

# Benin's new Public Investment Cost Estimation tool

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Benin counts among the least developed and poorest countries in the world. Based on the definition of multidimensional poverty of the United Nations, 64% of the population is affected by poverty. The GIZ's project "Macroeconomic advice for poverty reduction in the context of the Agenda 2030 (ACMERP)" works closely together with the Ministry of Finance, the Ministry of Planning and the National Statistical Authority of Benin towards improving the steering and better implementation of economic policies particularly in the context of the Agenda 2030. The recently conducted Public Investment Management Assessment (PIMA) concluded that aside a relatively strong institutional framework for the management of public investments ex-ante evaluations of projects scored low which is the reason why the directorate of public investments in close collaboration with the project team is trying to set up a new costing tool which could render ex-ante assessments of public investments more transparent, accurate and comparable.

## Public investment and Compact with Africa

Public investment projects are largely considered to speed up economic development and to improve general living conditions. This is why many governments adopt public investment action plans. Benin, for instance, approved a 9.035 billion FCFA government action plan (PAG) in 2016. This ambitious program does not only aim at stimulating the economic and social situation in the country, but also aims at attracting foreign direct investments (FDI).

The government action plan (PAG) is greatly in line with the idea behind the "Compact with Africa" initiative that was launched during the G20 summit of finance ministers in Baden-Baden, Germany in March 2017. Just like the PAG, the "Compact with Africa" initiative's objective is to create a prosperous investment climate and to attract private and public investments, especially in the African infrastructure.

## The current challenge

Despite an ambitious action plan and the resources attributed to it, public investments face some obstacles in Benin. One major impediment is the low implementation rate of investment projects. An assessment of Benin's management of public investment (PIMA) conducted by the IMF in 2017 revealed that the low implementation rate is mainly due to a non-systematic ex-ante evaluation of the projects. In 2016, 28% of all projects inscribed in the action plan did not undergo a prior feasibility study. Also, there is no harmonized manner of evaluating project costs across different ministries. This may induce the selection of low-quality projects, which consequently encounter difficulties within their implementation phase. Therefore, one major recommendation of the IMF's PIMA assessment is the strengthening of the cost estimation process.

The Ministry of Planning and Development, and more precisely the Directorate General for Planning and the Monitoring of Public Investment (DGPSIP), is well aware of the challenge. Therefore, in cooperation with the GIZ's project "Macroeconomic advice for poverty reduction in the context of the Agenda 2030", the ministry took action to strengthen its cost evaluation capacities. Together, the Ministry's DGPSIP and the GIZ project ACMERP developed a costing tool, which allows improving estimation capacities by harmonizing the cost evaluation process.

## How can the costing tool enhance institutional efficiency?

The costing tool is a digitalized mean to evaluate project costs. Introducing a common costing tool proves to be advantageous for several reasons. First of all, it improves the assessment of projects and the planning process. Second, it renders projects comparable given



(Director for Programming and Prospective at the Costing tool workshop, source: ACMERP)



(Compact with Africa documentation, source: ACMERP)

that the costing tool will act as a common basis for investment provisions. Third, it will make the prior cost assessments more accurate, approaching it the most possible to the real costs.

From a Good Financial Governance perspective, this renders the government more accountable and legitimate in its decisions-making. Such accountability is of special importance for investments in the Beninese infrastructure since the projects involve large sums, long execution phases and impact the life of many people. Second, a harmonized costing tool allows the ministries to take investment decisions on a well-informed and transparent basis. This is crucial to ensure constitutional legality and it enhances government capacities. Ultimately, a standardized use of the costing tool can lead to a greater number of successful investment projects. This is prone to foster confidence from foreign public and private investors and to stimulate economic growth.

The costing tool can therefore contribute significantly to a transparent, well-informed and cohesive preparation of public investments. As pointed out above, the expected beneficial impacts of the tool play directly into some of Good Financial Governance's key components: legitimacy, accountability, constitutional legality government capacity and development oriented behavior.

### What are the requirements for a successful costing tool?

To successfully implement the costing tool, which is currently under way, it is crucial that it respects the four key principles:

1. **Simplicity:** To respond to the criteria of simplicity, the costing tool will be digitalized via Excel, which is well-known to all ministries.
2. **User-friendliness:** A user guide will be made available soon to enable quick training and thorough adoption of the tool.
3. **Integrity:** The functionalities of Excel make information available, to be consulted only if necessary by means of different sheets.
4. **Accessibility:** the tool will be accessible to all the planners via a common Excel sheet.

These four key requirements became apparent in a detailed SWOT analysis that has been conducted prior to the elaboration of the costing tool.

### Database, inflation and source

Furthermore, the SWOT analysis identified that the future costing tool should take the following aspects into account: a long-term

cost-per-unit database, inflation and the source of the cost estimation.

Currently, there is no long-term database with cost references in Benin's ministries. Without such references on the cost per unit, two ministries may evaluate the cost of the same good or service differently. This can create inconsistencies among projects and leads to inaccuracies in the cost estimation. Thus, in the future, improving the consistency of the cost per unit estimation shall be accomplished by a cost center at the Minister of Plan and Development. The cost center will be in charge of the continual projection of the costs per unit for the following five years. The consideration of the cost per unit will render the planners more accountable towards the public and enhances the legitimacy of public investments.

In addition, the cost assessment of projects should ideally reflect some modulation of inflation so that the gap between reality and the assessment is narrowed down to a minimum. Since up until now, inflation is not systematically taken into account in the different costing tools of Benin's ministries, modulating inflation is another key concern of the new costing tool.

Another important factor of the newly developed costing tool is that it takes the source of each cost-estimation into account. This enhances clarity, enables quick orientation in the present context of a high turnover of personnel, and ultimately stimulates government capacities.

### The next steps

Having identified the strength, weaknesses, threats and opportunities related to costing, the Ministry for Planning and Development and the GIZ are now finalizing the costing tool, which undergoes continual observations of the DGPSIP. After integrating the feedback of the Directorate General, the tool's user guide will be published and distributed among the Ministry. At the same time, workshops will be held to train the ministry's personnel to effectively use the tool. After this informational phase, the tool will be ready to enter the operational phase.

Although the DGPSIP greatly welcomes the costing tool initiative, its success will depend on its consequent use within the ministry. To ensure the continual use of the tool, it might be worth considering inscribing its use into a decree. Thereby, the ultimate goal is to standardize the use of the tool across all ministries.

### For further information:

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