UNITED NATIONS
LAO PDR

STRUCTURED DIALOGUE 1: DIAGNOSTICS

Assessing the financial constraints and needs to achieve the 9th NSEDP and the SDGs

COSTING NATIONAL DEVELOPMENT PRIORITIES

Background documents (day 2)

Ministry of Planning and Investment, Ministry of Health, and UN Joint Programme on Financing Efficiency (UNDP, UNFPA)

October 2021

Table of contents

Explanatory note: costing national development priorities

Introduction: diagnostics for the 9th NSEDP financing strategy

Available brief

- Q&A on the financing strategy (see annex 1)

The Ministry of Planning and Investment (MPI), with technical and coordination support from the United Nations (UN) through the Joint Programme on Financing Efficiency has been working, since early 2021, on the development of a financing strategy after the finalization of the 9th NSEDP. **Prior to discussing financing options**, in line with the Integrated National Financing Framework (INFF) approach, **there were two important phases**:

- **An inception phase (January-April)**: this first phase was an opportunity to bring together core planning and financing stakeholders, grouped into a Technical Working Group (TWG) created by the Deputy Prime Minister. Key concepts and methodologies as well as the process were introduced. An inception workshop was organised in Vang Vieng in April 2021.
- **A diagnostics phase (June-October)**: this phase aims to provide all stakeholders a set of key findings that would serve as the analytical backbone for the formulation of the financing strategy. In addition to providing robust analytics that all can agree with, this phase serves as another way to consolidate collaborative ways of working. As of early October, this phase was nearing finalization and was going to be concluded by the first structured dialogue.

The next phase should see the formulation of agreed and well consulted financing options, per source of finance, and per sector. Three structured dialogues should take place throughout Q4 2021 and Q1 2022. Bilateral and multilateral discussions will be convened between the first (diagnostics) and second (financing options discussion), and second and third (finalization of financing options) structured dialogues.

The diagnostics phase can be divided into two: there are two types of assessments which complement one another in painting a clear picture of the financing landscape for the achievement of the 9th NSEDP:

- **Investment needs, often referred to as "costing"**, have been estimated through 6 reviews of the literature corresponding to the 6 outcomes of the 9th NSEDP and a modelling of health costs. Due to difficulties encountered when attempting to conduct modelling of the costs of each outcome of the 9th NSEDP, a brief was developed to highlight gaps and challenges and potential solutions to ensure costing of policy priorities can take place in the future.
- **The resource envelope, often referred to as "financing",** is estimated through the Development Finance Assessment (DFA), which analyses four sources of finance according to the Addis Ababa Action Agenda (AAAA), namely: State budget, domestic private finance, international private finance, and Official Development Assistance (ODA).

The Two additional briefs complement the picture painted by the DFA on climate finance and on State borrowing.

Taken together, the resource envelope and investment needs provide the financing gap, or in other words, the resources missing to achieve national development priorities.

Costing national development priorities: executive summary

Available briefs

- Costing the national plan: methodologies, challenges, and opportunities
- Six literature reviews covering 9th NSEDP outcomes investment needs

1. *Continuous quality, stable and sustainable economic growth achieved*
2. *Improved quality of human resources to meet development, research, capacity, science and technology needs, and create value-added production and services*
3. *Enhanced wellbeing of the people*
4. *Environmental protection enhanced, and disaster risks reduced*
5. *Engagement in regional and international cooperation and integration is enhanced with robust infrastructure and effective utilization of national potentials and geographic advantages*
6. *Public governance and administration are improved, and society is equal, fair, and protected by rule of law*

- Model Investment Case for the Health Sector (part 1 on investment needs)

A. How to cost national development priorities (UNDP-DOP)

- **Objectives**

At the outset, the objective was to estimate the financial cost of the 9th NSEDP (how much money does it require to achieve national development priorities?) and of its outcomes and outputs, through statistical modelling. This would have allowed stakeholders to match a figure against the total value of available development finance, thereby identifying a financing gap, and then to use this to inform the formulation of the financing strategy.

However, due to data limitations and the timing of the finalization of the Monitoring and Evaluation Framework of the 9th NSEDP, MPI and supporting technical agencies acknowledged the difficulties of deriving sufficiently robust estimates through this modelling.

Therefore, to take forward the overall objective of informing the financing strategy, a decision was made to complement modelling efforts with literature reviews of sectoral costs across the sectors of the 9th NSEDP, organised along the six outcomes of the national plan (see below).

To address the challenges encountered with the modelling efforts, and to develop national capacity on costing of national development priorities for the next planning cycle, this report now identifies (1) best practices and methodologies in costing national plans (2) challenges and limitations in data and current capacity, and (3) practical solutions to improve capacity.

- **Approach, scope, and limitations**

The report is organised into three chapters. The first covers best practices and methodologies, drawing from the various methodologies agreed at the global level and implemented in other developing countries. The second identifies challenges and limitations, reflecting on the collaborative technical work done between UNDP and the Department of Planning (DoP) in the first half of 2021. The third chapter stems from matching of the gaps between the best practices and current available capacity and challenges, to identify practical ways forward.

- **Main findings**

Finding 1: most relevant techniques to cost national development plans were not applicable in Lao PDR, due to data availability issues. Estimations could only be derived from an incomplete set of development interventions, which did not comprehensively cover output and outcome priorities.

Finding 2: it is important to position the costing exercise carefully in the planning cycle, before and throughout the policy formulation, and build consensus on the importance of the costing exercise to ensure it informs prioritisation.

Finding 3: it is important to define, prior to the costing exercise, its scope (which priorities to cost, at the national and subnational levels, or both) and clarify key parameters (such as the definition of cost).

Finding 4: reviewing programmes and historical costs can support improved accuracy and reliability of the costing exercise.

Finding 5: it is important to engage experts and stakeholders early in the costing exercise to collect relevant information, discuss findings, and identify synergies and trade-offs.

B. Investment needs across the 9th NSEDP (UNDP-DOP)

- ***Objectives***

Acknowledging the difficulties of modelling the financial costs of the 9th NSEDP, UNDP and the UNRCO, under guidance from MPI, decided in the summer 2021 to include specific reviews of the global and national literature to estimate, quantitatively and qualitatively, investments needs across the 9th NSEDP. This is intended to provide stakeholders with appropriate background information on the relative financial costs and the types of costs identified across the 9th NSEDP, to inform policy makers for the formulation of the financing strategy and stimulate a conversation on where funding is most needed, and why.

- **Approach, scope, and limitations**

What we mean by "cost": the costing briefs review two elements. The first one is financial costs, also referred to as investment needs. Simply put, these are the monetary values of the costs of achieving a specific policy priority (e.g., achieving the country's mitigation targets will cost 2% of GDP). Implications are that these briefs do not review economic costs (e.g., climate change costs X% of GDP of Lao PDR every year), opportunity costs (e.g., not investing in climate change mitigation will cost X% of GDP in ten years), or socioeconomic costs (e.g., climate change leads to X number of additional deaths through extreme weather events). The exercise is intended to support the development of a financing strategy to mobilize and allocate financial resources, not inform decisions on what priorities should be, which took place through the 9th NSEDP drafting.

What we mean by the nature of the "costs": this literature review allowed for comparison of costs across the 9th NSEDP. These papers identified outputs and sectors in which specific policy priorities were less financially costly because they involved, for instance, regulatory or legal changes, rather than, say, infrastructure construction. In addition, certain costs lend themselves, by nature, to be mostly born by a specific stakeholder. The public administration is for instance more engaged in governance reforms.

How we express "costs": where possible, briefs have expressed financial costs in % of GDP per year over the duration of the 9th NSEDP, for ease of comparison.

Sources: Lao-specific literature is richer in certain outcomes than others. A few studies have indeed been able to measure the investment needs of several sub-sectors, such as education or health, or the cost of climate change mitigation. However, for sectors with limited information on Lao PDR, global or regional estimates are used to infer tentative conclusions.

The methodology chosen – literature reviews – to estimate costs limits the scope and objectives of this exercise. In particular:

Global estimates: international or cross-country estimates of costs can be useful for providing a rough gauge of costs at the country level; however, they cannot be taken too precisely. The costs of achieving climate change priorities at the global scale differ from one country to another, due to climate risk vulnerability and exposure, pollution levels, etc, as well as the efficiency of implementation of spending.

Adding costs: it is both technically challenging given data availability and varying methodologies and would provide only unreliable information to add the costs of various sectors to derive a single figure for the cost of each outcome. First, for each outcome, there are both national and global estimates. Second, while it was attempted to express each figure in percentage of GDP, the exact denominator may not be the same.

Financing/investment gap vs. total investment/financing needs: the financing gap is the required additional amount of resources to achieve a given target, beyond the current trend levels of investment, while the total investment need integrates both current trend investments and additional investments required.

- **Main findings**

Outcome 1	• The direct financial costs to the state of achieving most outputs under outcome 1 relate to the costs of administrative reforms and systems enhancements and investments, as well as the role of State-Owned Enterprises. **Compared to the overall financial costs of the 9th NSEDP, the financial costs of many policy reforms are likely to be relatively modest, although implementation of SOE reforms can be costly, e.g., regarding the energy sector, and technically challenging.** • **Realising the objectives set out in Outcome 1 will require many investments beyond the State budget**, given the predominant role of private sector investment in driving growth. Possible measures to influence these investments could have additional financial implications for the state. • **Examination of the historical relationship between aggregate investment rates and economic growth provides an approximation of the total investment in productive capital net of depreciation required to achieve a 4% growth target: 19% of GDP**. This is a likely underestimate because of limitations in the data available on capital stock and of a declining ratio over time. Even more importantly, this estimate does not account for necessary changes in the quality of growth, towards more diversified drivers, more inclusivity, and more economic and environmental sustainability. Data limitations imply that this estimate must be taken with precaution, has a wide margin of error, and will be refined.
Outcome 2	• For Lao PDR, sector plans for health and education, aligned to the 9th NSEDP, provide estimates of anticipated costs to implement initiatives designed to achieve priority outcomes. **Together, health and education investment needs make approximately 4.4% of GDP per year. This is well below global estimates of resources required to achieve the corresponding SDGs.** For countries in Asia-Pacific, on average 4.7% of GDP is estimated to need to be spend on health. The Education 2030 Framework for Action sets two key education finance benchmarks for Governments- to allocate 4-6% of GDP to education and/or to allocate 15-20% of public expenditure to education. • Expected financial costs of achieving the outputs related to skills and science & technology are significantly lower.
Outcome 3	• **Based on historical relationships between economic growth and poverty reduction, Lao PDR would need to achieve at least a 4% GDP growth rate** (consistent with NSEDP objectives) to achieve the poverty reduction target). Under the outcome 1 literature review, it was estimated that this level of GDP growth would require approximately 19% of GDP equivalent investments in productive capital net of depreciation per year. It is important to note that (1) these growth objectives may be limited by the impacts of COVID-19, and (2) current growth drivers may have increasingly limited effects on poverty reduction, as they lead to environmental degradation, pollution, climate change, which are drivers of poverty. It is essential to deliver a qualitatively different type of growth as set out throughout the NSEDP to ensure meeting the poverty reduction target. • UNFPA found that the scale-up of Sexual and Reproductive Health and Nutrition, Maternal, New-born, Adolescents, and Child Health interventions could cost an additional USD 109.0 million more than business as usual over 2021-2030. • While financial resources are important, most strategies for achieving gender equality require a mix of financial investments and political commitment coupled with changes in legislation, political and administrative rules, social attitudes, and norms.

	• **ILO has undertaken a costing of social protection, which found that the planned roll-out would cost around 0.1-0.15% of GDP annually.** • The costs related to UXOs will be USD 525 million over five years, or 105 million a year, which roughly amounts to 0.5% of GDP per year.
Outcome 4	• According to global estimates, green and resilient infrastructure could reach an average 4-5% of GDP for low and middle-income countries annually. In Lao PDR, this would represent around USD 1 billion a year. • Biodiversity protection costs amount, globally, to 0.3% of GDP per year, which applied to Lao PDR, would represent USD 60 million a year of investments in 2020. • **Lao PDR's 2021 Nationally Determined Contributions, aligned with the 9th NSEDP objectives, estimated that mitigation investment needs amount to USD 4.8 billion by 2030, which is around USD 500 million a year (around 2.5% GDP per year).** • **Outcome 4 also includes governance reforms, including legislative and regulatory changes and investments to promote a shift in production and consumption patterns to reduce environmental pollution, which may have more limited financial costs.** These call for catalytic public investments as well as measures to (1) internalize the costs of pollution and (2) unlock private sector finance and promoting private sector to support sustainability objectives. Technical assistance and knowledge transfers are crucial in support of dedicated financial resources, which mostly originate from the public sector (both the State budget and ODA).
Outcome 5	• **The costs of realizing the transformative priorities set out under this Outcome are amongst the most expensive in the 9th NSEDP.** The likely cost of Outcome 5 alone far exceeds Government capital expenditure and ODA that is likely to be available. However, the nature of these costs allows scope for greater involvement of private funds, and therefore the full cost is not expected to fall directly on the public budget. **Important trade-offs exist between concessions to attract private investment, and the need for macroeconomic stabilization set out in Outcome 1.** • **Various global estimates suggest that total infrastructure investment needs for Lao PDR would be from USD 1 billion or 5% of 2020 GDP (lower World Bank estimate) to USD 2 billion or 10% of GDP (higher IMF estimate) per year over the course of the 9th NSEDP.**
Outcome 6	• **Priorities of outcome 6 are mostly concerned with improving public sector efficiency and effectiveness and therefore imply a heavy reliance on public sector investment** (domestic and international), as it has been the case historically. • Governance priorities, across the entire 9th NSEDP, were estimated, to require 6% of GDP of annual investments, which amount to USD 1.2 billion in 2020 in Lao PDR. • For low-income countries, achieving justice targets would cost USD 20 per person to provide access to basic justice services, while for middle-income countries the cost would increase to USD 64 per person. In Lao PDR, this would amount to USD 146-467 million a year, which represents around 0.7-2.5% of GDP. • Many policy priorities are considered to require relatively low investment needs as they consist in legislative and regulatory improvements but are technically challenging.

C. <u>Model investment case for the health sector (UNFPA-MOH)</u>

- **Objectives**

This workstream has two overarching objectives: identify most relevant interventions in a crucial sector for Lao PDR, but also aims to set a model for evidence-based policymaking, when robust diagnostics, the costing estimates of health interventions and development returns, inform prioritization. More specifically, this project aims to estimate the costs, health impacts, and economic impacts of scaling up health interventions (the diagnostics), before developing a prioritization strategy, at both the national and provincial levels. As of September 2021, the diagnostics phase was completed and was set to inform the broader conversation on the financing strategy, specifically on the health financing front.

- **Approach, scope, and limitations**

The Investment Case aims to estimate the financial needs, health gains, benefits, and benefit-cost ratios of investing in a range of Sexual and Reproductive Health (SRH), as well as Nutrition, Maternal, New-born, Adolescents and Child Health (NMNCAH) interventions. Although outside the scope of the investment case, costs presented in this brief also include Immunization, Non-communicable diseases (NCD) and Communicable diseases (CD) obtained directly from the costing of the Essential Health Services Package Report. The study used a mix of qualitative and quantitative methodologies to identify the costs of selected health interventions. Unit costs were calculated using the ingredients-based approach, while the effect sizes of interventions were based on global literature. This brief considers costs and benefits through to 2030, as the deadline for the SDGs, rather than only the 5 years of the 9^{th} NSEDP.

A series of limitations must be considered:

<u>Data issues</u>: data for some health indicators, coverages, and economics benefits were only available nationally. Additionally, effect sizes of interventions were based on global literature, while the actual impact of interventions will depend on the quality of care, which is difficult to measure.

<u>Health financing</u>: noting that external funding finances a significant amount of health program costs, a comprehensive fiscal space analysis for health is outside the scope of the Investment Case and this brief. It should be undertaken considering ODA support and private sector investments.

