DELIBERASAUN N. 55/IV/CAFI/2025

Conselho de Administração do Fundo das Infraestruturas – CAFI, bazeia ba artigo 10º (1) e (3) DL Nº. 25/2024, de 22 de maio, Primeira Alteração ao DL Nº.13/2016, 18 de Maio, realiza reuniaun Extraordinária iha loron Quinta-feira, 24 de abril de 2025, e halo deliberasaun ba assunto tuir mai ne'e:

Asuntu: Pedidu aprovasaun CAFI ba Implementasaun ***Public Investment Management (PIM) System in Timor-Leste.***

Proponente: Ministério das Finanças - MdF

Notas/justifikasaun:

- Asuntu refere diskute iha reuniaun extraordinaria CAFI iha loron Quinta-feira, 24 de abril de 2025;
- Bazeia ba informasaun no apresentasaun ne'ebe prepara husi Banku Mundial relasiona ho impelementasaun PIM;
- Bazeia ba aprovasaun PIM husi CAFI iha reuniaun extraordinaria hodi foti konsiderasaun kona ba relatoriu PIM nian ne'ebe prepara husi Banku Mundial;

Desizaun:

1. CAFI aprova Inisiativa *Public Investment Management (PIM) System in Timor-Leste;*
2. CAFI aprova reforsa Ministério do Planeamento e Investimento Estratégico – MPIE/ Secretariado dos Grandes Projetos – SGP, atu implementa *Public Investment Management (PIM)* iha Timor-Leste;
3. CAFI aprova atu Banku Mundial kontinua fo asistensia tekniku ba Ministério do Planeamento e Investimento Estratégico – MPIE/ Secretariado dos Grandes Projetos – SGP liga ba Implementasaun PIM.

Aprovado husi CAFI iha loron 24 de abril de 2025.

O Conselho de Administração do Fundo das Infraestruturas
O presidente,

MINISTÉRIO DO PLANEAMENTO E INVESTIMENTO ESTRATÉGICO
MINISTRO

Gastão Francisco de Sousa
Ministro do Planeamento e Investimento Estratégico

MINISTRA DAS FINANÇAS

Santina José Rodrigues Ferreira Viegas Cardoso
Ministra das Finanças

MINISTÉRIO DOS TRANSPORTES E COMUNICAÇÕES
REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE
RDTL
MTC

Miguel Marques Gonçalves Manetelu
Ministro dos Transportes e Comunicações

MINISTÉRIO DAS OBRAS PÚBLICAS
REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE
RDTL
MOP

Samuel Marçal
Ministro das Obras Públicas

Annexo:

Draft Proposal: The new PIM Unit and the FEL Concept

Paper for internal discussion, only

The PIM Unit is the single responsible government agency in charge of systematically overseeing and monitoring the entire pre-investment process, ensuring that all projects comply with the PIM regulations. Also, the PIM Unit is mandated to coordinate, manage, and recommend public investment projects during the pre-investment phase. This includes designing the appropriate laws, regulations, guidelines, manuals, and templates to guide the delivery of public investment; guiding the processes and procedures in decision-making and efficient delivery of public investments; developing and managing the PIM system; collecting and analyzing public investment data; and preparing reports and statistics on public investments as required by MPSI management. The PIM Unit issues essential circulars at different points in time during the capital budget calendar.

The PIM Unit must be the executive secretariat of all three Stage Gate Committees by law. The Stage Gate-03 Committee is the only entity that can recommend to the Minister of Planning to grant the final "Seal of Quality" to any investment initiative, according to the "Result of the Economic/Technical Analysis" (RETA).

The PIM Unit analyzes in detail all the information uploaded by the Line Ministries, ensuring that all the requirements regarding technical and economic criteria are fulfilled. The analysis looks at whether executing the project using an evaluative criterion based on an integrated cost-benefit analysis is advisable. If the ministries do not agree with the Stage-Gate Committee decision or with the comments made by the PIM Unit, they can appeal, and the new information provided could be reviewed again.

