Developing a Guidebook for Assessing SDGs Investment Needs

UN ESCAP Macroeconomic Policy and Financing for Development Division
5 November 2019
Motivation: Are SDGs affordable?

SDGs which countries find to be “most financially challenging”

- SDG 1: No Poverty
- SDG 4: Quality Education
- SDG 13: Climate Action
- SDG 3: Good Health and Well-being
- SDG 2: Zero Hunger
- SDG 6: Clean Water and Sanitation
- SDG 8: Decent Work and Economic Growth
- SDG 7: Affordable and Clean Energy
- SDG 10: Reduced Inequalities
- SDG 9: Industry, Innovation and Infrastructure
- SDG 5: Gender Equality
- SDG 11: Sustainable Cities and Communities
- SDG 12: Responsible Consumption and Production
- SDG 16: Peace, Justice and Strong Institutions
- SDG 15: Life on Land
- SDG 14: Life Below Water
- SDG 17: Partnership for the Goals

Number of countries indicating availability of SDG financing needs assessment

- Yes, and it covers all the SDGs: 4 countries
- No response: 5 countries
- No and it is not planned: 8 countries
- No but it is planned: 10 countries
- Yes, and it covers some of the SDGs: 17 countries

Number of responses (total responses = 297)
ESCAP Survey 2019 calls for countries to invest in people and the planet

Annual average investment gap across SDG areas
(Developing Asia-Pacific region, 2016-2030)

- **People**: End poverty and hunger ($373B), Transport, ICT, water & sanitation ($296B), Clean energy and climate action ($196B), Biodiversity ($434B), Planet ($156B)
- **Prosperity**: Capital expenditures ($578B), Current expenditures ($906B)

Source: ESCAP, Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond growth
Additional investment needs vary in size and composition

Annual average additional need across SDG areas
(South-East Asia, 2016-2030)

% of GDP in 2018

Cambodia | Myanmar | Lao PDR | Viet Nam | Malaysia | Indonesia | Philippines | Thailand

Poverty gap transfer  Social protection floor  Nutrition interventions  Agriculture
Health  Education  Water and sanitation  Clean energy
Transport  ICT  Climate proofing  Biodiversity

Source: ESCAP, Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond growth
SDG costing guidebook

Part I – Overall approach
• Financing the 2030 Agenda
• Why costing?
• Elements of effective costing
• General steps in costing
• From costing to financing

Part II – Costing Goal by Goal
• Global/regional estimates of needs and trends
• Strategies and interventions which are costed
• Costing method and steps
• Country examples
• Links to tools and guides
Costing, the assessment of investment needs

• ... is an integral part of effective planning
  • Is the plan affordable and credible?
  • Can we prioritize and optimize interventions?

• ... informs the financing strategy
  • Matches needs with the right type of public/private financing
  • Informs the resource mobilization target

• ... promotes transparency and accountability
  • Through a consultation process, identifies who will do what
  • Budgets are allocated according to expected results
Costing is an integral part of effective planning.

- Rather than “plan first, then cost”, costing should start as soon as the potential priority reform areas and strategic directions are known.
Costing informs the financing strategy.

- Some SDGs are by their nature reliant on public funding such as health, education and climate change adaption, while others offer greater potential for private financing – infrastructure sectors such as telecommunication, power and renewable energy.

<table>
<thead>
<tr>
<th>SOURCES OF FUNDS</th>
<th>INTERMEDIARIES AND INVESTORS</th>
<th>INSTRUMENTS</th>
<th>USES AND GOALS</th>
<th>BENEFICIARIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic public sources</td>
<td>Public entities</td>
<td>Government spending</td>
<td>Economic dimension (e.g. transport, energy and ICT infrastructure)</td>
<td></td>
</tr>
<tr>
<td>Domestic private sources</td>
<td>Private entities</td>
<td>Banking loans</td>
<td>Social dimension (e.g. poverty and inequality)</td>
<td></td>
</tr>
<tr>
<td>International public sources</td>
<td>Blended entities</td>
<td>Business investment</td>
<td>Environmental dimension (e.g. climate change adaptation and mitigation)</td>
<td></td>
</tr>
<tr>
<td>International private sources</td>
<td></td>
<td>Philanthropy</td>
<td>Environmental dimension (e.g. climate change adaptation and mitigation)</td>
<td></td>
</tr>
</tbody>
</table>

- Domestic and international-enabling environment and policy framework

Source: Adapted from ESCAP, Economic and Social Survey of Asia and the Pacific 2018: Mobilizing finance for sustained, inclusive and sustainable economic growth
Elements of effective costing

• **Aligned with planning and budgetary processes**
  • Costing is often accompanied by policy and institutional reviews and expenditure reviews

• **Conducted by a capable team, in consultation with stakeholders**
  • A mix of expertise in the costing team
  • Who is responsible for providing the services? Who are the main users?