<u>COVID-19 impact</u>: the impacts are still uncertain on service coverage, and new evidence may ultimately change projections.

- **Main findings**

<u>Finding 1</u>: full scale-up of SRHNMNACH interventions could cost an additional USD 109.0 million more than business as usual (baseline scenario) over 2021-2030.

<u>Finding 2</u>: this would avert 1,044,000 unintended pregnancies, 286 maternal deaths, 6,866 child deaths and 5,070 stillbirths, reduce stunting prevalence children under 5 by 5.6 percentage points, and generate USD 661.5 million in economic benefits by 2030. **The benefit to cost ratio is of 6.0.**

<u>Finding 3</u>: **the greatest return on investment,** in a range of SRHNMNACH interventions, **would come from investing in family planning**. A positive effect may be achieved through improved coverage of NMNMACH interventions alongside increased contraceptive prevalence, as reducing unintended pregnancies can cut demand for, and the cost of, other health services.

<u>Finding 4</u>: **investment in maternal health can have major benefits beyond simply reduced mortality, leading to lower morbidity and health complications associated with childbirth**. This can also decrease downstream costs associated with these health conditions and avert complications such as loss of income, although such costs can be difficult to quantify.

<u>Finding 5</u>: the priority should be ensuring access to family planning services in each province. Beyond family planning, scaling up vaccines, breastfeeding promotion and HIV interventions within each province would have the greatest impact. The highest returns came from investing in provinces that had the highest mortality rates.

How to cost national development priorities (UNDP-DOP)

A. Background, context, and objectives

Undertaking a costing/needs assessment and identifying the potential sources of financing are key for informing prioritization, budgeting, and resource mobilization for effective implementation of the 9th NSEDP and meeting the ambitious development agendas outlined above. However, it should be noted that this is not an easy task for many countries, particularly given data challenges. Therefore, costing/needs assessment can be viewed as an iterative process rather than as a once off exercise, whereby gross estimates (often arrived at on the basis of projections or historical estimates) are refined as detailed costing can be done and/or as better data/estimates becomes available.

Having estimates of costs of policy priorities, as well as understanding what are available sources of finance, would be helpful to realise the 9th NSEDP objectives through identifying where the financing gaps are and where resources potentially need to be reallocated and/or scaled up. The costing workstream can be viewed as the application of a context-specific methodologies, which should be applicable across government, to estimate the costs of policy priorities and investments. Building a common understanding of what is feasible and what the roadmap will be for updating and harmonising the various approaches to costing across the public sector will facilitate the integration of the planning, financing, and budgeting functions and, ultimately, the realisation of the 9th NSEDP objectives.

The initial objective was to estimate the financial cost of the 9th NSEDP (how much money does it require to achieve national development priorities?) and of its outcomes and outputs, through statistical modelling. This would have allowed relevant stakeholders to match a figure against the total value of available development finance to identify a financing gap and inform the formulation of the financing strategy.

However, due to data limitations and the timing of the finalization of the Monitoring and Evaluation (M&E) Framework of the 9th NSEDP, MPI and supporting technical agencies acknowledged the difficulties of deriving robust estimates through modelling. To take forward the initial objective of informing the financing strategy and ensure smooth progress across the entire project, a decision was made to formulate literature reviews of sectoral costs across the sectors of the 9th NSEDP, organised along the six outcomes of the national plan.

Instead, and to develop national capacity on costing of national development priorities for the next planning cycle, this report now intends to identify (1) best practices and methodologies in costing national plans (2) challenges and limitations in data and current capacity, and (3) practical solutions to improve capacity.

B. Available techniques to cost national plans and development goals

Best methodologies in costing national development priorities include:

Incremental capital-output ratio (ICOR): the incremental capital output ratio (ICOR) method is often applied where it is a case of estimating the additional investment required in line with the additional GDP required to meet a target – which is calculated assuming a plausible set of gross incremental capital output ratios (ICORs).

Simple unit cost estimates or input-output elasticities: this approach is one of the most used methodologies particularly in the context of costing interventions and estimating investment to address gaps. However, though the methodology is simple to use it lacks the level of detail to support the programming of public expenditure. It does not consider synergies, trade-offs and economywide effect of development-oriented investments.

Intervention-based needs assessments: the method specifies interventions (e.g., provision of goods, services or infrastructure) that are required to achieve certain development goals, then apply relevant unit costs. As in the standard unit cost models, this method does not consider synergies, trade-offs and economywide effect of development-oriented investment or changes in unit costs. Moreover, successful assessments using this methodology require a comprehensive list of interventions, covering as exhaustively as possible the outcome or output considered.

Results-Based Costing: this approach involves targeted outcome analysis and is used for intervention-based assessments. This approach involves best practices and is detailed and focused on outcomes. This is an advanced approach and is not used in many developing countries.

Incremental budgeting approach: under this method, the ministry makes marginal changes to the previous year's budget or the actual results to come with a budget for the current period. Such type of budgeting is suitable for funding needs/interventions which do not involve any substantive or quality changes but simply more of the same. However, this approach can lead to extra spending, as there is no incentive to do things differently and to realize efficiencies in delivery or programming.

Historical projections approach: the historical projections approach looks at the past trends of government spending related to the specific development target and projects the spending for the future using the historical trend. This approach also works against transformational shifts from the past. Moreover, countries with historical records of low level of government spending risk of ending up with low spending in the future based on their historical trends.

Modelling based estimates: Computable General Equilibrium (CGE) models combine use of aggregate production and utility functions to model *an economy in equilibrium*. With its Maquette for MDG Simulations (MAMS) model, the World Bank combined subsets for sectors - primary education, health, water and sanitation - with a generic economic model, allowing the tool to address interactions across sectors and economy-wide effects, such as economic growth, real wages, real exchange rates, as well as public and private investment, saving, and consumption. These models consider synergies, trade-offs and economy-wide effect of national plans or SDG investment. These models have computational complexity and data requirements limit the models' scope to a subset of sectors.

C. Methodologies applied, challenges faced, and initial costing estimates

Tentative costing approaches:

- Incremental capital-output ratio (ICOR): incremental capital-output ratio (ICOR) has been used in many costing exercises for example in Bangladesh and Nepal national plans and SDG costing reports to estimate the amount of investment needed to achieve the targeted GDP growth rate.
- Simple unit cost estimates or input-output elasticities: Unit cost estimate can be used in costing exercise for SME development, rural development, infrastructural development, education, health, developing regional trade, economic zones, environmental protection and climate change, and public sector reform and governance. Unit costs have been applied in the costing exercises done in Bangladesh and Nepal national plans and SDG costing reports and by the IMF for low-income countries.
- In the absence of unit costs, intervention-based needs assessment, historical projection, and incremental budgeting approach can be used.

Challenges faced:

- **Costing national development plans is a difficult exercise**, both technically and institutionally, which must mobilise sectors and experts, from both government and development partners. It is also an iterative process, which can yield progressively improved results, and may take several years before being in place and capable to inform policymaking, including prioritization of national development objectives. It is therefore not surprising that deriving statistically modelled estimates could not be completed as of 2021, and this exercise provided key findings that should orient development interventions and capacity building for an improved planning cycle integrating timely costing of national development plans.
- Overall, **most relevant techniques to cost national development plans were not applicable in Lao PDR, due to data availability issues**. Many indicators communicated to estimate costs lack baseline data and value. Estimations often had to rely on the intervention-based approach, but from an incomplete set of development interventions, which did not comprehensively cover outputs and outcomes, thereby likely underestimating the costs of national development priorities.
- In addition, **the timing for the costing exercise was not ideal**. The finalization of the monitoring and evaluation framework for the 9th NSEDP, including baseline data to estimate the business-as-usual scenario, and targets, took longer than expected. It is understood that the final monitoring and evaluation framework is yet to be publicly available.
- **There would have been value in starting the costing exercise earlier**, before the policy formulation phase, rather than as a follow up to it. This would have ensured that sectors

providing inputs into the national plan could have, had the same time, provided relevant data for the costing exercise.
- **Difficulties in convening due to the COVID-19 pandemic** made it more difficult to organise relevant consultations with key experts and key sectors. The costing exercise, even when based on statistical modelling, requires extensive interactions with key stakeholders to define parameters, including assumptions and methodologies used.

D. Recommendations for future costing efforts

The costing exercise aimed to estimate the approximate resources required to achieve 9th NSEDP objectives. However, highlighted data challenges led to refocus the research on identifying key interventions to improve the quality and reliability of costing and ultimately, of national planning.

Several ways forward are highlighted below:

- **Repositioning the costing exercise in the planning cycle, before and throughout the policy formulation, and build consensus on the importance of the costing exercise to ensure it informs policymaking.**

Costing should be viewed as an iterative exercise in the context of planning and financing, not as a one-off exercise. While it is important to do development plan-wide costing, it is also useful to do selected updates, e.g., considering costing incremental investments in health care considering the COVID-19 global pandemic; and to consider the development and costing of forward-looking risk-informed scenarios which could be used to inform dialogue and priorities for investment for the national plan.

It is critical that costing is aligned with the national planning and budgetary processes. For a start, the policies and strategies need to be aligned with the national plan. An exercise needs to be undertaken to determine how the different policies and strategies of budgetary processes can be made consistent with the national planning. Given the evolving global financial landscape, for financing national plan, Lao PDR will have to rely even more on domestic sources and there may be a need for promoting systemic changes in the attitude and mechanisms that govern and channel financing to better exploit the potential options to scale-up and diversify financing commensurate in magnitude with the ambition articulated in the national plan. Lao PDR needs to explore all possible sources of financing including public, private, public-private partnership, non-governmental organizations, foreign direct investment, foreign aid, and remittances.

- **Defining, prior to the costing exercise, its scope (which priorities to cost, at the national and subnational levels, or both) and clarify key parameters (such as the definition of cost).**

The scope of the costing needs to be set at the outset, including whether the costing exercise is at the national or sub-national level, for a development plan or a subset of priority initiatives as well as what the level of ambition will be, along with the cost of inaction. If the cost of implementation for each outcome/output had been estimated separately, the total would overestimate the actual cost of implementation. The issue must be addressed using a process of synchronization across goals and targets. Since there are critical interlinkages among different outcomes/outputs, it is important to look at integrated costing approaches which can deal with board cross-sectoral synergies as opposed to any stand-alone calculation for specific outcomes/outputs.

- **Reviewing programmes, historical costs, and considering availability of data to define the approach and methodologies for the costing exercise.**

Research is important to identify new interventions, historical trends in terms of costs and efficacy of programme interventions. Ideally this should be done with sector experts and line ministry representatives. It is also important to prepare a snapshot of the available data, along with the baselines for relevant outcomes/outputs and their indicators. In particular, there is a need to assess the availability of data for the indicators used in the costing exercise. An analysis of the sources of data, the ways to use alternative/proxy data when specific data are not available, is very important. Before costing, the government needs to determine what it is costing, which would presumably start with their national development plan for which ideally baselines and targets have been set.

- **Engaging experts and relevant sectoral stakeholders early in the costing exercise to collect relevant information, discuss findings, and identify synergies and trade-offs between policy interventions.**

These may need to be tailored to the specific country context and priorities and factor in the availability of data and financing for the costing exercise and appropriateness of methodologies in different contexts. While average unit costs are used to a large extent in costing work, there is a need to underscore the importance of not using a one-size-fits-all approach based on fixed coefficients and linear relationships on the grounds that they seldom allow for economies or diseconomies of scale. There is a growing awareness of the need to ensure that budget allocations support cross-sectoral synergies which provide an essential contribution alongside increased fiscal expenditure for the achievement of the development targets. Ideally, costing calls for a specialized cross-disciplinary team comprising of economists and sector experts, researchers, data analysts and statistical staff etc. working within the framework of technical and substantive coordination as alluded to above.

- **Analysis of costing results with experts and stakeholders to identify synergies, overlaps and scope for joined up actions in programmes to be reflected in modelling.**

In the initial stages there is a need to undertake consultations and interviews of relevant stakeholders to collect information on the costing and different options and potential pathways. This should not be a one-off process as consultations are also needed to refine estimates and identify synergies and trade-offs. In addition, sequencing issues can be explored with experts as reaching a goal or a set of goals can be done in phases which involve different costs at different stages of planning cycle. The framework for costing can benefit from having a shock assessment scenario module that looks at the types of likely shocks, how it will affect the journey towards the implementation of the national plan (i.e., severity)—the likely damage that it would entail and shock adjustment/mitigation measures that need to be incorporated into the costing/financing plan as well as potentially consider risk-transfer mechanisms.

Investment needs across the 9th NSEDP (UNDP-DOP)

Outcome 1: Continuous quality, stable and sustainable economic growth achieved

SDGs: 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production)

A. Overall findings

Outcome 1 of the 9th NSEDP is dependent on progress across the other outcomes, and so the costs of achieving other outcomes contribute to its achievement. Examination of the historical relationship between aggregate investment rates and economic growth provides an approximation of the total investment required to achieve target growth rates. However, this should be treated as an initial estimate as there are important reasons to believe that this significantly underestimates the cost of achieving the different *quality* of growth targeted by the 9th NSEDP. The latter calls for additional investments to facilitate economic diversification and deepening in a variety of areas, scaling up of interventions, and institutional reforms.

The direct financial costs to the state of achieving most outputs under outcome 1 relate to the costs of administrative reforms and systems enhancements and investments, as well as the role of State-Owned Enterprises. These are approximated by the expected operating budgets of responsible ministries to implement agreed plans, plus where relevant development partner support projects. Importantly, these may fall short of the full investments required to realise 9th NSEDP targets if Ministerial plans are not fully funded in line with national ambitions. However, compared to the overall financial costs of the 9th NSEDP, the financial costs of many of these policy reforms are likely to be relatively modest, although implementation of SOE reforms can be costly, e.g., regarding the energy sector.

Realising the objectives set out in Outcome 1 will require many investments beyond the state, given the predominant role of private sector investment in driving growth. Possible measures to influence these investments could have additional financial implications for the state.

B. Outputs

- **Output 1: Quality and sustainable economic growth**

SDGs: 8 (Decent Work and Economic Growth), 9 (Industry, Innovation, and Infrastructure), 12 (Responsible Consumption and Production)

Sustainable and high-quality economic growth is an over-arching objective of the 9th NSEDP, for which progress across all the other outcomes and outputs is required. Therefore, the investments required to achieve this output, include the investments required to achieve many other components of the 9th NSEDP.

A very approximate guide to total investment required to achieve target growth rates can be estimated from analysis of the historical relationship between investment and growth in Lao PDR. Averaged over the past five years, the ratio of change in capital stock (as a proxy for investment) to GDP growth has been 4.7. If this historic ratio was maintained this would imply average investments in productive capital equivalent to approximately 19% of GDP per year, in addition to replacing depreciating capital stock, to achieve a target annual growth rate of 4%. However, this is likely to be a significant underestimate because of limitations in the data available on capital stock and of a declining ratio over time (from 4.4 in 2015 to 5.9 in 2019). Moreover, this estimate does not account for important changes envisaged by the 9th NSEDP in the *quality* of growth, which implies a significantly different growth model that would likely show a different relationship between investments and growth rates.

- **Output 2: Robust and stable macroeconomic management ensured**

SDGs:17 (Partnerships for the Goals)

In 2018, Lao PDR underwent analysis of capacity efficiently manage public expenditure through the PEFA process. Following this, a set of priority reforms have been identified, and initiatives to implement the reforms designed, most recently on the draft Lao PDR public financial management (PFM) reform implementation plan phase 2, step 2 (2021-2025). These are reflected in the policy priorities set out in output 2 of the 9th NSEDP.

Implementing these PFM reforms requires action from across Government, however the Ministry of Finance, has the primary for ensuring the stability of fiscal policy and driving PFM reform, and so would likely account for most costs. In the state budget plan for 2020, the total expenditure by the Ministry of Finance was equivalent to 0.27% of GDP. However, it is not clear if this allocation is calculated based upon the estimates of the cost of implementing priority activities. The Ministry of Finance 5-year plan does not include explicit estimates of the cost of implementation.