The PIM Unit must help to harmonize the sector investment plans with their sector strategies; it provides formal guidance and technical assistance to the project sponsoring agencies on the processes and methods of capital investment project identification, development of conceptual design, integrated appraisal, and implementation as set out in this policy; it reviews the complete submission of Project Identification Forms, Project Concept Notes and pre-feasibility and feasibility templates, on the basis of information provided by project sponsors and submits it to the corresponding Stage Gate Committee; it provides technical assistance in project preparation and integrated appraisal in project pre-feasibility and feasibility studies; it has also to prepare and submit prioritized budget requests for capital investment project preparation and studies as part of annual budget preparation process; it has to undertake ex-post evaluations of capital investment projects in all sectors; in its role as the executive secretariat it must organize the meetings of the three Stage Gate Committees at the request of the Committee Chairperson.

The generic functions of the PIM Unit, among others, are the following:

a. To watch for the integrity of all the PIM processes.
b. To establish the technical requirements and criteria for an integrated appraisal of investment projects financed totally or partially, directly or indirectly by government contributions.
c. To establish and update the criteria and methodologies applicable to the technical and economic appraisals, to issue regulations, manuals, methodologies, guidelines, norms, circulars, and templates for project identification, project preparation, project appraisal and ex-post evaluations. These criteria and methodologies shall incorporate objective and verifiable indicators for the development of investment initiatives. The methodologies and evaluation criteria must be available to the public on the MPSI website.

d. To calculate and update the National Parameters, Shadow Prices and Commodity Specific Conversion Factors to be used in all economic project appraisals. The use of those parameters must be mandatory for all project sponsors.
e. To review and analyze the results of all pre-investment studies and appraisals of investment projects to validate their assumptions, forecasting models, calculations, criteria, costs, benefits, and parameters used in the project appraisal (i.e. analyzing the reports submitted by the public entity sponsoring the project or requesting funding for a given investment initiative).
f. To corroborate that the project preparation and project appraisal exercises performed by the project sponsoring agencies have followed the latest investment manual, specific project methodologies, project preparation and appraisal guidelines, templates, etc. issued by the PIM Unit.
g. As the Stage Committee secretariat, the PIM Unit has the following generic functions:

- Conducting an Economic/Technical Analysis of public investment initiatives within the central and local level by reviewing the project profiles, pre-feasibility and feasibility studies provided by the project sponsoring agencies. Based on the Result of the Economic Technical Analysis (RETA), the PIM Unit must prepare a draft recommendation for each submitted project proposal for the Stage Gate committee.
- Advising on committee procedure and practice.
- Providing administrative and clerical support.
- Undertaking research and analytical work related to the terms of reference and content of inquiries, and
- Preparing the initial drafts of the chair's report.

h. To monitor the investment projects under implementation comparing them to their respective pre-investment studies.
i. To provide complete regulatory framework for the PIM system indicating the rules of its administration.
j. To establish the national training policy in all areas of investment project preparation and appraisal for the entire PIM system staff (i.e., in all sectors).
k. To request from other ministries, services, SOEs or public entities information required for the performance of their duties. Ministries, services, SOEs or public entities shall provide this information promptly and accurately.
l. To request all necessary pre-investment studies and economic appraisals of investment projects implemented through PPP arrangements. Some of these studies (for example, eligibility analysis, value for money, risk analysis, liabilities analysis, public sector comparator, etc.), should be completed before approving the PPP. The approval of those studies shall be requisite to start any bidding process for the PPPs.
m. To analyze the efficiency and effectiveness of the utilization of public resources through ex-post evaluations of investment projects, checking if the executed projects have met the objectives and economic performance forecasted in their corresponding ex-ante appraisal.
n. To request other ministries, services, SOEs or public entities all the information necessary to conduct ex-post evaluations of public investment projects.
o. To coordinate with other Divisions of the MoF the annual budget proposal for line ministries, decentralized institutions, local governments, and SOEs.
p. To be the executive secretariat of the Timor Leste Pre-investment Studies Development Fund.