• **Accounts for technology and climate shocks**
  • Not necessarily costing more of the same thing
  • Assumptions need to be forward-looking
General steps in costing (an iterative process)

1. Understanding the targeted outcomes and planned interventions
2. Choosing the appropriate costing method
3. Gathering relevant data and consulting stakeholders
4. Analyzing costing results and alternative scenarios
1. Turning a result into a cost-able action

<table>
<thead>
<tr>
<th>Prioritized Target, Result</th>
<th>Strategy</th>
<th>Costable Action (and KPI)</th>
<th>Cost Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESULT 2: Biodiversity costs are incorporated into national accounting systems, and national and decentralized development plans, in order to support poverty reduction and improvement of the new national productivity scheme.</td>
<td>02.1. Introduction of biodiversity value into policy formulation cycles</td>
<td>A dedicated unit to address Economic Valuation and Sustainable Finance (UVESF) will be established at the Ministry of Environment (MAE).</td>
<td>Technical team of the UVESF: One senior economist, one finance expert, three junior accountants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>At least three valuation projects and other stand-alone initiatives are identified in the MAE (SCAN, Coastal/Marine Project, PSF) to be managed by the new UVESF.</td>
<td>Operational costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Key national environmental accounts are completed.</td>
<td>Research plan (studies)</td>
</tr>
</tbody>
</table>

Source: UNDP, BIOFIN Workbook 2018
2. Costing approaches, pros and cons

<table>
<thead>
<tr>
<th>Costing Approach</th>
<th>Common Use</th>
<th>Opportunities</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental Budgeting</td>
<td>Annual increments allocated, most budgets</td>
<td>Gradual change</td>
<td>Limited vision, lack of connection with results</td>
</tr>
<tr>
<td>Approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Historical Projections</td>
<td>Empirical data used for budgeting</td>
<td>Accurate, based on real experience</td>
<td>Not comprehensive, may not be optimal but based on limited budgets</td>
</tr>
<tr>
<td>Cost Modelling</td>
<td>Extrapolation from small cases, budgeting new activities</td>
<td>Alternative scenarios, understanding cost effectiveness</td>
<td>Lack of empirical data, country or geographic specificity</td>
</tr>
<tr>
<td>Activity-Based Costing</td>
<td>Project budgeting, programme budgets</td>
<td>Detailed bottom-up budgeting</td>
<td>Not necessarily focused on outcomes</td>
</tr>
<tr>
<td>Results-Based Costing</td>
<td>Planning by objectives, log frame, programme- based budgeting</td>
<td>Best practice, detailed, focused on outcomes</td>
<td>Advanced approach, not used in most countries</td>
</tr>
</tbody>
</table>

Source: UNDP, BIOFIN Workbook 2018
Bottom-up costing

... relies on detailed information regarding inputs, quantities and prices. It is resource intensive but allows for modelling how cost structures may change as new reforms are implemented.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>UNIT COST APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being able to separate out different components (e.g. health workers, medicines, transportation costs) and thus estimate these separately, allowing for greater transparency and predicting how the cost structure, and cost drivers, changes over time.</td>
<td>Can be used to provide quick estimates of resource needs, particularly when done at high level (e.g. unit cost per inpatient care multiplied by the projected increase in inpatient care utilization during NHPSI).</td>
</tr>
<tr>
<td>Being able to adjust costs if quantities or price levels change, due to changes in factors such as treatment guidelines or procurement strategies.</td>
<td>Provides estimates that reflect part of a shared system, when not wishing to estimate the full cost of the system.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantages</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource-intensive, requires assumptions around the extent to which resources are used or left &quot;idle&quot;.</td>
<td>Relies on good quality data through cost studies, which are resource intensive in themselves.</td>
</tr>
<tr>
<td>If data is inaccurate, may provide wrong estimates.</td>
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</tr>
<tr>
<td>Challenging to know how representative unit costs are.</td>
<td>Challenging to compare unit costs across services when derived through different studies.</td>
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<td>Challenging to compare unit costs across services when derived through different studies.</td>
<td>Costs structures will change with evolving health system, making unit costs quickly outdated.</td>
</tr>
</tbody>
</table>