In addition to this, development partners have traditionally played an instrumental role in supporting PFM reform efforts, and the PFM reform plan for phase 2, step 2 (2021-2025) envisages funding to come from Government, EU, and the World Bank. Over the corresponding period, the World Bank anticipates disbursements of USD18.5m, and the ADB is considering a USD1.5m investment in strengthening public debt management.

The Bank of Lao PDR has responsibility for exchange rate stability and oversight of the financial system, including implementing plans to strengthen banking supervision in line with international standards.

- **Output 3: Investment quality and effectiveness enhanced**

SDGs:8 (Decent Work and Economic Growth), 17 (Partnerships for the Goals)

Output 3 includes measures to improve the coherence and effectiveness of both public and private sector investments in support of the 9th NSEDP. Measures to improve the effectiveness of public investment centre on development and oversight of sector investment plans' alignment with the NSEDP. The Ministry of Planning and Investment has the primary responsibility for overseeing the quality of public investment.

The Ministry of Planning and Investment also includes the Investment Promotion Department, with responsibility for attracting and overseeing foreign private investment into Lao PDR- with the operational costs for this Department included in the overall ministerial operating costs. The 2020 Budget Plan includes an allocation equivalent to 0.08% of GDP to the Ministry, it is not clear if this includes the cost of investment promotion incentives.

Beyond this, the 9th NSEDP also includes policy priorities to implement measures to improve the business environment to attract more private investment, for which primary responsibility rests with the Ministry of Industry and Commerce. The expected operating expenditure for this over the 9th NSEDP period is equivalent to approximately 0.08% of GDP per year. The World Bank is planning additional support of USD6.5m between 2021 and 2024 to improvement Lao PDR's competitiveness and trade, including reforms to the business environment.

- **Output 4: Better quality, robust and regionally and international competitive micro, small and medium enterprises (MSMEs)**

SDGs: 8 (Decent Work and Economic Growth), 9 (Industry, Innovation, and Infrastructure)

The development of a robust MSME sector would require investments from both the private and public sectors. Globally, the SME Finance Forum has estimated an MSME financing gap of approximately USD5 trillion. Drawing on international data the financing gap for MSME's in Lao PDR was estimated to be equal to 21% of GDP- noting that this is an estimate of the total unmet needs for financing by MSMEs without reference to the specific targets or timeframe of the 9th NSEDP.

No estimates of the cost of implementing Lao PDR's overarching SME support priorities, set out in the SME Development Plan were identified. However, in terms of public sector investments, the cost associated with this would fall within the responsibility of the Ministry of Industry and Commerce. The 5-year plan of the Ministry of Industry and Commerce does not include explicit estimates of the cost of implementation. The allocation to the Ministry in the 2020 Budget Plan was equivalent to 0.09% of GDP, of which 43% was capital expenditure. In addition, between 2021 and 2025, the World Bank anticipates investments of USD40m in support of MSME access to finance and emergency support and recovery.

The 9th NSEDP also stresses the need to improve telecommunications infrastructure access for MSME development, however the primary costs associated with this would be covered under Outcome 5.

- **Output 5: Enhanced efficiency and effectiveness of state-owned enterprises (SOEs) and collective economy**

SDGs: 17 (Partnerships for the Goals)

Output 5 focusses on the development of legislation and administrative reform of SOEs, therefore much of the cost associated with realising objectives would again fall on the operating costs of responsible ministries, in most cases the Ministry of Finance, as well as the SOEs themselves. The 9th NSEDP does not detail specific reforms of individual SOEs that would allow for estimation of specific exceptional costs that could be associated to reform measures at this stage.

Outcome 2: Improved quality of human resources to meet development, research, capacity, science, and technology needs, and create value-added production and services

SDGs: 2 (Zero Hunger), 3 (Good Health and Wellbeing), 4 (Quality Education), 6 (Clean Water and Sanitation)

A. Overall findings

Outcome 2 of the 9th NSEDP covers many of the largest traditional areas of public expenditure, and of the most expensive areas necessary to achieve the SDGs. Prior to the impact of COVID-19, the Sustainable Development Solutions Network has estimated that of the approximately USD400 billion financing *gap* to achieve the SDGs in all Low-Income Developing Countries, more than two-thirds of the additional cost is associated with health, education, and infrastructure expenditure requirements.[1]

For Lao PDR, sector plans for health and education, aligned to the 9th NSEDP, provide estimates of anticipated costs to implement initiatives designed to achieve priority outcomes. Together, these sum to approximately 4.4% of GDP per year. This is well below global estimates of resources required to achieve the corresponding SDGs.

Expected financial costs of achieving the outputs related to skills and science & technology are significantly lower.

B. Outputs

- **Output 1: More inclusive and better-quality healthcare services and nutrition**

SDGs: 2 (Zero Hunger), 3 (Good Health and Wellbeing), 6 (Clean Water and Sanitation)

Significant efforts have gone into costing achievement of health outcomes at both global level and in Lao PDR. An estimate of investment required to achieve the SDG on health in 67 low- and middle-income countries suggests it would reach an average of 7.5% of GDP by 2030. For countries in Asia-Pacific, on average 4.7% of GDP is estimated to need to be spend on health.[2]

Of the total necessary expenditure on health globally, it has been estimated that 75% of the cost is for health systems, primarily driven by infrastructure (including medical equipment) and the workforce.[3] In Asia Pacific, approximately 34% of the additional costs would be needed for infrastructure, 36% for the health workforce, 16% for drugs and consumables, 9% for systems strengthening, 4% for supply chain, and 1% for emergency preparedness.[4]

[1] Sustainable Development Solutions Network (2019); noting that many areas of private investment are not included in estimates.
[2] Stenberg, Karin (2017)
[3] Stenberg *et al* (2017)
[4] Stenberg, Karin (2017)

The Lao PDR Health Sector Development Plan includes estimated budget 2021-2025 for the health sector as a whole based on the budget data each priority program submitted to the Department of Planning and Cooperation (DPC)/Ministry of Health, using two scenarios (international standard of USD 86 per capita per year and the national health sector plan including COVID-19 response of USD 65 per capita per year). Costing related to the COVID-19 response was done in 2020 for 2020-2021, and based on that, the budget for COVID-19 response was projected for 2021-2025.

The Lao PDR Health Sector Development Plan, aligned to the 9th NSEDP, has an estimated budget requirement equivalent to an average of 1.9% of GDP over the 5 years (increasing from 1.6% in 2021 to 2.1% in 2025). This would be equivalent to average total general government health expenditure of USD65 per person per year.[5] In 2018, domestic government expenditure on health was USD22 per person, compared to an average of USD81 for ASEAN low- and middle-income countries.[6]

The National Health Insurance Bureau has also conducted the Essential Health Services Costing and the costing exercise on the public health facilities. Building on this initiative, in 2021 UNFPA developed a model evidence-based Investment Case to estimate the costs and the benefits to scale-up SRMNCAH[i] interventions to reach SDG 3 targets by 2030 in greater detail. The model can be used to optimise an investment strategy, outlining priorities based on highest return of investment of priority interventions at sub-national level.

The National Nutrition Strategy to 2025, which is aligned to the sector plans in health, education, and agriculture is currently being costed. However, most nutrition interventions are reflected in the health sector plan which has already been costed. The 2016-2019 National Plan of Action for Nutrition had an estimated total cost of USD411 million over the 5 years. Of this, only 34.4% was funded, with 90% of this funding coming from development partners.[7]

- **Output 2: Improved quality of all levels of education and conditions created for access to education to support readiness for regional and international integration and Industry 4.0**

SDGs: 4 (Quality Education)

Similarly, significant efforts have gone into costing achievement of education outcomes globally and for Lao PDR.

The Education 2030 Framework for Action sets two key education finance benchmarks for Governments- to allocate 4-6% of GDP to education and/or to allocate 15-20% of public expenditure to education.[8]

[5] Ministry of Health of Lao PDR (2020)
[6] WHO (2021)
[7] Government of Lao PDR and UNICEF (2021)
[8] Education 2030 (2015)

UNESCO has estimated that the *total cost* of achieving universal pre-primary, primary and secondary education in low- and lower-middle-income countries will reach an average of 6.3% of GDP.[9] This is driven by both the need to expand coverage to achieve universal access to education, and to improve the quality of learning and education as set out in SDG4. More recent estimates suggest that the impact of COVID-19 could increase the gap between available and required resources to achieve SDG4 by up to one third, although early remedial action could reduce this significantly.[10]

The Education Commission take a similar analytical approach to UNESCO, estimating a need to increase average education spending in lower-middle income countries to 7.5% of GDP by 2030 (including government, private, and household expenditures).[11]

UNESCO estimates that 84% of total costs require recurrent expenditure, and 11% capital expenditure.[12] In Lao PDR, the Education Law provides that the sector should receive a benchmark target of 18% of the Government Budget per annum, however in practice allocations have consistently been below this, resulting in implementation of education sector plans being scaled back. In particular, the non-wage recurrent and investment budgets in the educations sector are the most under-funded. As set out in the Education and Sports Sector Development Plan (aligned to the 9th NSEDP), maintaining a steady state of progress would require an average 2.8% annual increase in the education sector budget over the 5 years (to close a financing gap of LAK485 billion), whilst realizing a more ambitious 'Education Quality' scenario would require closing a financing gap of LAK1,323 billion. The average annual total cost of delivering the ambitious 'Education Quality' scenario is LAK4,610 billion, equivalent to approximately 2.2% of GDP per year.[13,14]

- **Output 3: Workforce skills and productivity improved, and job diversification, security and income opportunities increased to meet the demands of socio-economic development**

SDGs: 4 (Quality Education), 8 (Decent Work and Economic Growth)

9th NSEDP output 2.3 aligns closely with Outcome 1 of the Ministry of Labour and Social Welfare 5-year plan (2021-2025), which aims to develop workforce skills accross variety of professions, supportin workers to become disciplined experts in their field, with stable employment and higher incomes. This is broken down to outputs and priority initatives considered necessary to achieve the outcome, each with an estimated cost. The total estimated cost over the 5 years is approximately LAK115 billion, equivalent to approximately 0.01% of GDP per year.[15]

[9] UNESCO (2015)
[10] UNESCO (2020)
[11] The Education Commission (2016)
[12] UNESCO (2015)
[13] Ministry of Education and Sports of Lao PDR (2020)
[14] GDP ratio calculations based on nominal Lao Kip GDP projections provided by Ministry of Finance.
[15] Ministry of Labour and Social Welfare of Lao PDR (2020). (9th NSEDP Output 1.3 closely aligns with Outcome 1 of the MoLSW Plan).

The largest costs are associated with skills training and incentives and developing the infrastructure for the efficient delivery of skills training initiatives, developing a labour market database, and establishing an occupational health and safety centre.

- **Output 4: Promoting and utilizing scientific research, technology, innovation and knowledge to drive socio-economic development.**

SDGs: 4 (Quality Education), 8 (Decent Work and Economic Growth) ,9 (Industry, Innovation, and Infrastructure)

Achieving output four implies a mix of investments in higher education and training of scientific researchers and strengthening integration and coordination between research centres and economic activities.

The Lao PDR Education and Sports Sector Development Plan includes a Higher Education sub-Sector Plan, which includes a particular emphasis on natural sciences and technology programs, and STEM-related courses. A breakdown of the total cost of the Sector Development Plan by sub-Sector (which would allow detailed analysis of higher education costs) is not provided. However, importantly, the sub-Sector Plan notes that full achievement of objectives is dependent on a funding envelope that is aligned with the 'Education Quality' scenario, or an increase in ODA specifically targeted to this area.[16]

Enhancing integration of scientific research and economic activities would require shifts in how priorities are set, and how information is shared. This in turn would likely require some investment in developing and promoting coordination systems and approaches, however compared to the overall cost of 9th NSEDP outcomes and outputs, this would likely be modest.

[16] Ministry of Education and Sports of Lao PDR (2020)

Outcome 3: Enhanced well-being of the people

SDGs: 1 (End Poverty), 2 (Zero Hunger), 5 (Gender Equality), 7 (Energy for All), 8 (Decent Work and Economic Growth), 10 (Reduced Inequality), 16 (Peace, Justice, Strong Institutions) and 18 (Lives Safe from UXOs)

A. Overall findings

Outcome 3 of the 9th NSEDP addresses poverty and development disparities in Lao PDR. These include disparities in well-being outcomes resulting from poverty and income status, in opportunities such as access to public services and social protection and underlying disparities between regions and between population groups. The achievement of this outcome is in many ways conditional to the achievement of all other outcomes.

Based on historical relationships between economic growth and poverty reduction, Lao PDR would need to achieve at least a 4% GDP growth rate (consistent with NSEDP objectives to achieve the poverty reduction target). Under the outcome 1 literature review, it was estimated that this level of GDP growth would require approximately 19% of GDP equivalent investments in productive capital net of depreciation per year. Nonetheless, it is important to note that (1) these growth objectives may be limited by the impacts of COVID-19, and (2) current growth drivers may have increasingly limited effects on poverty reduction, as they lead to environmental degradation, pollution, climate change, which are themselves drivers of poverty. It is essential to deliver a qualitatively different type of growth as set out throughout the NSEDP to ensure meeting the poverty reduction target.

Infrastructure development needs as a whole reach around 7% of GDP annually (see outcome 5 literature review). Specifically, with regards to infrastructure needs in rural areas, global estimates identified costs reaching 3.9 percent of GDP for the energy sector, 1.2 percent of GDP for flood protection, 0.5 percent of GDP for irrigation, 5.9 percent of GDP for transport, 2.7 percent of GDP for WASH and 0.8 percent of GDP for telecommunications[17].

While financial resources are important, most strategies for achieving gender equality require a mix of financial investments and political commitment coupled with progressive changes in legislation, political and administrative rules, social attitudes, and norms.

ILO has undertaken a costing of social protection systems in Lao PDR, which found that the planned roll-out of the national social protection strategy would cost around 0.1-0.15% of GDP annually, or 0.5-0.75% of GDP throughout the cycle.

The costs related to UXOs under this output will be USD 525 million over five years, or 105 million a year, which roughly amounts to 0.4-5% of GDP per year.

[17] SDSN, 2019

B. Outputs

- **Output 1: Poverty alleviated in rural and remote areas, and people's livelihoods, cultural values and media work improved**

SDG 1 (End Poverty)

Poverty reduction is complex and multidimensional. Historically, poverty has been reduced through two means: stimulating pro-poor growth, and pro-poor transfers lifting people out of poverty and reducing chances that people fall below the poverty line.

On growth as a driver of poverty reduction, the former UK DFID and OECD compared the experiences of a wide range of developing countries and found consistently strong evidence that rapid and sustained growth is the single most important way to reduce poverty.[18] On average, a one per cent increase in per capita income reduced poverty by 1.7 per cent.

The World Bank-LSB showed that the poverty rate declined by 6.3 percentage points from 24.6 percent in 2012/13 to 18.3 percent in 2018/19.[19] However, poverty elasticity is low. Between 2012/13 and 2018/19, if the annual GDP growth rate averaged 7 percent, and GDP per capita grew at an annual rate of 5.6 percent, a one-percent increase in GDP per capita was associated with a 0.67 percent decline in the poverty rate.[20]

Lao PDR's poverty rate is estimated at 21.5% of GDP in 2021, due to COVID-19[21]. The 9th NSEDP aims to decrease the rate by 7.6 percentage points by 2025, which equals a 1.9 percentage point decrease per year. Taking into consideration the relationship between GDP per capita growth and poverty reduction in Lao PDR (as identified by the World Bank), an annual growth rate of GDP per capita of at least 2.8% is required. In turn, considering the historical relationship between GDP growth and GDP per capita growth (as identified by the World Bank), this requires an annual GDP growth rate of 3.5-4%. This growth figure is consistent with outcome 1 targets. The literature review of outcome 1 estimated that, to achieve the same type of growth as during recent years – FDI-led, anchored on natural resources extraction, driven by infrastructure development – investment in productive capital net of depreciation had to reach 19% of GDP per year. However, there are reasons to believe that the contribution of growth to poverty reduction may decrease due to unsustainable and less inclusive growth and the impacts on the poorest. Consequently, reaching the poverty target set out in the 9th NSEDP may prove progressively more difficult.