The possible Results of the Economic Technical Analysis (RETA)

The Result of the Economic Technical Analysis (RETA) performed by the PIM Unit of each public investment project, shall be classified into the following categories:

- **RWR**: Recommended Without Restrictions. It means: The project is accepted and can proceed to the next phase in the FEL process. If the project has a feasibility study and it receives the RWR then the Stage Gate Committee can recommend the granting of the Seal of Quality.
- **IM**: Information Missing. It means: Project was rejected, it must be corrected and re-submitted. If the missing information is added, then this project could advance.
- **RA**: Re-Assessment. It means: Project was rejected, it must be corrected and re-submitted. Probably the project is old (i.e., more than 3 or 4 years), it has outdated information and needs to be updated and re-appraised.
- **AA**: Accounting Adjustment. It means: Project was rejected, it must be corrected and re-submitted. This is normally a smaller error, (like wrongly deflating the cashflow), if corrected, this project can advance.
- **TR**: Technically Refuted. It means: Project was rejected, it must be corrected and re-submitted. This is a serious problem that needs to be corrected, or the project will be discarded.
- **BS**: Breach of Standard. It means: Project was rejected, it must be corrected and re-submitted. This is a serious problem that needs to be corrected, or the project will be discarded.

A PIM Unit's gradual maturity process

A PIM Central Unit can operate by providing three (3) generic models:

- Weather station functions (the initial and most simple functions)
- Control tower functions (the intermediate functions) and
- Resource pool functions (the advanced functions)

It is recommended to start first with the simplest function and then move up to the more sophisticated functions as the PIM Unit gets stronger in its mandate and acquires the necessary professional staff.

Weather Station model: In this initial and simple model, the PIM Unit is used only as a registering, tracking and monitoring device for all investment projects in the country. It acts as the central information repository for the PIM system. The weather station has also the capacity to quarry the data base, produce standard and special reports on number of projects by location, sector, and other classifications. The requisite to perform this function is to acquire and manage an Integrated Bank of Project data base to gather all PIM related information.

Control Tower model: This PIM Unit model treats project preparation and appraisal as a business skill to be protected and supported, therefore it:

- Conducts the Technical Economic Analysis of public investment initiatives within the central and local level by reviewing the project profiles, pre-feasibility and feasibility studies provided by the project sponsoring agencies.
- Establishes best practices, guidelines and methodologies for project preparation
- Establishes best practices, standards, technical and economic procedures for ex-ante project appraisal (i.e., Cost-Benefit Analysis)

- Calculates the national parameters, the commodity specific conversion factors and the shadow prices.
- Defines and updates general and sector rules, instructions and norms to guide the formulation of investment projects.
- Establishes a common terminology, procedures, tools and templates
- Provides consultation services on how to follow these standards
- Enforces the standards
- Improves the standards
- Provides continuous training programs

Resource pool model: This advanced model of a PIM Unit optimizes the use of shared organizational resources across all investment projects. And it maintains and provides a cadre of skilled project appraisal professionals and resources, as needed. In a complete resource pool PIM model, the primary functions of a PIM Unit include all weather station and control tower functions, plus

- Managing shared resources across all projects administered by the PIM.
- Coaching, mentoring, training, and oversight
- Coordinating communication across projects from different sectors
- Finding interrelated projects and levering their synergies
- Providing technical support and resources to MDAs
- Finding opportunities for new investment projects

