



UNITED
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LAO PDR

FINANCING FOR DEVELOPMENT: Questions & Answers

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Prepared by the United Nations and the Ministry of Planning and Investment, in the context of the United Nations Joint Programme on Efficiency and Optimization of Lao PDR's Public Budget to Finance SDGs through the National Plan.

? 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.

? 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).

? 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

? 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.

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](#).

? 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

? 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.

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.

? 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.

? 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.



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