Poverty reduction strategies can also include cash transfers to poor households and achieving minimum social protection floors. The cost of cash transfers depends on the extent of poverty, coverage, level of benefits and efficiency. Costing estimates carried out by UNESCAP for LDCs in Asia-Pacific show that the average annual investment gap for the 2016-2030 period is approximately 1 percent of GDP[22] to put in place targeted cash transfers to eliminate poverty, and

[18] UK DFID and OECD DAC, 2007
[19] World Bank, 2020
[20] Ibid.
[21] 9th NSEDP, 2021
[22] GDP in 2018

7 percent of GDP to achieve social protection floors across all ages.[23] ILO estimates that the investment needs for lower income countries would be an average of 6.7 percent of GDP per year (57 of the lowest-income countries) to provide universal social protection, including age-old pension, disability benefits, maternity benefits, and child/orphan benefits.[24] More information is available on social protection under output 4.

- **Output 2: Public utility infrastructure improved and access to public services made more inclusive and equitable**

SDGs: 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy), 9 (Industry, Innovation, and Infrastructure), 10 (Reduced Inequality), 11 (Sustainable Cities and Communities)

This output aims to address the geographic disparities and the urban-rural divide in access to infrastructure and essential public services by targeting locations that lack access to electricity, roads, telecommunication services, water supply and health services. The costs will depend on coverage and spending efficiency.

SDSN found that, for low-income countries in the sample, the total annual costs were equivalent to 3.9 percent of GDP for the energy sector, 1.2 percent of GDP for flood protection, 0.5 percent of GDP for irrigation, 5.9 percent of GDP for transport, 2.7 percent of GDP for WASH and 0.8 percent of GDP for telecommunications (some of these costs are also considered in outcome 4 and 5 literature reviews).

- **Output 3: Equal access to socio-economic development opportunities promoted and the rights of women and children protected**

SDGs: 5 (Gender Equality) and 16 (Peace, Justice, and Strong Institutions)

This output focuses on promoting and creating opportunities for women and children so that they can actively contribute to socioeconomic development.

UNFPA found that the scale-up of Sexual and Reproductive Health and Nutrition, Maternal, New-born, Adolescents, and Child Health interventions could cost an additional USD 109.0 million more than business as usual (baseline scenario) over 2021-2030.

While financial resources are important, most strategies to achieve gender equality require a mix of financial investments and political commitment, coupled with progressive changes in legislation, political and administrative rules, social attitudes, and norms. If the measures or interventions are poorly designed or implemented, increased funding will produce minimal benefits.

Costing gender equality and child rights priorities is typically challenging as they overlap with multiple sectors such as education, health, social protection, employment and livelihoods and

[23] UNESCAP. 2019

[24] ILO, 2019

governance. Policy priorities may have modest financial costs such as legislative reforms or multi-sectoral coordination.

- **Output 4: Promote and develop youth to be quality human resources and participate in the workforce**

SDG 8 (Decent Work and Economic Growth)

This output focuses on youth development and creating opportunities for young women and men to contribute to the development. The investments required include skills development, employment and entrepreneurship programmes for youth in rural areas, creating talent platforms for young people, counselling, rehabilitation and mental health support programmes for discouraged youth, increased access to recreation, health services particularly and Sexual and Reproductive Health services and strengthening capacity of youth unions.

As mentioned above, UNFPA found that, over 2021-2030, the scale-up of Sexual and Reproductive Health and Nutrition, Maternal, New-born, Adolescents, and Child Health interventions could cost an additional USD 109.0 million (additional investments of 0.5%, 0.05% of GDP per year) more than business as usual (baseline scenario). These include family planning priorities, which would support life opportunities for young women.

The first outcome of the Ministry of Labour and Social Welfare (*workforce skills have been developed with variety of professions, being expert in their fields, being disciplined, have stable employment with higher income*) is estimated to cost around USD 12 million across five years.[25]

- **Output 5: Expanded access to more efficient social protection services for the people, including workers in the enterprise sector and self-employed individuals**

SDGs: 1 (End Poverty) and 10 (Reduced Inequality)

Output 5 advances the implementation of the National Social Protection Strategy (NSPS), which includes humanitarian relief assistance and protection for those affected by disasters.

ILO estimated in 2019 that in low-income, lower middle-income and middle-income countries, a social protection floor package, excluding health, would cost 2.4 per cent of GDP on average.

With the launch of the NSPS in 2020, ILO has costed nine non-contributory social protection programmes. This includes the introduction of the child and disability benefits from 2019, which will be implemented during the 9th NSEDP cycle.

These benefits are a standard package for all poor at the national level starting at 100,000 kips (LAK)/month in 2019 and subsequently adjusted annually for inflation. These costs are estimated based on providing benefits only to the poor (poor children; poor persons with disabilities; poor older adults not receiving a pension). The introduction of the child and disability benefits in 2019 would mean an estimated cost of 0.01% of the GDP for both interventions in that year.

[25] MLSW fifth five-year plan (2021-2025)

- **Output 6: Unexploded Ordnance (UXO) clearance progressively accelerated, and more lives made safe from UXO**

SDG 18 (Lives safe from UXO)

The output focuses on minimizing risks from UXO which continues to pose threats to the lives and socio-economic wellbeing of the people. The output focuses on three main priorities - mine risk education, UXO clearance, and victim assistance.

Key targets in this outcome include undertaking technical surveys to identify Confirmed Hazardous Areas (CHA) covering 250,000 hectares, and to clear UXO on 50,000 hectares of agricultural land.

The estimated unit cost of technical surveys is USD 1,600 per hectare. Therefore, the surveying target would cost USD 80 million annually and USD 400 million over five years.

The estimated unit cost of UXO land clearance is US $2,500 per hectare. Achieving the land clearance target would therefore cost USD 25 million a year and USD 125 million over five years. The costs related to UXOs will be USD 525 million over five years, or 105 million a year, which roughly amounts to 0.5% of GDP per year.

Outcome 4: Environmental protection enhanced, and disaster risks reduced

SDGs: 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy), 11 (Sustainable Cities and Communities), 12 (Responsible Consumption and Production), 13 (Climate Action), 15 (Life on Land)

A. Overall findings

Outcome 4 priorities call for increased investments in water, forests, land, and natural resources management. There is also an urgency to invest in disaster risk reduction, including through green and resilient infrastructure.

UNEP, in its 2021 State of Finance for Nature report, estimated that the world needs to at least close a USD 4.1 trillion financing gap in nature by 2050 to tackle the triple planetary crisis, or 536 billion a year (USD 133 billion currently flow into nature-based solutions annually). By 2030, which is the deadline of the Global Agenda for Sustainable Development, additional annual investments must reach USD 354 billion per year, which by implication would be true for the coming five years (UNEP, 2021). The triple planetary crisis management is highly costly and currently vastly under-resourced, with most contributions coming from the public sector (domestic and international) and a limited share originating from the private sector. Additional mobilization of public resources and increased efficiency and targeting are required. However, closing the gap will come from the unprecedented mobilization and realignment of private sector finance in support of sustainability. The nature of the investments required vary, from legal and regulatory changes (which are relatively inexpensive) to green infrastructure and climate change adaptation and mitigation efforts (which are more expensive).

According to global estimates, the costs of green and resilient infrastructure could reach an average of 4-5% of GDP for low and middle-income countries annually (see outcome 5 for more information on the total costs of all infrastructure development, estimated at 5-10% GDP annually). While these investments in natural resources management (notably forest protection and afforestation, in which half of all nature finance should go according to UNEP) and biodiversity protection are relatively costly, the costs of inaction are even more costly and grow with time (World Bank estimates that forest loss and degradation costs 3% of GDP per year)[26].

Lao PDR's 2021 Nationally Determined Contributions, aligned with the 9th NSEDP objectives, estimated that mitigation investment needs amount to USD 4.8 billion by 2030, which is around USD 500 million a year (around 2.6% of GDP per year).

The SDSN estimates that biodiversity protection costs amount to 0.3% of GDP per year, which applied to Lao PDR, would represent USD 60 million a year in 2020.

Taking together the World Bank, the SDSN, and the NDC estimates, the lower band of investment needs in outcome 4 is at no less than 8% of GDP annually, considering that all priorities' costs are not properly accounted for, with important synergies with outcome 1 and 5.

[26] World Bank, 2021

Outcome 4 also includes governance reforms, including legislative and regulatory changes and investments to promote a shift in production and consumption patterns to reduce environmental pollution. These call for catalytic public investments as well as measures to (1) internalize the costs of pollution and (2) unlock private sector finance and promoting private sector to support sustainability objectives. Technical assistance and knowledge transfers are crucial in support of dedicated financial resources, which mostly originate from the public sector (both the State budget and ODA).

The National Pollution strategy estimates that a USD 12 million annual budget can support achieving most prevention and control priorities (counting on unspecified ODA support). This matches global estimate indicating the relatively low financial cost of setting up governance and enforcement mechanisms to internalize pollution costs in production and consumption but is also likely to be an underestimate of the overall costs of tackling pollution in Lao PDR.

B. Outputs

- **Output 1: Natural resources sustainably used and managed**

SDGs: 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy), 12 (Responsible Consumption and Production)

Global estimates give us some boundaries for the potential financial costs of natural resources management.

Forest management represents, at the global level, half of all investment needs in nature according to UNEP State of Finance for Nature report. In another report analyzing the costs and benefits of protected areas according to the globally agreed goal of protecting 30% of the Planet, Waldron et al. identified that biodiversity protection investment needs were mostly required in low and middle-income countries such as Lao PDR, which require international assistance to create and develop protected areas and ensure economic benefits (through nature-based tourism, agricultural production, etc.).

The SDSN estimates that biodiversity protection costs amount to 0.3% of GDP per year, which applied to Lao PDR, would represent around USD 60 million per year.

The World Bank analyzed agroforestry systems in Vietnam and used that analysis as the basis for estimating benefits and costs for agroforestry in Lao PDR. Project benefits were found to be higher than costs in all reforestation, forest conservation, and agroforestry projects. Moreover, another study highlights that currently available financing from government sources is just a fraction (7% during 2013-2018) of the Forest Department budget, with the balance coming from donor projects. This is a key issue that needs to be addressed in the context of financing.

- **Output 2: Green growth promoted, and actions taken towards climate change mitigation**

SDGs:7 (Affordable and Clean Energy), 12 (Responsible Consumption and Production), 13 (Climate Action)

A World Bank report specifically estimated that green infrastructure costs should amount to 4.5% of GDP per year in low and middle-income countries to achieve universal access to WASH, electricity, mobility, food security, protection from disasters and decarbonise the economy (certain priorities are covered under other outcomes). DBS (a Singapore-based bank), triangulating investment needs for ASEAN based on China's own calculations, identified a USD 3 trillion sum from 2016 to 2030 (5% of GDP annually) broken down accordingly: 13% in renewable energy, 13% in energy efficiency, 13% in green agriculture, and 60% in green infrastructure.

Additionally, the financial costs of reorienting public and private investments towards sustainable sectors – a priority of output 4.2 – may be relatively low as they consist of regulatory and legislative changes, supported by adequate enforcement. The mainstreaming of the polluter-pays principle through law enforcement, carbon taxes and Emissions Trading Schemes (internalising the cost of pollution into production and consumption), financial incentives for investments in specific sectors (e.g., feed-in-tariffs for renewable energy, bonuses for EV users), carbon taxes, robust Environmental Impact Assessments, and governance reforms should be critical.

The most recent estimate of Lao PDR's financing needs on the implementation of the green growth agenda, estimated by UNEP Danish Technical University (DTU) Partnership the 2021 update of the country's Nationally Determined Contributions, amounts to USD 4,762 billion, an average of 476,2 million a year between 2020 and 2030 (around 2.5% of 2020 GDP). The estimate is based on Lao PDR's mitigation commitments under the Paris Agreement, captured through the following 8 targets:

- Increased forest cover to 70% of land area.
- Solar and wind capacity increased to 1GW.
- 30% of Electric Vehicle penetration.
- Biofuels meeting 10% of transports fuels.
- 10% reduction of final energy consumption compared to Business as Usual scenario.
- 50,000 hectares adjusted water management practices in lowland rice cultivation.
- Implementation of 500 tons a day of sustainable municipal solid waste management.

This figure is unfortunately an underestimate for output 4.2. It does not capture two essential policy priorities under this output: the costs of supporting the reorientation of economic development towards low-carbon and climate resilient pathway, which are anticipated to be relatively low as mentioned above, and urban planning and green infrastructure, which could cost from 3-5% of GDP annually according to global estimates.

As mentioned before, global research seems to indicate that a wide range of priorities on green growth may not need high levels of resources, but instead, technical assistance and accompanying reforms. The Lao PDR national pollution strategy and action plan 2018 to 2025 with a vision to 2030 estimates that national priorities on pollution prevention (USD 3.7 million) and control (USD 8.9 million) only require a total of USD 12,6 million from the State budget. This is likely an understatement of the cost of pollution management in Lao PDR, considering that the strategy calls for the additional mobilization of ODA, but reflects the relatively low cost of governance and institutional reforms in environmental management.

- **Output 3: Capacities for disaster prevention, management and recovery enhanced**

SDGs: 11 (Sustainable Cities and Communities), 13 (Climate Action)

The International Panel on Climate Change (IPCC) indicated that, as the effects of climate change are increasingly felt across the globe, the costs of adaptation increase. UNEP indicated that the costs of adaptation could rise between USD 280 to 500 billion a year by 2050. Currently, the Adaptation Finance Report found that, in developing countries alone, the costs of adapting to climate change rare estimated at USD 70 billion.

The different stages of disaster risk reduction – prevention, reduction, mitigation, recovery – that the financial costs of disasters can be averted with early investments in the prevention stage. Reconstruction and rehabilitation indeed involve costly housing, transport, and reconstruction programs. Emergency response requires the rapid influx of financial and material resources to victims. On the other hand, disaster risk reduction requires investments in prevention and preparedness, which are less costly but yield important benefits. The World Bank identified that investing in early warning systems can have benefits that are 4 to 36 times higher than the cost of setting them up. Spending on disasters has, consequently, largely been focusing on emergency and recovery: preventive risk reduction only represents 13% of spending between 1991 and 2010.

There are no national estimates for climate change adaptation and resilience priorities. However, the latest NDC provides a breakdown of types of costs, which include, similarly to the green growth agenda, broad types of priorities, which align with the Sendai priorities for action:

- Understanding disaster risk with improved monitoring and evaluation frameworks, data, vulnerability assessments.
- Governance reforms: institutional capacity building, improved cross-sectoral coordination, mainstreaming of climate change adaptation and resilience in sectoral strategies.
- Hard investments in systems, tools, and human capacity to ensure monitoring, forecasting, analysis, early warning and preparedness.
- Response, rehabilitation, and reconstruction, with clear procedures, contingency plans, training of relevant staff

Outcome 5: Regional and international cooperation and integration is enhanced with robust infrastructure and effective utilisation of national potentials and geographical advantages

SDGs: 7 (Affordable and Clean Energy), 9 (Industry, Innovation, and Infrastructure), 11 (Sustainable Cities and Communities)

A. Overall findings

The overarching goal of Outcome 5 is to transform Lao PDR from landlocked to a land-linked country. This will require transformational investments in both physical infrastructure and complementary systems and processes that allow the benefits of the infrastructure to be realized.