The proposed PIM Unit's Generic Structure

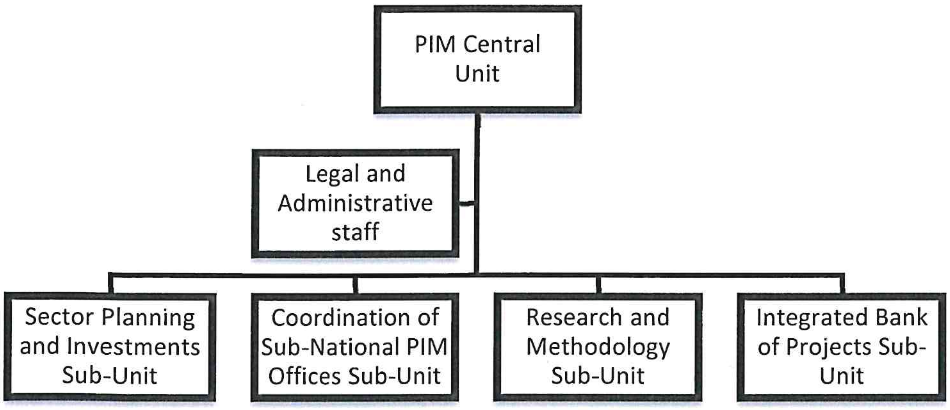
The PIM Unit is responsible for setting and enforcing the rules governing the PIM, registering all public sector projects and approving their pre-investment studies. As well as conducting the necessary studies and other related works to identify and prepare global and sector investment policy's recommendations and proposals. Depending on the maturity level of the PIM, in a decentralization effort, the PIM Unit should establish fluent connection with the local level (through its Municipal PIM Offices), to work and interact directly with the municipalities and city governments.

A PIM Unit may be composed of the following four Sub-Units:

1. Sub-unit: Sector Planning and Investments
2. Sub-unit: Coordination of Sub-National PIMS Offices/Branches
3. Sub-unit: Research and Methodology
4. Sub-unit: Integrated Bank Project (IBP)

Typically, in a big country, a PIM Unit may be composed of around 50 people, of which 90% are professionals, mainly engineers and economists. A generic organizational chart of the PIM Unit is shown in Figure N°1.

Figure N°1 – PIM Central Unit



Source: international best practices in PIM

The Sector Planning and Investment Sub-Unit

This Sub-Unit has the mandate to perform the technical and economic analysis of all investment initiatives by reviewing their pre-investment studies; to provide feedback and advice to the project sponsors. It must ensure the implementation of methodologies and criteria for economic evaluation. The technical economic analysis of the feasibility studies includes the authority to issue the recommendation to the Minister of Planning to grant the final seal of quality.

This sub-unit should generate information, analysis and research on public investment topics, leading the delivery of guidance to streamline the PIM (it also must refine the project preparation and evaluation guidelines, norms and procedures for the pre-investment studies, public investment programs and projects).

In addition, it should provide information for the analysis of territorial and sector public investment, to improve the management of investment initiatives, streamlining processes, quality control of technical economic analysis, conducting analysis of results and deliver feedback for Line Ministries, Departments and Agencies. Their working counterpart is each of the PIM Antennas of each Line Ministry. In a big country this sub-unit may have a staff of up to 20 professionals plus 2 or 3 administrative/secretarial (on average, it is recommended to have 2 professionals per sector or Line Ministry). The professionals working in this Sub-Unit are called "sectorialists" because they specialize in the type of projects of one or two sectors.

Coordination of the municipal PIM Offices/Branches Sub-Unit

This Sub-Unit has the mandate to set up, provide administrative support, and coordinate the work of all municipal PIM Offices. These municipal PIM Offices are responsible for the same tasks that are the concern of the National PIM Unit but at the smaller municipal level. All projects produced by municipalities must fall under the category of small projects, (this is the CAPEX size of those projects must be below the first threshold).

The working counterpart of the municipal PIM Offices is each of the Project preparation and formulation units in each municipal or City government. These municipal PIM Offices may be organized functionally defining task officials, for example, an IBP official, another responsible for

PIM training, etc. It may have a staff of up to 4 professionals plus 1 administrative/secretarial (on average, it is recommended to have at least 1 professional for each large municipality).

The Research, Studies, and Methodology Sub-Unit

This Sub-Unit is responsible for strengthening the PIM due to a continuous improvement effort, (i.e. through the statistical analysis of the management and performance of the PIM). Up-grade the existing and draft new project preparation and evaluation methodologies and manuals. To calculate and up-date the National Parameters, Commodity Specific Conversion Factors/Shadow prices. Technically supervise the technical/economic recommendations, perform ex-post evaluations of projects and investment programs to draw lessons learned, provide technical assistance for the sub-national governments, and to develop specific studies for sectors. This team should maintain an ongoing relationship with universities. It may have a staff of up to 8/10 professionals plus 1 administrative /secretarial.