3. Collecting relevant data: example of gender equality costing exercises

<table>
<thead>
<tr>
<th>TYPE OF DATA</th>
<th>SPECIFIC DATA NEEDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data on the issue</td>
<td>Situation of women in the sector/issue under study, including information on key indicators and gender gaps</td>
</tr>
<tr>
<td>Scale of the issue/problem (e.g. VAW)</td>
<td>In the case of violence against women:</td>
</tr>
<tr>
<td></td>
<td>• Prevalence data (the number of people who are currently affected, i.e. the proportion of cases in the population at a given time)</td>
</tr>
<tr>
<td></td>
<td>• Incidence data (annual number of those affected) (proportion or rate)</td>
</tr>
<tr>
<td></td>
<td>• Cases reported</td>
</tr>
<tr>
<td></td>
<td>• Rates of service use</td>
</tr>
<tr>
<td>Information on how the government is</td>
<td>Government legal frameworks and policies to address the issue</td>
</tr>
<tr>
<td>addressing the issue</td>
<td>Programme data: what services are provided and planned, where they are available (geographic coverage), and for which target groups; programme monitoring and evaluation information</td>
</tr>
<tr>
<td></td>
<td>Information on which level of government is responsible for delivering the service(s) (national, provincial, local)</td>
</tr>
<tr>
<td>Government funding for issue</td>
<td>Budgetary information: allocations, expenditures and revenues for services/issue</td>
</tr>
<tr>
<td>Cost data</td>
<td>Unit costs of services (including administrative costs and overhead)</td>
</tr>
<tr>
<td></td>
<td>Salary data for different levels of officials in different ministries</td>
</tr>
<tr>
<td></td>
<td>Price lists for administrative/overhead costs, transport costs, etc.</td>
</tr>
</tbody>
</table>

4. Analyzing costing results

Basic questions to ask
• What are the most relevant cost drivers?
• What is the balance between recurrent and investment costs?
• What are the main risks related to the costing assumptions for the relevant period?

Usually requires 3-4 rounds of estimates before finalizing

Different scenarios / assumptions
• Low- vs. high-cost based on different quality, technology options
• Progressive vs. ambitious in terms of scaling up
• Moderate vs. optimistic, in terms of potential available financing

Some of these aspects should be considered at earlier stages
Pre-developed costing tools, pros and cons

E.g. Flow diagram of the education costing model (UNESCO, 2015; Education Commission, 2016)
From costing to financing: Assessing the financial landscape

<table>
<thead>
<tr>
<th>Category</th>
<th>ASEAN-5</th>
<th>CLMV</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax revenue</td>
<td>13.2</td>
<td>13.6</td>
<td></td>
</tr>
<tr>
<td>Net ODA received</td>
<td>0.0</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment, net inflows</td>
<td>6.6</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Personal remittances received</td>
<td>3.3</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td>Total financial flows</td>
<td>23.2</td>
<td>29.3</td>
<td></td>
</tr>
</tbody>
</table>
... including the potential to mobilize private finance for development

- ASEAN-5: 105.0% of GDP, Market capitalization of listed domestic companies: 33.7 Billion $, Assets of banks: 1,853 Billion $
- CLMV: 54.2% of GDP, Market capitalization of listed domestic companies: 25.3 Billion $, Assets of banks: 261 Billion $

- ASEAN-5: Gross domestic savings: 0 Billion $, Assets of other financial institutions and funds: 988 Billion $
Integrating into the budget process, and specifying resource mobilization plans

Policy coherence will affect total, long term cost of achieving the SDGs

Government environment expenditures versus fossil fuel subsidies, % of GDP

- Kazakhstan
- Indonesia
- Russia
- Pakistan
- Bangladesh
- China

[Bar chart showing government environment expenditures versus fossil fuel subsidies for different countries, with percentages of GDP.]
Integrated national financing framework and SDG costing guidebook

• **The big picture**: SDG costing as part of a broader integrated financing framework which the UN is developing as a new tool

• **Detailed sectoral costing**: Session 6 will discuss Part II of the SDG costing guidebook

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