The costs of realizing the transformative priorities set out under this Outcome are amongst the most expensive in the 9th NSEDP. The likely cost of Outcome 5 alone far exceeds Government capital expenditure and ODA that is likely to be available. However, the nature of these costs allows scope for greater involvement of private funds, and therefore the full cost is not expected to fall directly on the public budget. This said, important trade-offs exist between concessions to attract private investment, and the need for macroeconomic stabilization set out in Outcome 1. Under Outcome 5, the 9th NSEDP identifies 120 specific projects. Of these, 15 are expected to be financed by the private sector, 8 by ODA, 57 by the public budget, and 40 by as-yet unidentified sources. Specific costs for each of these projects are not available.

Various global estimates suggest that *total* infrastructure investment needs for Lao PDR would be from USD 1 billion or 5% of 2020 GDP (lower World Bank estimate) to USD 2 billion or 10% of GDP (higher IMF estimate) per year over the course of the 9th NSEDP.

Based on the SDSN estimation, Lao PDR would need around USD 1.4 billion a year in infrastructure investment for the period, which amounts to around 7% of 2020 GDP every year. This is consistent with the estimations made by the World Bank: 4.5-8.2% of GDP a year in infrastructure development for low and middle-income countries. Considering Lao PDR's ambitions of linking its economy to its neighbors and its specific geographical situation, it is suggested that this global estimate applied to Lao PDR may be an underestimate, and would be more in line with IMF calculations, which suggest that road, electricity, and water and sanitation alone could cost 7% of 2030 GDP per year, which would roughly be 10% of 2020 GDP every year in the case of Lao PDR.

The investment needs for Outcome 5 will support achievement of targets for Outcome 1 (Output 4), Outcome 2 (Output 2), Outcome 3 (Output 3), Outcome 4 (Output 3), and Outcome 6 (Output 1).

B. Outputs

- **Output 1: Infrastructures improved for national, regional, and international connectivity to facilitate production, services, trade and investment**

SDGs: 9 (Industry, Innovation, and Infrastructure), 17 (Partnerships for the Goals)

The World Bank has estimated that, low- and middle-income countries face investment needs of $1.5 trillion to $2.7 trillion per year (4.5%–8.2% of GDP) between 2015 and 2030 to meet infrastructure investment needs to achieve the SDGs.[27] For road, electricity, and water and sanitation alone, the IMF has estimated annual additional costs equivalent to 7% of 2030 GDP, between 2019 and 2030.[28] For lower-middle income countries, the SDSN has estimated that the average annual cost of infrastructure investment, which includes roads and telecommunication, would be 208.3$ per capita between 2019-2030, which translates into USD 1.4 billion a year, or 7% of 2020 GDP.[29]

These three are not strictly comparable due to differences in samples and methodologies. However, applying average ratios to the Lao context suggests *total* infrastructure investment needs for Lao PDR would be of the order of magnitude of USD 1 billion (lower World Bank estimate) – USD 2 billion (higher IMF estimate) per year over the course of the 9th NSEDP.

However, given the transformational infrastructure vision set out in the 9th NSEDP, full implementation of these policy priorities would significantly exceed these estimates. The Lao-China railway, although by far the most expensive single infrastructure project, alone cost approximately $6.5 billion (36% of GDP, or on average 7% of GDP over the 5-year construction time).[30] The Vientiane- Vang Vieng expressway, completed under the 8th NSEDP, cost $1.2 billion, equivalent to total capital expenditure in 2020 by public budget and ODA combined. These heavy investments are prioritised to continue. For example, under the 9th NSEDP, the Government has approved two expressway projects aiming to connect from Vang Vieng to Luang Namtha ($6 billion) and onwards to Boten ($3.8 billion).

The total cost of realising the objectives set out under Output 1 are therefore amongst the largest in the 9th NSEDP. The nature of the investments, which often focus on the creation of physical assets, allows for greater scope for investment costs to be financed privately. For example, both the Luangnamtha and Boten expressway projects are expected to be financed by Chinese investors under the 'One Belt, One Road' framework.

Output 1 lists 26 investment projects to support connectivity which will require financing from ODA and private investment. These includes the proposed construction of five new dry ports in the northern region estimated to be around $1.5 billion based on the cost estimates of two dry

[27] World Bank (2020)
[28] IMF (2019)
[29] SDSN (2019)
[30] World Bank (2020)

ports recently approved.[31] This would require the annual investment flow of around USD 360 million over five years 2021-2025 from the private sector.

- **Output 2: Regional and international trade and investment cooperation and integration enhanced and expanded**

SDGs: 8 (Decent Work and Economic Growth), 17 (Partnerships for the Goals)

Output 2 emphasizes the needs to strengthen regional and international cooperation and integration to increase international trade and freight volumes. In addition to the hard infrastructure investments required to facilitate this set out under Output 1, important factors for the achievement of this output include commitment to and investments in improving the business environment and regulatory reforms to allow private sector to thrive, therefore increasing production and exports. This is closely linked to the priorities set out under Outcome 1, but with specific focus on trade facilitation. The costs of trade facilitation are not documented, but consisting of legal and regulatory changes, are unlikely to be high, especially compared with the costs of infrastructure development itself.

There are 13 ongoing trade-related projects, with a total value of USD 74 million supporting trade facilitation, customs, and tax integration, and improving business environment, and trade promotion.[32] In order to realise the 9th NSEDP vision of strengthened regional integration becoming a major driver of development progress, and the imperative to make full use of the opportunities created by major infrastructure investments, greater financial investments in trade facilitation are likely required.

- **Output 3: Robust regional and local development based on the potential of each region**

SDGs: 8 (Decent Work and Economic Growth), 9 (Industry, Innovation, and Infrastructure)

This output aims to utilize the geographic endowment of provinces and regions, supporting the decentralized approach to development under Outcome 6 and recognising the different needs and opportunities across the country.

For the northern provinces, this aims to take advantage of the Lao-China railway and expressway projects for trade and tourism. While the investments associated with land connectivity through railway and highways in the north are underway, investment in regulatory reforms will be needed to ensure Lao PDR can take advantage of the improved land connectivity in the northern region. For the central and the south regions, policy priorities are focused on service and agricultural production, including through Special Economic Zones and industrial zones.

The costs of realising this output are closely related to other areas of the 9th NSEDP, including Outcome 1 (on overall economic development), Outcome 2 (given the need for investments in a productive workforce), and Outcome 6 (on decentralized governance). Within Outcome 5, it is also dependent on infrastructure investments under Output 1, and trade facilitation under Output 2.

[31] Vientiane Times (2021)
[32] Lao Competitiveness and Trade Project (World Bank); Lao Business Environment Project (USAID)

However, one specific implication of the sub-national approach set out under Output 3 relates to how these investments should be prioritised and implemented, with a clear role for sub-national levels of governance.

Output 4: Urban and Special Economic Zones developed into production, investment, trade and tourism bases for regional and international integration
SDGs: 6 (Clean Water and Sanitation), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation, and Infrastructure), 11 (Sustainable Cities and Communities), 12 (Responsible Consumption and Production), 13 (Climate Action)

Output 4 sets out the needs and expectations for the roles of two geographically specific entities in economic development- urban areas and Special Economic Zones (SEZs).

Lao PDR is seeing rapid urbanization, currently at 37%, straining capacity to plan, deliver services and amenities, and manage risks and increased volumes of wastes, air pollution, and the lack of drainage. While the costs estimate of nationwide urban development is not available, ADB has proposed a USD 100 million loan for Sustainable Urban Transport system for Vientiane capital alone.[33]

The costs of developing new SEZs can vary. To date, there are 12 SEZs in Lao PDR with an estimated total investment of USD 43.8 billion and registered capital of USD 14.3 billion. This translates into an average investment of USD 3.6 billion per SEZ. Output 5 proposes 4 new SEZs to be constructed over the next five years. Assuming the same average investment for each of these, total investment needs would be approximately USD 14 billion or USD 2.9 billion annually.[34] However, the actual flows of investment can take longer than five years, and so may be spread over a longer duration than the 9th NSEDP. By nature, the vast majority of this is private investment.

A specific note should be made of the relationship between the costs of Output 4 and Outcome 1, in particular with regards to stable macroeconomic management requiring increased state revenues. Concessions granted to SEZs to attract private investment (meeting the cost of Output 4), can reduce state revenues and complicate the achievement of Outcome 1 (increasing the challenge of macroeconomic stabilization) if not carefully balanced and managed.

[33] SDC, 2018
[34] Vientiane Times (2020)

Outcome 6: Public governance and administration is improved, and society is equal, fair, and protected by the rule of law

SDGs: 16 (Peace, Justice, and Strong Institutions) and 17 (Global Partnerships)

A. Overall findings

Outcome 6 has a cross-cutting nature as it squarely focuses on maintaining and strengthening the capacity of the public administration in support of sustainable development progress, including at local levels, through civil service reform and legal and regulatory changes, including taking forward decentralisation (Sam Sang Directive) coupled with a focus on modernising public administration. The focus of the outcome is therefore closely aligned with SDG 16 targets on the rule of law, corruption-free environments, participation, public information, public administration modernisation as well as local governance and service delivery and SDG 17 targets on revenue mobilisation data and statistics and technology.

Most important findings include:

- Priorities of outcome 6 are mostly concerned with improving public sector efficiency and effectiveness and therefore imply a heavy reliance on public sector investment (domestic and international), as it has been the case historically.
- Many policy priorities contained in outcome 6 are considered to require relatively modest investments as they consist in legislative and regulatory improvements. Capacity-building, implementation, and enforcement require more costly investments in human capital and systems.
- Considering the cross-cutting nature of governance, priorities on institution-building and systems strengthening are usually considered in sectoral cost estimates. Nonetheless, taken together, governance priorities, which are found across the entire 9th NSEDP and not only in outcome 6, were estimated, to require 5.9% of GDP of annual investments.
- Data-related priorities were estimated to amount to USD 1 billion a year in low and middle-income countries.
- For low-income countries it is estimated that achieving justice targets would cost USD 20 per person to provide access to basic justice services, for middle-income countries the cost would increase to USD 64 per person. In Lao PDR, this would amount to USD 146-467 million a year, which represents around 0.7-2.5% of GDP.

B. Outputs

- **Output 1: Enhanced efficiency of public governance and administration and deepened implementation of the Sam Sang Directive** and **Output 2: Improved and harmonised coordination mechanisms and regulations within the public sector to increase efficiency**

Output 1 covers policy priorities to support a more efficient and modern public administration delivering better quality and targeted public services, including digitalization of public services, civil service reform, reform of ministries' mandates, effective decentralization (implementation of the Sam Sang Directive), improvement of the planning cycle, and of national and SDG indicators, data, the monitoring and evaluation frameworks to track progress. Output 2 supports output 1 on the systems and coordination mechanisms required for a modern administration responding to public needs. This includes improved public information and communication, enhanced implementation of the structure of the public sector for increase efficiency and accountability, including through e-governance, user feedback, and improved human capacity. Considering the complementarities between outputs 1 and 2, and the limited availability of sources on specific governance sub-sectors costs, these two outputs are considered together.

A systematic review of the literature indicates that there are few comparable global estimates of the costs of public governance and administration reform, and the investment needs of the defence and public security sectors. These do not fall under the purview of development expenditures and are likely to vary according to political systems, country contexts, and civil services. SDSN reported that the costs of "national governance" amount to 5.9% of GDP in lower-middle-income countries, referencing a 2019 IMF paper. Various estimates found in the other costing literature reviews include governance specific changes (see the outcome 2 brief on health and education for instance). Nonetheless, in addition to the 5.9% reference from the SDSN and IMF papers, global estimates have been identified for data and statistical capacity improvements in support of national priorities (USD 1 billion per year in IDA-eligible countries between 2015 and 2030) and the justice sector, which represents 3% of total investment needs to achieve the SDGs.

The cost of improving data availability, coverage, disaggregation and monitoring and evaluation was estimated to reach close to USD 1 billion per annum through to 2030 in a selection of 77 countries that were accessing International Development Association funding in 2015. The report also offers a breakdown of main activities according to areas to invest in:

- National Survey Programs, which include household, labour, and agricultural surveys, represent 14-19% of the total investment needs.
- Censuses represent 34-35%.
- Civil Registration and Vital Statistics (CRVS) represent 23-24%.
- Economic statistics represent 2.5%.
- Geospatial and environmental monitoring represent 12-13%.

It also provides a breakdown of type of investment needs required: in lower-middle income and middle-density countries, around 75% of investment needs are in statistical infrastructure, which includes sampling frames, business registers, geocoding and data collection costs, 15% are in human resources investments in the form of training and technical assistance, while physical infrastructure and policy and institutional changes only respectively accounted for 8% and 2%.

Most of the 9th NSEDP policy priorities are regulatory and legal updates which are not financially costly but technically challenging: redefining civil service regulations, mandates, and duties of ministries, streamlining of organisational structures, enhanced procedures for recruitment of staff, new regulations in terms of civil servants' performance reviews, and mainstreaming of the Sam Sang Directive. These regulatory and legal changes are usually supported by development partners, which bring necessary technical assistance and resources complementing the State budget. It is worth noting that these policy changes require additional and more costly and longterm investments in training and capacity building, salary reforms, as well as enforcement and justice, which are covered under output 3.

Output 3: Ensure political stability, peace and order, unity, democracy, justice, and civilization within society

Output 3 is quite comprehensive and touches upon a variety of topics generally found under SDG 16 to support a peaceful society and robust institutions. Firstly, it focuses on the implementation of the rule of law, through legislative updates and increased implementation, including of human rights obligations and recommendations by the Universal Periodic Review. It aims to promote the participation of civil society to sustainable development decision-making. The output also includes the strengthening of the legislative branch of government and of law enforcement, notably for border management, drug trafficking, and transnational crime. It also pursues the modernisation and strengthening of laws and regulations to prevent any form of discrimination and abuse against vulnerable groups and strengthen the quality and reach of legal aid in the country, including through e-justice mechanisms. Output 3 also considers areas not well considered under the SDG framework on public security, defence, and some elements of public administration reform and services.

Across low-income countries, the cost of achieving the SDGs related to justice has been estimated to be on average USD 34.9 billion per year through to 2030, or 3% of the total cost of achieving the SDGs. For low-income countries it is estimated that it would cost USD 20 per person to provide access to basic justice services, for middle-income countries the cost would increase to USD 64 per person. In Lao PDR, this would amount to USD 146-467 million a year, which represents around 0.7-2.5% of GDP. The report, prepared by the Task Force on Justice, estimated that these investments would allow for the development of a justice system at a local level with informal mechanisms and formal institutions such as the police and courts. According to the Task Force, the drivers of costs are human capacity investments, and costs are estimated from staff numbers and likely salaries.

As for defence and national security, the only information available is an IMF report, which estimated that low-income developing countries and emerging market economies spent on average 2.1% and 2.7% of GDP on these issues.