This sub-unit also includes professionals in charge of training and training coordination in Logical Framework Approach and Integrated Project Appraisal. This team coordinates the delivery of courses, divided into the Basic Level (dictated in order to deliver basic tools in project appraisal); Intermediate Level (it is the second level course and assumes the knowledge acquired in the previous course exists); IBP courses (it is designed to train in the use of computational and technology tools to manage, access, upload, modify data and extract reports from the Integrated Bank of Projects); Programs Courses (it is dictated in order to build competencies in the Logical Framework Methodology); and Local and Specialized Training (delivery to strengthen local capacities at the municipalities level; in addition, these kind of trainings are adapted to the needs of specific MDA that require them).

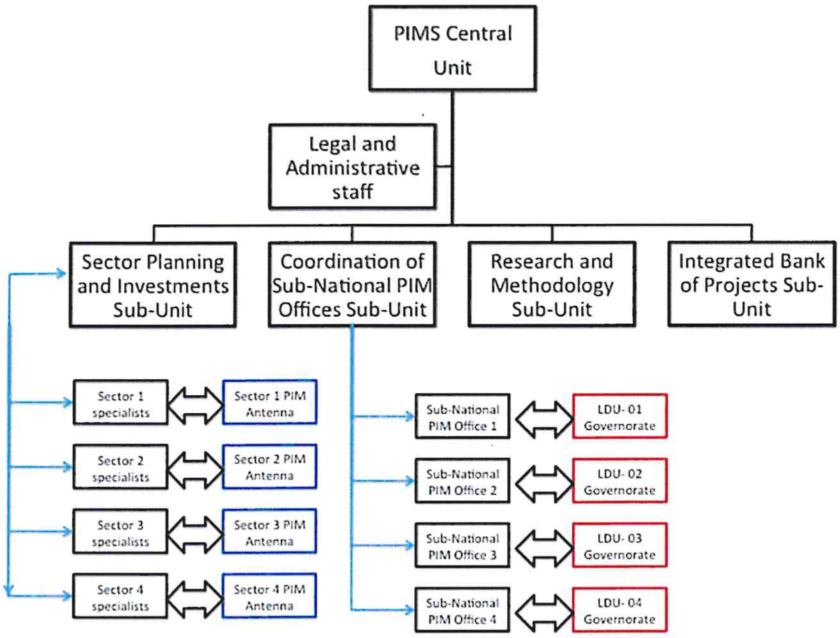
The IBP Sub-Unit

It is responsible for managing the Integrated Bank of Projects (IBP) Data Base, studying and proposing its technological upgrading, and continuously improving the IBP organization and procedures. It is normally a small unit composed of one IT professional plus one or two administrative/secretarial staff. Occasionally, it may hire temporary private sector staff.

The IBP should contribute to improving and strengthening the planning capacity, prioritizing and making informed decisions related to the government´s portfolio of projects. Specifically, the system allows Authorities to oversight the project portfolio, assessing the implementation of projects and analyzing the continuity of processes. The IBP also should provide methods for monitoring the implementation and operation of projects.

The IBP supports the management of PIM, through the registration of projects that apply for funding (annually). Also, it is the only input window of projects into the system and allows the tracking of projects throughout the entire development life cycle (it reflects the reality of each project because it is permanently updated). This initial IBP module should manage the project record information and should provide statistics to prepare reports and analysis for decision-making. The IBP runs under a computer platform (it is a software tool) that allows to digitally store the projects entered to the system. Its main objectives are to establish a database of public investment projects at national, regional and municipal levels. Figure N°2 shows the organizational chart of the PIM Central Unit.

Figure N°2 – PIM Central Unit



Source: international best practices in PIM

The PIM Stage Gate Committees.

Since there are three Stage Gates, there are three different stage gate committees needed. All committees shall have permanent and non-permanent members. Permanent members are representatives of different division of the Ministry of Finance and the Ministry of Planning, non-permanent members are representatives of MDAs, experts, academics, and advisors. This governance structure is based on the Front-End Loading (FEL) concept. (See Annex 06 for more detail)

When a given project is being vetted by the Stage Gate Committee, the sponsoring agency may be invited to brief the committee members, in that session the sponsoring agency cannot simultaneously be participating as a committee member, because there is an obvious conflict of interest.

