this timeline may present a misleading picture of the overall project and its potential impact.

Third, there is no clear blueprint or best practice approach for institution building in SOTCs, making it difficult to define measurable ex ante output indicators for tracking progress. Institution building relies on experimentation and iteration, not checking a list of predetermined boxes. Donors and governments need the freedom to adapt their approaches as they go; top-down, results-focused metrics may limit this freedom.

For all these reasons, traditional results-based monitoring frameworks are often inapplicable in SOTCs. The challenge, then, is how to maintain accountability and effectiveness in development interventions while rethinking at least some aspects of results-focused metrics. One solution is to move away from "navigation by measurement" and toward "navigation by judgment"—that is, shift power and autonomy toward development agents in the field, and let them rely on their tacit knowledge in implementing and adapting projects.[48] Rather than setting a pre-determined list of targets and measuring success against these metrics, aid agencies should empower their local staff to make decisions responding to changing circumstances and tailoring their work to specific local contexts. Such flexibility is particularly important in contexts with high uncertainty and greater environmental volatility—precisely the conditions present in many SOTCs.

Rethinking results-focused metrics does not mean giving up altogether on measuring the outcomes of development interventions, of course. Rather than using the resultant data to control and evaluate performance, measurement should focus on learning and improvement, i.e. feedback for iterative, adaptive approaches. As governments and donors experiment, they must study which variations lead to improvements, and then replicate these successes. Data systems should be designed to strengthen these feedback and learning processes, rather than evaluate whether projects achieved a pre-determined set of indicator targets.

Ultimately, working in SOTCs will demand a new approach to the fiduciary risk concerns that underlie evaluation frameworks used by development agencies. Fearful of the political and reputational cost of "failed" projects—particularly when funds are diverted to corrupt politicians—donors have shied away from high risk, high reward projects. Today's donor agencies tend

[48] See Dan Honig, "When Reporting Undermines Performance: The Costs of Politically Constrained Organizational Autonomy in Foreign Aid Implementation." Unpublished Working Paper, June 2017, as well as Dan Honig,

to favor projects with a high likelihood of achieving defined, measurable results—even though there may be riskier projects that would have a more transformational impact on a country's development. Given the scale of the development challenge in SOTCs and the need to experiment, some setbacks and failures are inevitable. Donors should review their internal risk management strategies to be less risk averse and incentivize projects that could have the greatest development impact, even when the risk of failure is higher.

SUMMARY AND CONCLUSIONS

After the past 15 years witnessed the most rapid decline in poverty in history, today the development landscape is distinctively shifting. We are moving from an era where poverty was concentrated in large, rapidly growing economies to one where poverty will increasingly be concentrated in a number of smaller economies facing deeper structural challenges. This shift has important implications for international development prospects, as well as for strategies to accelerate progress on the SDGs.

An estimated 31 countries are at the heart of today's development challenge. Based on current trajectories, they are likely to have extreme poverty rates of at least 20 percent in 2030. Since they are at risk of lagging furthest behind in the effort to attain the SDGs, they should be the primary focus of the international community's attention. We need a global strategy for accelerating development progress in the places where poverty has proven most intractable.

In this paper, we diagnose four critical development obstacles common to many of these countries: low government effectiveness, weak private sectors, conflict and violence, and high risk of natural disasters. Because most SOTCs face multiple obstacles, they need to make progress along a broad front. Given the scale of this development challenge, partnerships between SOTC governments and the international community will be necessary to deliver sustained, widespread progress.

The good news is that micro evidence—from both public sector aid projects and private sector investments—suggest development interventions in these contexts can be successful and profitable, just as they are in other developing countries. The challenge, for both donors and governments, is how to move from individual successful projects to sustained countrywide progress, given the significant development obstacles in SOTCs. This is arguably the most urgent question in development today.

We propose three principles to guide strategies for ending poverty in SOTCs, and help individual successful projects deliver transformational change: reimagine scaling up, redefine country ownership, and rethink results-focused metrics. Embracing these principles will allow governments and donors to maximize the effectiveness of their development interventions.

This paper has focused on common challenges across countries and broad principles of development practice. Ultimately, of course, research and policy need to move from such generalized analyses to more specific and particular country-level strategies. If the international community were serious about leaving no country behind in the SDGs, a good starting place would be actionable country plans for each of the 31 SOTCs. Such plans would need to be adapted to local contexts and reflective of country-specific constraints and opportunities.

While the SOTCs all face deep, structural challenges, progress is possible. Countries that are currently off track are not destined to fail. Countries like Laos and Rwanda demonstrate that even places with long histories of social division and weak governance can achieve dramatic, sustained development progress. These are examples of countries which, not too long ago, were severely off track, but which have managed to get back on track. Success on the SDGs will depend on donors and SOTC governments, working in partnership, achieving similar transformations.