References

A. Outcome 1

- ADB, "Proposed Project: Strengthening Public Debt Management and Promoting Debt Transparency" 2021
- Bank of the Lao PDR, "Basel Master Plan and Implementation plan for Bank Supervision Development towards Basel Standards", November 2017
- Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), "The Next Generation of the Penn World Table" American Economic Review, 105(10), 3150-3182
- IFC, World Bank Group and SME Finance Forum, "MSME Finance Gap: Assessment of the shortfalls and opportunities in financing Micro, Small and Medium Enterprises in Emerging Markets", 2017
- Lao National Chamber of Commerce and Industry, "Strategic Action Plan for Private Sector Development in the Lao PDR 2021-2025", December 2020
- Ministry of Finance of Lao PDR, "*Draft* Public Finance Management Reform Implementation Plan, Step 2 (2021-2025) of Phase II (2018-2025)- the road towards a strong, transparent, modern, and fair Public Finance Management System", 2021
- Ministry of Finance of Lao PDR, "State Budget Plan for Fiscal Year 2020", 2020
- OECD, "OECD Investment Policy Revies: Lao PDR- Corporate Governance in Lao PDR", 2017
- World Bank, EU, and Government of Lao PDR, "Lao People's Democratic Republic Public Expenditure and Financial Accountability (PEFA) Assessment 2018", March 2019
- World Bank, "Lao PDR Competitiveness and Trade project Additional Financing: Combined Project Information Document/Integrated Safeguards Datasheet", June 2021 (a)
- World Bank, "Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project" 2021(b)
- World Bank, "Project Appraisal Document: Enhancing Public Financial Management through information and Communication Technology and Skills (E-FITS) Project", February 2019

B. Outcome 2

- Development Initiatives, "The cost of achieving SDG3 and SDG4", March 2020
- Education 2030 (UNESCO, UNDP, UNFPA, UNHCR, UNICEF, UN Women, World Bank Group, ILO), "Incheon Declaration and Framework for Action for the implementation of Sustainable Development Goal 4", 2015
- The Education Commission, "The Learning Generation: Investing in education for a changing world", 2016
- Government of Lao PDR and UNICEF, "Nutrition Budget Brief 2016-2019: Lao People's Democratic Republic", 2021
- Ministry of Education and Sports of Lao PDR, "Education and Sports Sector Development Plan 2021-2025", October 2020

- Ministry of Health of Lao PDR, "Summary of the Implementation of the 8th Five-Year Health Sector Development Plan (2016-2020) and the 9th Five-Year Health Sector Development Plan (2021-2025)", August 2021
- Ministry of Labour and Social Welfare of Lao PDR, "The 5th Five-Year (2021-2025) Labour and Social Welfare Development Plan", 2020
- Stenberg, Karin, "Health (SDG3 and Beyond): Investment needs for Achieving the Sustainable Development Goals in Asia and the Pacific", Presentation, November 2017 (Supplementary appendix)
- Stenberg, Karin; Hanssen, Odd; Tan-Torres Edejer, Tessa; Bertram, Melanie; Brindley, Callum; Meshreky, Andreia; Rosen, James E; Stover, John; Verboom, Paul; Sanders, Rachel; Soucat, Agnes , "Financing transformative health systems towards achievement of the health Sustainable Development Goals: a model for projected resource needs in 67 low-income and middle-income countries", *The Lancet*, September 2017
- Sustainable Development Solutions Network, "SDG Costing and Financing for Low-Income Developing Countries", September 2019
- UNESCO, "Pricing the Right to Education: the cost of reaching new targets by 2030", 2015
- UNESCO, "Act now: Reduce the impact of COVID-19 on the cost of achieving SDG 4", September 2020
- WHO, Global Health Expenditure Database, 2021 (accessed on 10 September 2021)

C. Outcome 3

- Grown, Bahadur et al. Financial requirements of achieving gender equality and women's empowerment. Paper prepared for the World Bank, 2006.
- ILO, Measuring financing gaps in social protection for achieving SDG target 1.3 - Global estimates and strategies for developing countries, 2019
- ILO, Financing gaps in social protection Global estimates and strategies for developing countries considering the COVID-19 crisis and beyond, 2020
- Sustainable Development Solutions Network, "SDG Costing and Financing for Low-Income Developing Countries", September 2019
- UNESCAP. Economic and Social Survey of Asia and The Pacific 2019 - Ambitions Beyond Growth. 2019.
- UNESCO. Global Education Monitoring Report 2020: Inclusion and education: All means all. 2020
- UK DFID and OECD DAC, Growth, Building Jobs and Prosperity in Developing Countries, 2007.
- World Bank. Poverty Assessment, 2020.

D. Outcome 4

Global

- Development Bank of Singapore (DBS) and UN Environment Inquiry, "Green Finance Opportunities in ASEAN', 2017

- Global Green Growth Institute, "Mind the Gap: bridging the Climate Financing Gap with Innovative Financial Mechanisms", November 2016
- Sustainable Development Solutions Network (SDSN), "SDG Costing and Financing for Low-Income Developing Countries", September 2019
- UNEP and Overseas Development Institute (ODI), Finance for Reducing Disaster Risk, 2015
- UNEP, Adaptation Gap Report 2020, 2021
- UNEP, in collaboration with Vivid Economics, "State of Finance for Nature", May 2021
- Waldron et. Al, "Protecting 30% of the planet for nature: costs, benefits and economic implications", date unknown
- World Bank Group, "Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet", 2019
- World Bank "Environmental Challenges for Green Growth and Poverty Reduction: A Country Environmental Analysis for the Lao People's Democratic Republic" 2021
- World Bank "Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience. 2020"
- World Bank "Environmental Challenges for Green Growth and Poverty Reduction: A Country Environmental Analysis for the Lao PDR (CEA)" 2019
- World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR) *Lifelines: The Resilient Infrastructure Opportunity*. 2019
- World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR) "Disaster Risk Finance Country Diagnostic Note: Lao PDR" 2017.

National strategies

- National Biodiversity Strategy and Action Plan 2016-2025, 2016
- Green Climate Fund, Green Climate Fund Country Document, 2019
- Lao PDR government, National Adaptation Plan of Action, 2009
- Lao PDR government, Renewable Energy Strategy, 2011
- Lao PDR government, Nationally Determined Contributions, 2021
- The Ministry of Natural Resources and the Environment, MoNRE vision to 2030, 2015
- The Ministry of Natural Resources and the Environment, National Pollution Strategy, 2017
- Secretariat for Formulation of National Green Growth Strategy of Lao PDR, Green Growth Strategy, 2018

E. Outcome 5

Global

- IMF, Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs, 2019.
- Sustainable Development Solutions Network (SDSN), "SDG Costing and Financing for Low-Income Developing Countries", September 2019
- University of Bern, Urbanization processes in the Lao PDR, 2018
- World Bank, Understanding the Cost of Achieving the Sustainable Development Goals, 2020

National

- Department of Investment Promotion, Ministry of Planning and Investment
- Ministry of Industry and Commerce and Industry, List of All Ongoing Trade Projects

- Vientiane Times, Special economic zones attract US$5.7 b, 2020
- Vientiane Times (2021) Thanaleng Dry Port, Vientiane Logistics Park bolster Lao PDR' logistics link, land-link transformation effort - European Chamber of Commerce and Industry in Lao PDR (eccil.org)
- Vientiane Times, Special Economic Zones attracts 5.7$ of investment

F. Outcome 6

- Sustainable Development Solutions Network, A Needs Assessment for SDG Monitoring and Statistical Capacity Development, 2015
- Sustainable Development Solutions Network, "SDG Costing and Financing for Low-Income Developing Countries", September 2019
- The Task Force on Justice, "Justice for All", April 2019
- UNDESA, Peer-to-Peer Learning International Workshop on One-Door-Service Centers August 2021 Peer-to-Peer Learning International Workshop on One-Door-Service Centers
- Word Bank, Citizen Service Centres Pathways Toward Improved Public Service Delivery

Model investment case for the health sector (UNFPA-MOH)

A. The context

- **Why focusing on the health sector in a Joint Programme on financing for development?**

The model investment case for the health sector not only supports the identification of most relevant interventions in a crucial sector for Lao PDR, but also ambitions to set a standard in evidence-based policymaking, when robust diagnostics, the costing estimates of health interventions and development returns, inform prioritization.

This workstream, led by MoH with UNFPA's support, has two parallel objectives: identify most relevant and efficient interventions in the health sector, and set a precedent in terms of evidence-based policymaking. The selection of the health sector is based on the role of improvements of development outcomes in the health sector in achieving national development priorities (considering the 9th NSEDP prioritization of investments in human capital), the 2030 Agenda for Sustainable Development, and LDC Graduation.

With regards to the health dimension, the project has two objectives, at both the national and provincial levels, which are to **(1) estimate the costs, health impacts, and economics impacts of scaling up health interventions, and (2) develop a prioritization strategy**. Its role in setting standards in terms of evidence-based policymaking is equally important.

- **The demographic change**

The population growth in Lao PDR and its changing structure and regional distribution will have decisive impacts on health services in the years to come. With current trends, the total population of Lao PDR is projected to increase by almost 1 million people to reach 8.1 million in 2030. One out of ten people will be older than 65 years of age, and the largest age group will be females of reproductive age from 15-49 years (Figure 1). Therefore, limiting the adverse health effects of ageing and ensuring good health for those entering the working age are necessary pre-conditions for harnessing the chances for a demographic dividend.

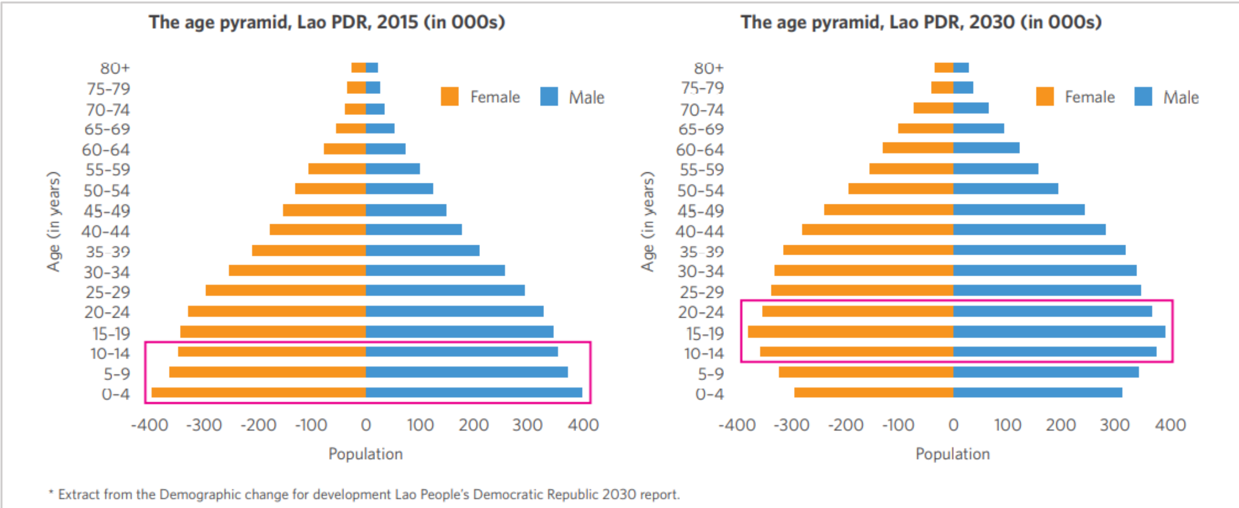

Figure 1: Current and Projected Age Structure of Lao PDR

As the population grows, the demand for medical services, health care personnel, and hospital beds will increase. Changes in age composition are leading to a larger elderly population and growth in the share of females of reproductive ages from 15–49 years, with the consequent change in demand for health services for each group population group.

Adequate investments are required to meet the needs of girls, boys, and women for comprehensive sexual education, for quality sexual reproductive health information and services, which will help reduce the adolescent birth rate and infant, child, and maternal mortality rates. Addressing this unmet need for girls and women must also include health insurance and social security measures.

This demographic transition also comes with a rapidly rising demand for non-communicable diseases related to personal behaviors, which can be more dangerous to older people and more expensive to treat.

- **Projected public health expenditures in the 9th NSEDP**

There are inconsistencies between current public allocations for health and the 9th NSEDP policy priorities and estimates that will need to be resolved.

General government health expenditure as a share of government expenditure shows the government priority to health, which have been increased over the past years from 4.8% in 2013 to 8.9% in 2019 (NHA 2021 report). However, total resources allocated to health in 2020 was 1.01% of GDP, well below recommended standards and ASEAN peers.

Furthermore, aligned to the 9th NSEDP, **MOF is estimating annual General Government Health Expenditures as 5,66% of Total General Government Expenditures for the 2021-2025 period, from LAK 1,789 billion in 2021 to LAK 2,670 in 2025**, well below 10% projected by MOH in the 9th Health Sector Development Plan (2021-2025) (Table 1).

Table 1: Projections for health expenditures (9th NSEDP, MOF)

9th NSEDP Five Years Budget Plan (2021 - 2025), MOF						
						Unit: Billion LAK
	Plan	Forecast	Forecast	Forecast	Forecast	Plan
	2021	2022	2023	2024	2025	2021 - 2025
Total General Government Expenditures	**31,583**	**33,713**	**35,881**	**41,681**	**47,142**	**190,000**
A. Total General Government Health Expenditures (MOF projections: 5.66% of Total Exp	**1,789**	**1,910**	**2,032**	**2,361**	**2,670**	**10,762**
% Total Expenditures	5.66%	5.66%	5.66%	5.66%	5.66%	5.66%
% of Real GDP	0.99%	1.00%	0.99%	1.07%	1.13%	1.04%

- **Scope of the Investment Case**

The Investment Case aims to estimate the financial needs, health gains, benefits and benefit-cost ratios of investing in a range of Sexual and Reproductive Health (SRH), as well as Nutrition, Maternal, New-born, Adolescents and Child Health (NMNCAH) interventions:

Family Planning	Immunization (children)
Antenatal Care	Child Health
Delivery Care	Nutrition
New-born Care	HIV (mothers and pregnant women)
Breastfeeding	Others[35]

Although outside the scope of the investment case, costs presented in this brief also include **Immunization, Non-communicable diseases (NCD) and Communicable diseases (CD)** obtained directly from the costing of the **Essential Health Services Package Report**.

B. Results

- **Estimation of costs**

MOF estimates total general government health expenditures (GGHE) for 2021-2025 at LAK 10,672 billion, as 5.66% of total spending. Drawing from the costing of the Essential Health Services Package and estimation of financial needs for SRHNMNCAH interventions calculated in the Investment Case, half of the GGHE would be required to pay for Direct Programs Cost for health (LAK 5,480 billion).

Noting that external funding finances a significant amount of health program costs, a comprehensive fiscal space analysis for health is outside the scope of the Investment Case and this brief. It should be undertaken considering ODA support and private sector investments.

Most estimated total direct program costs are required for non-communicable diseases (NCD) and Communicable diseases (CD). The total investments estimated in the investment case for

[35] Folic acid supplementation/fortification; Safe abortion services; Post abortion case management; Ectopic pregnancy case management; Blanket iron supplementation/fortification; Improved sanitation; Utilization of latrines; Improved water source; Improved water source - Water connection in the home; Handwashing with soap; Hygienic Disposal of Children's stool; ITN.

SRHNMNCAH interventions[36] are LAK 553 billion (USD 58 million) between 2021 and 2025 (Table 2)**.**

Table 2: Projections for health expenditures (9th NSEDP, MOF) and total direct costs for health

9th NSEDP Five Years Budget Plan (2021 - 2025), MOF						
						Unit: Billion LAK
	Plan	Forecast	Forecast	Forecast	Forecast	Plan
	2021	2022	2023	2024	2025	2021 - 2025
Total General Government Expenditures	**31,583**	**33,713**	**35,881**	**41,681**	**47,142**	**190,000**
A. Total General Government Health Expenditures (MOF projections: 5.66% of Total Exp	**1,789**	**1,910**	**2,032**	**2,361**	**2,670**	**10,762**
% Total Expenditures	5.66%	5.66%	5.66%	5.66%	5.66%	5.66%
% of Real GDP	0.99%	1.00%	0.99%	1.07%	1.13%	1.04%
B: Total Direct Programs Costs (B1+B2+B3+B4)	**778**	**921**	**1,097**	**1,259**	**1,424**	**5,480**
B1: Immunization (Costing EHSP)	55	70	83	83	83	**376**
B2: SRHMNCAH (UNFPA Investment Case)	65	68	106	140	175	**553**
B3: NCD (Costing EHSP)	140	179	216	258	301	**1,094**
B4: CD (Costing EHSP)	518	605	692	778	865	**3,458**
C: Other Public Health Costs (A-B)	**1,011**	**988**	**936**	**1,102**	**1,246**	**5,282**

For SRHNMNCAH, in the next five years, most investments are needed for Family Planning, followed by Child Health and Maternal Health (Antenatal and Delivery care), Figure 2 .