- Stage Gate-01 committee only deals with the submissions of project concept notes (PCNs) or project profiles.
- Stage Gate-02 committee only deals with the submissions of project pre-feasibility studies.
- Stage Gate-03 committee only deals with the submissions of project feasibility studies.

As a project advances in its lifecycle, the decisions involve increasingly more pecuniary resources, therefore, the composition of the stage gate committees must take that fact into consideration.

- Stage Gate-01 committee members could be composed of lower ranking public officials given that they must meet very often because they deal with hundreds or even thousands of PCNs per year and provide recommendations to each of them, but the decision in the Stage Gate-01 is to allow the project to advance to FEL 02 and invest in a pre-feasibility study or not.

- Stage Gate-02 committee members should be more experienced public officials because they must deal with maybe one hundred pre-feasibility studies per year and provide recommendations to each of them, but the decision in the Stage Gate-02 is to allow the project to advance to FEL 03 and to invest in a feasibility study or not.

- Stage Gate-03 committee members must be senior public officials because they must deal with a few dozens of feasibility studies per year and provide recommendations to each of them, but the decision in the Stage Gate-03 is to recommend the Minister of Planning to grant the seal of quality to the project or not.

The Concept of "Front-End Loading (FEL)"

The Level of Influence in Project Design vs. Cost of Changes in Project Design

- The initial phases of the project life cycle offer the most significant potential to add value to the project and the business.
- Instead, during the implementation / execution phase (even though it is the phase that produces the greatest expense), the project sponsor should only focus on executing / building the designed product without introducing new changes into it.
- The correction costs for design errors or the introduction, by the client, project owner, or another stakeholder, of changes in the project's scope become increasingly more expensive and inefficient as the project progresses in its life cycle.
- If changes must be introduced to the project's scope, then it must be done as early as possible!

FEL is a concept created by Toyota. Later used by NASA, the petrochemical, pharmaceutical, mining industries, etc. This concept is also used in engineering design, and it is called: Front End Loading (FEL) or also known as Front End Engineering Design (FEED).

- Toyota refers to "Front-End Loading (FEL)" as a method of increasing the workload in the early stages of a project—prior to execution and operation—with the objective of identifying and eliminating potential design problems as early as possible.
- Before "FEL" 80% of the problems were resolved between the execution and operation stages. After "FEL" 80% of the problems can be identified and resolved before or during the conceptual design stage.
- What implication does this have? The "unforeseen" can be identified if working properly with the FEL methodology.
- How are the early stages of a project loaded with work? Investing in learning as much as possible in high ambiguity and uncertainty areas. This is through studies, ethnographic analysis, and prototyping.

The Decision Stage Gate Concept

The FEL methodology splits a project into three phases (FEL-01, FEL-02, and FEL-03):

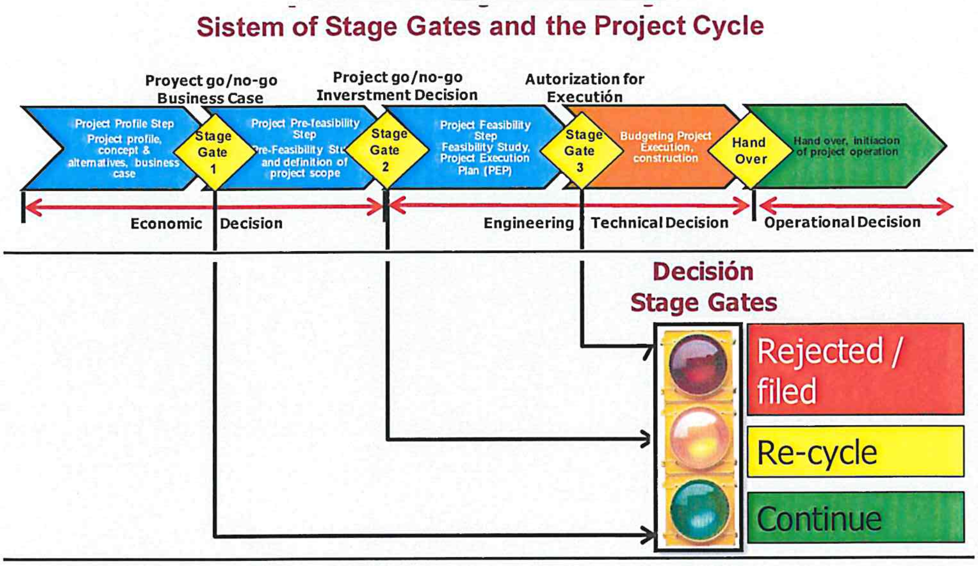
- FEL-01: Options Study or Index Engineering. (preliminary design)
- Decision Stage Gate-01: Project Alternatives Selection.