ANNEX: METHODOLOGY

This paper draws on a database of projected poverty rates in each country. To create these projections, we use data on 1) income and consumption distributions, 2) household consumption per capita, and 3) GDP per capita. Our dataset covers the 195 countries and territories with data on GDP per capita in purchasing power parity (PPP) from 2000 to 2030.[49]

We first collect data on income and consumption distributions from the World Bank's PovcalNet. We use distributional data from household consumption surveys if available and household income surveys otherwise. While income and consumption are clearly distinct concepts, data limitations require us to draw upon both types of surveys in order to obtain near-global survey coverage. Combining income and consumption surveys has become standard in the field of poverty measurement (Ferreira et al 2015).

From these same PovcalNet surveys, we construct a series of mean income or consumption per capita for all countries with survey data. For years in between survey years, we take the average of the two closest surveys' means weighted by the relative distance between that year and each survey year.

Before the first survey and after the last survey, we apply a series of growth rates compiled from several sources to project income or consumption. Wherever possible we use the growth of household final consumption expenditure (HFCE) per capita in 2011 PPP for all countries with data in the World Bank's World Development Indicators (WDI). This is because HFCE is conceptually closest to income and consumption as measured by household surveys. For countries without HFCE data, we use growth rates of GDP per capita in 2011 PPP from WDI. We supplement this with values from the IMF's World Economic Outlook (WEO) for countries and years that are not included in WDI, including the projected growth rates for 2017 through 2022. To extend these growth rates out an additional eight years to 2030, we use the compound annual growth rate of GDP per capita for the preceding eight years, from 2014 to 2022.[50] For countries that are not included in the WEO, we use the growth rate of GDP per capita projections from Scenario 2 of the OECD's Shared Socioeconomic Pathways. This gives us a complete series of survey means for 173 countries.

With this data, we use the methods described in Datt (1998) to calculate poverty rates at a poverty line of $1.90 per day for the 163 countries with household surveys.[51] This method involves fitting a Lorenz curve to the distributional data using a Beta model and a Generalized Quadratic model, and selecting the model that yields the best fit. Using the selected model, we then calculate what percent of the population falls beneath the $1.90 per day line. Multiplying these poverty rates by population numbers from the UN gives us a headcount of the poor in each country in each year.

Finally, we estimate poverty in the countries that do not have a reliable household survey by modelling the relationship between poverty and GDP per capita. We ran a regression model that uses GDP per capita, regional dummies, and other relevant factors to predict

[49] Due to missing data on GDP per capita, Afghanistan, Nauru, Somalia, and West Bank & Gaza enter the sample in 2002, 2004, 2011, and 2004 respectively. South Sudan also enters our sample upon its creation in 2008.

[50] For countries with negative growth from 2014 to 2022, we assume growth from 2023 to 2030 is zero.

[51] We do not use PovcalNet's Survey for St. Lucia, which is more than 30 years old and implies a high poverty rate that is inconsistent with other development indicators.

the headcount rate. This model includes only poverty rates from developing countries in actual survey years.[52] Observations are weighted by the inverse of the number of surveys conducted in the country so that countries that conduct surveys more frequently do not dominate the results. The results from this regression are as follows.

countries. Next, we add data from the WEO for countries and years without data in WDI. Finally, we add estimates from the CIA's World Factbook for North Korea in all years, which we assume has constant GDP per capita, and for Syria in 2013 through 2015. We then project these values out to 2030 by applying the same series of GDP per capita growth rates used above to

Table 3. Regression results

ln (GDP per capita, 2011 PPP)	-0.152*** 0.016
Europe & Central Asia	-0.022 0.022
Latin America & Caribbean	0.023 0.018
Middle East & North Africa	-0.071** 0.021
South Asia	0.01 0.029
Sub-Saharan Africa	0.144*** 0.023
Small Island Developing State (UNCTAD List)	-0.125*** 0.023
Least Developed Country (2015 list)	0.02 0.03
Oil Exporters (IMF Fuel Exporters List)	0.074*** 0.018
Constant	1.449*** 0.142
N R2	683 0.774

Source: Authors' calculations.

We use the predicted values from this model to estimate poverty in the countries without survey data. This requires a series of GDP per capita data for all countries from 2000 through 2030. This series begins with data from 2000 through 2016 from WDI for all available

project income and consumption values.[53] Using this GDP per capita series for out-of-sample predictions, we estimate the poverty rate for countries without survey data.

[52] Developing countries are defined as lower, lower middle, and upper middle income countries according to the World Bank's 2017 classifications.

[53] The growth rate series used to project GDP per capita does differ in that we never use HFCE growth rates to fill in data between missing years.

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