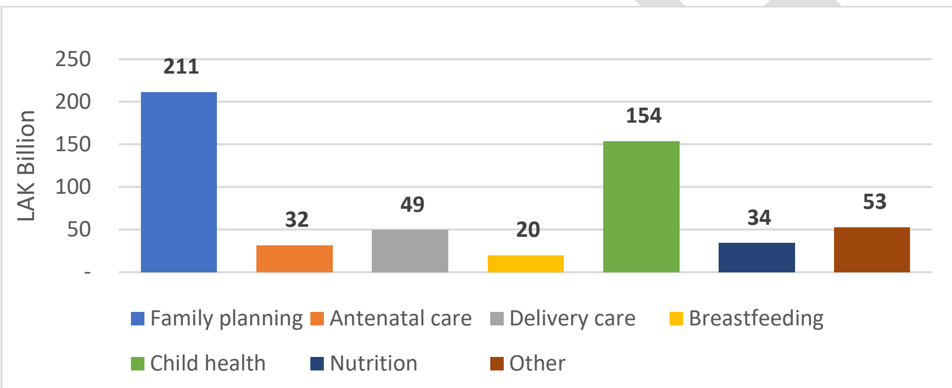

Figure 2: Estimated Total Direct Program Costs for SRHMNCAH, 2021-2025, Billion LAK

To progress toward universal coverage by 2030, annual investments for SRHNMNCAH must continue to increase over time beyond 2025 to reach Full Coverage targets by 2030 (Figure 3).

[36] For each intervention, costs consist of inpatient, outpatient, outreach, procedure, counselling, and follow-up; each of which is made up of medical personnel cost, diagnostic, drug, and (non-pharmaceutical) consumables cost.

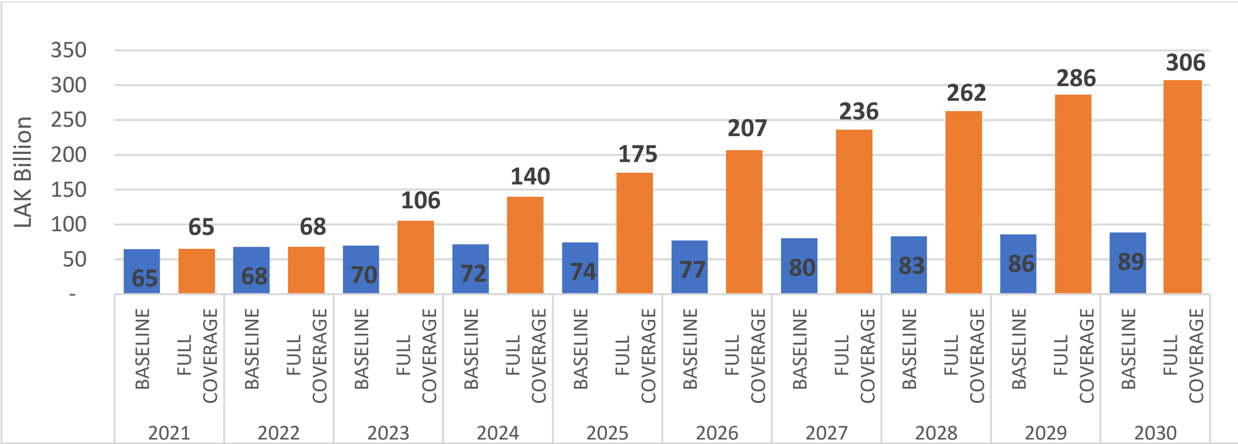

Figure 3: Annual investments required for SRHNMNCAH to reach full coverage by 2030, Billion LAK

- **Benefit-costs of SRHNMNCAH interventions**

Within SRHNMNCAH, **Family Planning** has the highest benefit-cost ratio by a significant margin. Furthermore, it can reduce the cost of other interventions due to reduced delivery/newborn care costs from unintended pregnancies averted; economic gains from workforce participation, and additional years of education for teenagers avoiding unintended pregnancies.

The next highest benefit-cost ratios were for **Childhood Vaccination, Breastfeeding Promotion and HIV interventions**, driven by the low cost of vaccines and the significant number of child deaths they can avert. The other highest benefits cost ratios interventions were **Antenatal care**, **Nutrition** and **Delivery care**, respectively

The benefit-cost ratio for investing in **Child Health** is relatively lower, largely due to the higher intervention unit costs. However, the impact on child mortality is still significant. Within the set of child health interventions, approximately 2/3 of the impact can be achieved by scaling up only ORS and oral antibiotics for pneumonia, for a small proportion of the cost.

For **Nutrition**, treatment of MAM accounts for 80% of the impact and only 40% of the cost. Note that full benefits of malnutrition and child health, particularly reductions in stunting, may not be captured over the 2030 time frame.

- **Expected health benefits and progress towards the Sustainable Development Goals**

The Investment Case considers the potential impacts of investing to meet full coverage targets for SRHNMNCAH interventions by 2030 in Lao PDR. Health outcomes are compared across two scenarios between 2020 and 2030 for a Baseline scenario and a Scale up scenario, the latter defined as reaching 95 per cent coverage targets by 2030 (family planning interventions achieving

0 per cent unmet need by 2030 as included in the National Strategy and the International Conference on Population and Development (ICPD) agenda), Figure 4.

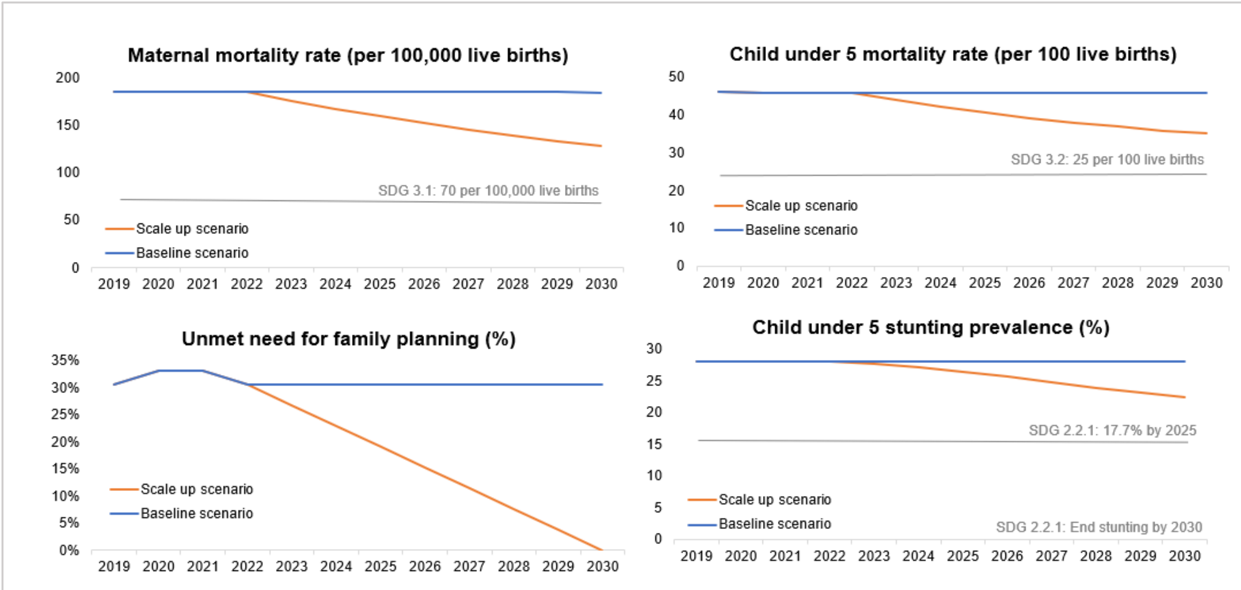

Figure 4: Health impacts of full scale up scenario

The full scale up scenario although would allow to reach zero unmet need for family planning by 2030 and greatly reduces these health indicators, but in some cases does not meet targets for SDG 2.2.1, SDG 3.1 and SDG 3.2. This suggests that additional factors (i.e., beyond the specific interventions in this analysis) are also required to make progress toward the Sustainable Development goals.

Full scale-up of SRHNMNACH interventions could cost an additional USD 109.0 million more than business as usual (baseline scenario) over 2021-2030, but:

- Avert 1,044,000 unintended pregnancies
- Avert 286 maternal deaths, 6,866 child deaths and 5,070 stillbirths
- Reduce stunting prevalence children under 5 by 5.6 percentage points
- Generate USD 661.5 million in economic benefits by 2030 (benefit-cost ratio = 6.0)

The significantly high number of unintended pregnancies averted scaling up family planning interventions explains the relatively low number of estimated maternal deaths averted (286).

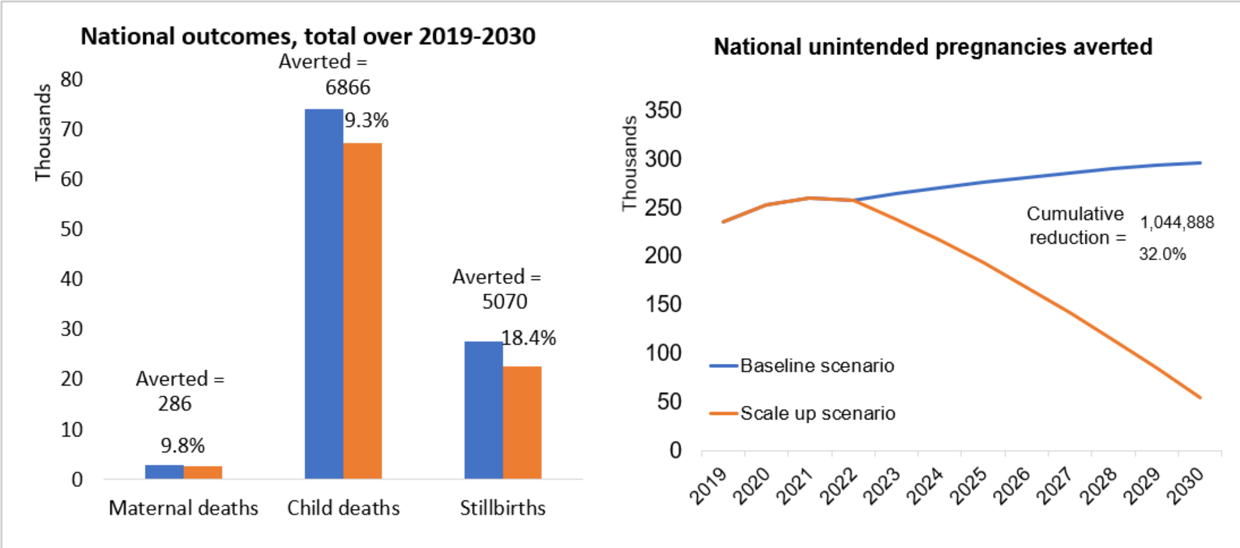

Figure 5: National health outcomes for full scale up scenario

- **Subnational prioritization strategy**

At the subnational level, the highest returns come from investing in provinces with the highest burdens, mainly highest mortality rates.

Compared to a proportional allocation of resources, certain provinces would require above or below average funding per capita, Figure 6

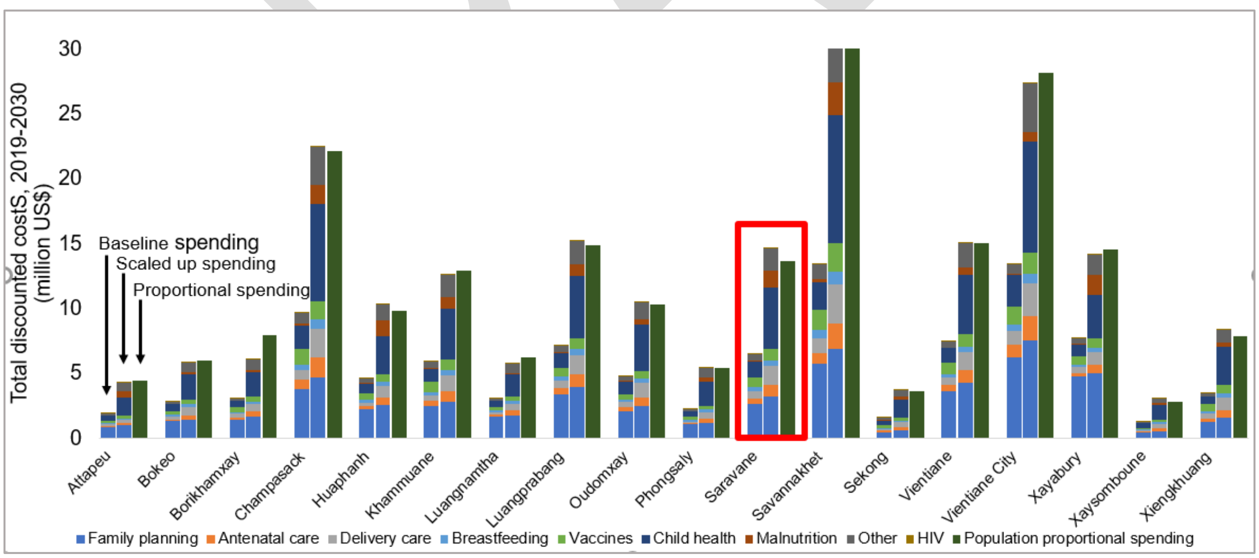

Figure 6: Costs of baseline scenario, full coverage scenario and spending proportional to population, by region and health area

For example, Saravane province would require above-average funding per capita and a specific mix of interventions. This is This is because Saravane has the lowest ANC coverage, one of the highest rates of unmet need for family planning, and one of the lowest coverages of health facility deliveries, Figure 7.

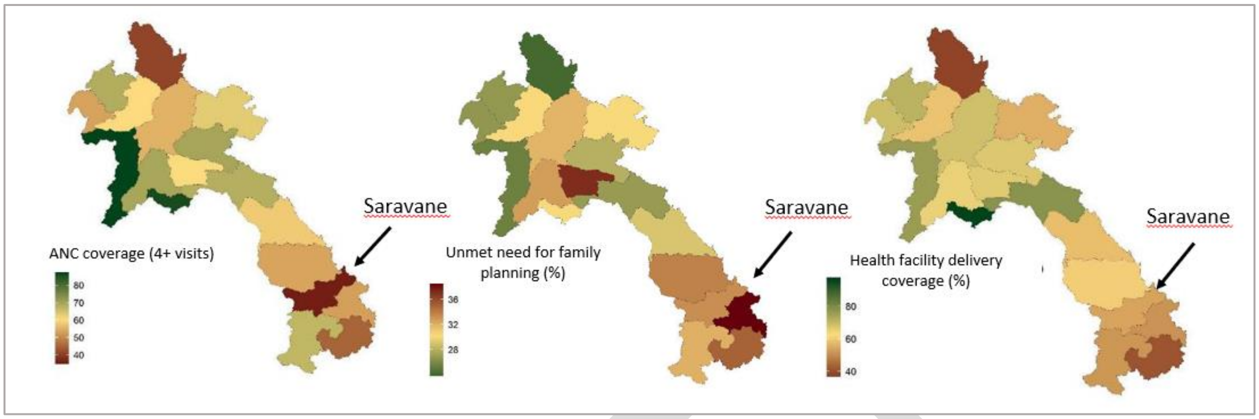

Figure 7: Saravane province main health indicators

C. <u>Conclusions and limitations</u>

- **Main findings for discussions**

This investment case considers the potential impact, investment requirements and return on investment for scenarios to meet coverage targets by 2030.

The evidence presented in this study makes a case for targeting synergetic interventions and favoring scaling up with a focus on efficiency and cost savings rather than a more comprehensive, less focused approach. These estimates demonstrate that reaching full coverage targets for SRHNMNCAH in Lao PDR by 2030 is affordable and makes economic sense.

Full scale-up of SRHNMNACH interventions could cost an additional USD 109.0 million more than business as usual (baseline scenario) over 2021-2030, but:

- Avert 1,044,000 unintended pregnancies
- Avert 286 maternal deaths, 6,866 child deaths and 5,070 stillbirths
- Reduce stunting prevalence children under 5 by 5.6 percentage points
- Generate USD 661.5 million in economic benefits by 2030 (benefit-cost ratio = 6.0)

The greatest return on investment would come from investing in family planning. A synergistic effect may be achieved through improved coverage of NMNMACH interventions alongside increased contraceptive prevalence, as reducing unintended pregnancies can cut demand for, and the cost of, other health services.