- FEL-02: Feasibility Study or Conceptual Engineering.
- Decision Stage Gate-02: Approval for Basic Engineering for the preferred alternative.

- FEL-03: FEED (Front-End Engineering Design) or Basic Engineering.
- Decision Stage Gate-03: Approval for Construction of the project.

See the diagrams under.

Figure N°2 – Capital Project Cycle



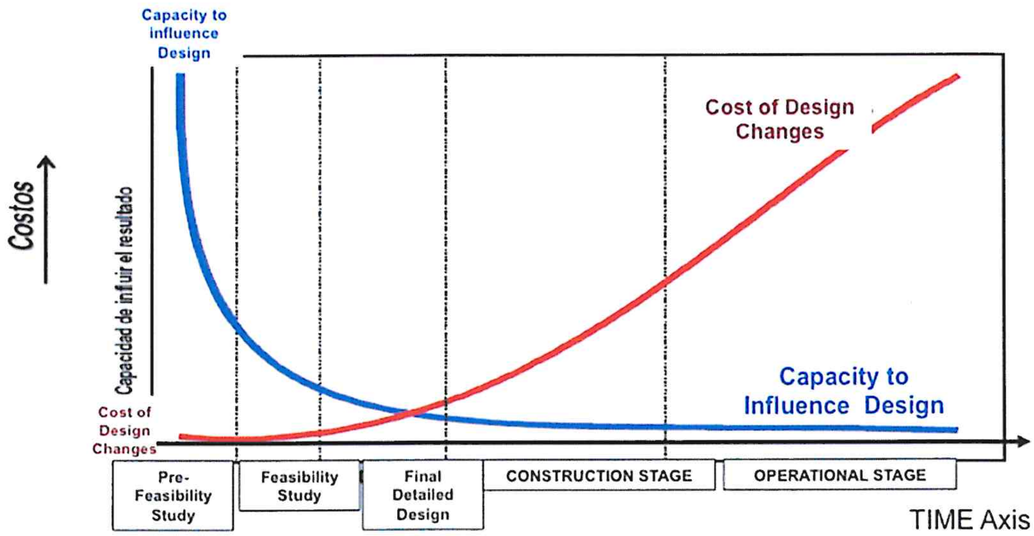
Source: Based on international best practices.

Going in the details of the FEL process

Phase	Scoping / Conceptual Design	Feasibility/ Preliminary Engineering	Definition FEED or Basic Engineering	Engineering, Procurement & Construction	Startup & Operations
	FEL-1	FEL-2	FEL-3		
Client Goals	• Develop concepts • Evaluate alternatives • Quantify risks	• Select best identified project approaches • Quantify economics • Project definition	• Finalize Scope & Execution Plan • Capital appropriation • Contracting	• Maintain budget and schedule • Achieve mechanical completion and handover	• Operation to achieve design performance
Deliverables	• Preliminary design basis • Block Flow Diagrams • Equipment list • Plot plan	• Design basis • PFDs • Material balance • Process data sheets • Preliminary equipment layout	• Update FEL-2 deliverables • P&IDs • Equipment specifications • 3D model	• Engineering • Procurement • Construction, or • Construction Management • Commissioning	• Training/startup assistance • Performance test
Cost Estimate	Class 5 Order-of Magnitude +50% / - 30%	Class 4 Preliminary +30% / -20%	Class 3 Budget +20% / -15%	Class 2 Control +15% / -10%	Class 1 Definitive +10% / - 5%
Feasibility study	Scoping	Feasibility	Bankable		
Test work	Bench-scale testing	Pilot plant testing	Optimization / variability testing		