Similarly, investment in maternal health can have major benefits beyond simply reduced mortality, leading to lower morbidity and health complications associated with childbirth. This can also decrease downstream costs associated with these health conditions and avert complications such as loss of income, although such costs can be difficult to quantify.

Geographically, the priority should be ensuring access to family planning services in each province. Beyond family planning, scaling up vaccines, breastfeeding promotion and HIV interventions within each province would have the greatest impact. The highest returns came from investing in provinces that had the highest mortality rates.

- **Limitations**

Some of the limitations of this Investment case include:

- Data for some health indicators, program coverages and economic benefit parameters were only available nationally.
- Unit cost data for approximately half of the listed interventions were not available from EHSP. LiST default costs were used in these instances.
- Unit costs were calculated using the ingredients-based approach. Additional costs may be required to increase absorptive capacity.
- When considering prioritization, the pre-intervention impacts that are calculated in LiST are limited to unwanted pregnancies averted, and neonatal, child, and maternal deaths.
- The effect sizes of interventions were based on global literature, while the actual impact of interventions will depend on the quality of care, which is difficult to measure and thus could not be included in this analysis.
- COVID-19 impacts on service coverage are uncertain, and new evidence may change projections.
- The methods used to calculate economic benefits only consider years of life lost up to 2030 and are hence likely to underestimate the benefit-cost ratio over longer time horizons.
- In the investment case, HIV interventions were restricted to those targeting pregnant women and newborns and do not include prevention, testing, linkage to care and treatment interventions for the general population.

Annex 1 – Questions and Answers

The context

A. What is financing for development and why should we care?

Financing for development is about ensuring the financial resources to support collective ambitions for a more resilient, inclusive, equitable and sustainable future.

Financing for Development focuses on the mobilisation and efficient use of resources in support of the Sustainable Development Goals (SDGs), and is itself an important focus area of Goal 17 on Partnerships for Sustainable Development. Investments in many critical areas are needed, to ensure that the world, and individual Member States, achieve the 2030 Agenda for Sustainable Development adopted in 2015.

As of mid- 2021, as noted the 2021 Economic and Social Council Forum on Financing Development, the situation is critical: the pandemic aggravated a chronic underfinancing of the SDGs, so that several multi-generational objectives, such as the protection of our planet, the elimination of poverty and hunger, and necessary improvements in people's wellbeing, may not be achieved.

B. How has the Covid-19 pandemic affected development financing?

COVID-19 has impacted public finances, with additional health and recovery expenditures and a drop in revenues; the private sector, through lockdowns and disruptions to trade; and development partners, with declining ODA trends.

The pandemic has caused immense suffering across the planet, in the region, and in Lao PDR. The range of impacts on people's wellbeing is wide, with deaths, changes to fertility patterns, long-lasting physical and mental and psychosocial health consequences, especially for most vulnerable groups, disrupted access to essential health services, and weakened social protection systems. On the socioeconomic front, preventative lockdowns, and disruptions to trade and travel, albeit necessary to mitigate the pandemic, have caused unprecedented rises in poverty rates and increased vulnerabilities. At a time where reprioritization of and increases in development spending to cushion these shocks and progressively recover from the pandemic, while progressing towards the SDGs is imperative, the global financial envelope in support of these goals has shrunk.

The financing gap is increasing, with a public sector needing to spend more while managing a decrease in tax revenues, severe stresses in the private sector, and declining trends in Official Development Assistance (ODA) and people having less money to spend. COVID-19 has negatively affected our chances to achieve development priorities.

Albeit privately channelled, remittances are also a form of development financing supporting economic activity, stimulating production and trade, and in turn generates both formal and informal employment. Due to COVID-19 many migrant workers and their families in Lao PDR, responsible for an estimated 1-2% of GDP annually in remittances pre-pandemic, have been impacted by the pandemic. Remittances drastically decreased in 2020 (-0.7% of GDP).

C. What is the United Nations' value added in financing for development and the Integrated National Financing Framework (INFF)?

The United Nations provides clarity of purpose with the Sustainable Development Goals (SDGs) as a common framework, while supporting a holistic and integrated approach to finance progress towards its objectives, engaging all sources of finance including both public and private, domestic and international, and all relevant stakeholders.

As the United Nations Secretary General sets out in the Strategy for Financing the 2030 Agenda for Sustainable Development, the 2030 Agenda for Sustainable Development aims at a fundamental transformation of society, and its patterns of production and consumption. The United Nations has therefore defined an ambitious common horizon for all relevant stakeholders, to which all national and sector-specific strategies align. In addition, by providing a narrative on the role of finance in support of this commonly agreed set of objectives, the UN offers a holistic and integrated approach, called the Integrated National Financing Framework (INFF), which considers:

- All four sources of finance (public/private and domestic/international) and how they can best contribute to sustainable development with a substantive push to engage the private sector.
- A wide variety of tools: tax reforms, including to internalize the true costs of production and consumption, resource mobilization, improvements in the business environment, regulatory and legal changes to incentivise investments in specific sectors and address illicit financial flows and corruption.
- Additional necessary improvements in data quality, transparency, statistics, and capacity building of key relevant stakeholders.

The United Nations, using its mandate as a convenor and facilitator of systemic change, is, moreover, well placed to support the technical and political dialogues required to engage all in a meaningful shift towards financial flows in support of the SDGs.

A Financing Strategy for Lao PDR

A. Why developing a financing strategy in support of the national development plan in Lao PDR?

Without a clear, practical, and realistic plan to urgently address financial constraints, and match resources with ambitions, engaging all relevant partners and sectors, Lao PDR will struggle to achieve the national development priorities contained in the 9th National Socio-economic Development Plan and the SDGs.

Lao PDR is at a crossroad. The 9th National Socio-economic Development Plan (9th NSEDP) provides a set of ambitious and coherent outcomes and outputs aligned with the SDGs. Now finalized, this framework will guide the country within five years of the 2030 deadline of the Global Agenda for Sustainable Development and to the edge of the anticipated graduation from Least Developed Country (LDC) status in 2026.

With the additional investments required to yield a demographic dividend, address climate change and environmental degradation, and recover from the COVID-19 pandemic, the national agenda is filled with multigenerational and transformational priorities. Simultaneously, access and availability of development finance are constrained, with high levels of debt, revenue collection falling short of expectations, and limited contributions from the private sector to national development priorities.

It is urgent that current financial difficulties threatening the realization of national objectives are addressed through a strategy highlighting necessary policy directions and decisions. Such exercise should ensure that the country optimises available development finance use and mobilises untapped sources whilst addressing sustainably the challenges to a more stable macro-economy. This is a precondition to progress towards sustainability, prosperity, and wellbeing for all.

B. How will Lao PDR formulate a financing strategy? Who participates?

The formulation of a financing strategy is as much a technical as a governance exercise: policy choices to support the sustainable financing of development objectives must rest on evidence-based, technically accurate, and reliable diagnostics, and be participatory, engaging all relevant stakeholders in meaningful policy dialogues.

The formulation of a financing strategy is based on three main steps and is expected to near finalization at the end of 2021, after a year of work:

- The inception phase is to present the INFF approach (see above): this took place at a workshop early April in Vang Vieng.
- The second phase aims to get consensus on the current financing landscape and investment needs to achieve development priorities. This diagnostic phase involves technical work and dialogues, and agreement on main conclusions that will be the backbone of the financing strategy development.
- The third phase involves series of strategic dialogues to interpret and translate initial diagnostics into practical and realistic options.

The formulation is, throughout its two phases, inclusive and participatory, and meant to ensure that all relevant stakeholders can provide inputs and feedback to the policy recommendations that will be made. A dedicated Technical Working Group was created by the Deputy Prime Minister upon recommendation from the Vice-Minister of Planning and Investment earlier in 2021 to facilitate stakeholder mobilisation.

As of late August 2021, the diagnostic phase was nearing finalization and a dedicated structured dialogue to validate the main assessments was to be organised in September. The financing strategy is led by the Ministry of Planning and Investment, namely the Department of Planning, with support from and consultation with the Ministry of Finance, Bank of Lao PDR, and relevant line ministries, as well as from the United Nations (through a dedicated Joint Programme, see below) and International Financial Institutions (IFIs) and other partners. Once the financing strategy is formulated, assessing the success of its implementation is crucial to inform budget decisions: this is the monitoring and evaluation phase.

C. What are the main challenges in formulating a financing strategy?

Challenges are threefold: technical, as the availability of quality data is limited, and limits the reach and robustness of diagnostics, and political and institutional, considering the difficulties associated with convening stakeholders. Fortunately, these difficulties can be overcome through active participation of all relevant stakeholders, clear communications, and a political push from the Government.

The formulation of a holistic financing strategy, considering all sources of financial contributions to sustainable development, is full of challenges. Credibility, technical accuracy, political support, and communications are critical in a process that is both political and technical, and therefore highly demanding. Technically, challenges arise mostly during the diagnostics phase (see above). Data limitations and difficulties in interpreting economic and financial data, as well as the uncertainties of budget and macroeconomic forecasts at a very uncertain time, must lead analysts to adopt careful research methodologies, and highlight clearly assumptions (e.g., there can be several GDP growth assumptions when forecasting) and limitations (e.g., part of the State budget is not publicly available). It is crucial that diagnostics aiming to paint a clear picture of the financial constraints of Lao PDR are undertaken with as much rigour as possible to generate maximum credibility. The formulation of a financing strategy is as much, if not more, about policy decisions as it is a technical exercise. Indeed, as mentioned above, identifying policy choices across four different sources of finance implies the active participation of a wide variety of stakeholders: Government, bilateral partners, traditional development partners, the private sector, including the financial sector and to gain the trust of society, also the need for transparency in the exercise.

In this context, the clarity of the process, including the sequencing of the various dialogues, is important. Political support from the highest level of decision-makers in the country to put financing for development high on the national agenda can improve visibility and create momentum. Moreover, adequate communications, capable to simplify technical content into easily digestible information and to reach various audiences, the timely circulation of information, and the quality of translation and interpretation during dialogues too help mitigate the difficulties of convening and generating meaningful discussions between different stakeholders are all vital to the process.

The UN Joint Programme on Financing Efficiency

A. What is the role of the UN Joint Programme on Financing Efficiency?

The UN Joint Programme provides technical and coordination support to the Lao PDR Government across the three main stages of the Integrated National Financing Framework (INFF) implementation: diagnostics of the country's financial constraints, formulation of credible and realistic policy options, and monitoring and evaluation of progress towards the implementation of a holistic and ambitious approach to development finance.

The United Nations Joint Programme on Efficiency and Optimization of Lao PDR's Public budget to finance the SDGs through the National Plan works to strengthen the national architecture for managing and allocating development finance to support more efficient and effective use of available resources, and mobilisation of other sources of finance in support of national priorities and the 2030 Agenda.
As the main vehicle to support the formulation of a financing strategy for the 9th NSEDP, it is coordinated by the Ministry of Planning Investment, Department for International Cooperation (DIC), and the United Nations Resident Coordinator's Office (UNRCO), and involves the Ministries of Finance (MoF), Planning and Investment (MPI), and Health (MoH), as well as UNFPA, UNCDF, and UNDP, which is the technical lead entity from the UN country team.
Three main workstreams are progressing in parallel and align with the three main stages of the INFF development, mainstreaming governance and coordination support throughout. Assessments and diagnostics in support of the financing strategy are primarily led by the Department of Planning of MPI, with technical support from UNDP, through the identification of all resources available to fund development, and an assessment of the investment needs to reach shared development objectives (see below). The financing strategy formulation is also mainly supported by UNDP, which provides technical and coordination support to MPI to develop a practical financing strategy for the 9th NSEDP, through series of dialogues with relevant stakeholders. UNFPA, under MoH's strategic guidance, and considering its specific mandate and expertise in the health sector, contributes to assessments, costing health sector priorities, and policy formulation, identifying health interventions with the highest development returns in a resource-constrained environment. As to the monitoring and review of the implementation of the financing strategy, this is supported, under strategic guidance from MoF, by UNCDF, which uses its expertise to develop an innovative methodology to track expenditures against development priorities.

B. What is a Development Finance Assessment (DFA)?

The DFA is the analytical backbone of the financing strategy: it maps Lao PDR's resources envelope and seeks to understand to what extent and how each financial source has contributed and can contribute to sustainable development.

The DFA guidance developed by UNDP provides extensive details on the role of this diagnostic tool and its position in the INFF cycle. This instrument, which has been completed or is ongoing in almost 50 countries, is essentially supporting the diagnostics phase. It is, in fact, the analytical backbone of the financing strategy. Investigating the contributions of the four different sources of finance in the economy – State budget, domestic private sector, international private sector, and Official Development Assistance (ODA) – the DFA will provide policymakers with a set of key findings and directions during the financing strategy formulation.

The DFA is however, not only an analytical piece. In Lao PDR and elsewhere, it is also a tool through which the coordination of the most relevant stakeholders first takes place and can facilitate the emergence of a consensus on the panorama of development finance. Active participation of all relevant parties early in the process, including during the most technical phase of the process, is crucial. The DFA main findings, led by MPI with the support of UNDP, will be presented at a first structured dialogue, which should happen in September 2021.

C. Why focusing on the health sector in a Joint Programme on financing for development?

The model investment case for the health sector not only supports the identification of most relevant interventions in a crucial sector for Lao PDR, but also ambitions to set a standard in evidence-based policymaking, when robust diagnostics, the costing estimates of health interventions and development returns, inform prioritization.

This workstream, led by MoH with UNFPA's support, has two parallel objectives: identify most relevant and efficient interventions in the health sector, and set a precedent in terms of evidence-based policymaking. The selection of the health sector is based on the role of improvements of development outcomes in the health sector in achieving national development priorities (considering the 9th NSEDP prioritization of investments in human capital), the 2030 Agenda for Sustainable Development, and LDC Graduation. with regards to the health dimension, the project has two objectives, at both the national and provincial levels, which are to (1) estimate the costs, health impacts, and economics impacts of scaling up health interventions, and (2) develop a prioritization strategy. Its role in setting standards in terms of evidence-based policymaking is equally important. The project, focusing on a specific sector, is indeed structured along the same phases identified in the INFF, with an initial diagnostics phase, in which health interventions are costed and development returns measured, followed by a policy formulation phase, in which prioritization of interventions is developed. It is hoped that the lessons learnt from this project will support the many ongoing reforms, supported by the development community, of Public Financial Management (PFM), and specifically public investment management, to ensure the more efficient and targeted use of available development finance.

D. What are the objectives of the tagging of the national budget with national priorities and the SDGs?

Setting up systems to monitor and evaluate the progress of the implementation of the financing strategy is essential: ensuring that we know what investments contribute to, in a resource-constrained environment, will help to reorient budget allocation and strengthen the linkages between planning and financing.

Few countries have worked on strengthening the link between budget processes and SDGs and national priorities. In Asia, Lao PDR could be a pioneer. The workstream led by the MOF and supported by UNCDF is located at the tail end of the INFF cycle, as it builds monitoring and evaluation systems. The development of a specific methodology to categorise public investments and of a review of financial flows, against the national development priorities and the SDG framework, will help us understand where and for what resources are used, and strengthen the accountability of Government to its citizens. The encoding of these frameworks directly within the national budget, through the Chart of Accounts and the Integrated Financial Management Information System, ensures that economic policymakers can plan budget allocation being aware of which sectors and priority areas are underfunded. SDG-tagging of the budget will thus facilitate the formulation of an optimized public sector budget. The tool will help inform decision-makers and support coordination of ministries and partners against a unique framework. This new system is also meant to measure the success of the implementation financing strategy, specifically on domestic public resources.

---

[i] Sexual, reproductive, maternal, newborn, child, and adolescent health