In terms of negotiation power, the PIM Unit should consider those early stages as the most important for negotiation, because the sectors benefit from the advantage of an increasing information asymmetry. Later, in the final stages of the project cycle, the projects become more engineering and lesser economics intensive. (see Figure N°5.A).

Figure N°5.A –The Concept of Front-End Loading



Source: Slide from Project Management Course – JDI-Queen's University

From the figure above it becomes clear that the early stages in a project are the ones were the potential to add value to the project is at its maximum, whereas the cost to do it is at its minimum. Therefore, the optimal timing to introduce changes in project design is in the early stages of project cycle.

PIM Policy and Framework
Executive Summary

Crucial changes in fiscal policy are required to avert an abrupt and painful adjustment within a decade. Since 2006, successive governments have embraced an extreme expansionary fiscal policy stance based on significant spending and low taxation. This stance is unsustainable and requires a major overhaul. Very high public expenditure levels (averaging about 86 percent of GDP in 2008-2019) and low domestic revenue collection (below 12 percent) are putting intense pressure on the country's petroleum wealth. The Petroleum Fund is expected to deplete in less than ten years, owing to the imminent end of petroleum revenues and large withdrawals to finance the state budget. The development of additional petroleum reserves – such as Greater Sunrise – remains highly uncertain. The exhaustion of the Petroleum fund would lead to a decisive fiscal adjustment, jeopardizing the delivery of essential public services and threatening social cohesion. It is, therefore, vital to preserve these assets to ensure that future generations – equipped with sound knowledge, youthful energy, and a modern vision – have sufficient resources to shape their destiny. Meanwhile, effective investments to enhance human capital outcomes are needed.

The country's fundamental challenge is transforming its petroleum wealth into prosperity for the entire population. Public spending has failed to sustain economic growth and improve living standards. Its impact on human capital accumulation has also been limited. The justification for frontloading public spending is thus increasingly untenable. There are three main challenges:

(i) Lack of aggregate fiscal discipline, owing to high expenditure levels coupled with low domestic revenues.
(ii) Low efficiency and effectiveness of spending, partly due to resource misallocations.
(iii) And operational constraints caused by public financial management bottlenecks.

These challenges are mutually reinforcing, as low spending quality compounds sustainability concerns, and operational weaknesses affect spending quality. Fiscal responsibility requires reprioritizing spending (towards human capital), consolidating unessential and poorly targeted outlays, and improving domestic resource mobilization. A strong focus on quality and sustainability is indispensable, even in sectors that warrant greater attention, such as education and health. In sum, Timor-Leste requires better—rather than larger—budgets.

The Purpose of a PIM is *"To build on time an investment initiatives portfolio with sufficient projects, considering the available resources, with a technical and economic recommendation and following actual strategic policies for those institutions that make the investment decisions."*

1) The disconnect between efficacy and efficiency. The necessary linkage between Strategic Planning and Financial-Economic Planning.

Strategic Planning is about Efficacy: Strategic planning emphasizes "investment efficacy" or spending on the right sectors and assets. In other words, spending should promote strategic priorities, and resources should be allocated to those areas that make the most outstanding contributions to the national objectives.

In that sense, strategic planning exercises performed at different levels are, in essence, a top-down, highly political process that produces a key deliverable, a buy-in, and a given consensus on a Strategic Development Plan (SDP) and Sector Development Plans. If this planning exercise is not 100% conclusive and does not define the portfolio of projects to be financed, it risks becoming only a narrative wishful statement, void of practical application.

Investment management is about Efficiency. This economic-financial planning stresses "investment efficiency"; spending should be done to deliver value for money (get the most bang for your buck). Economic Financial Planning, contrary to strategic planning, is a bottom-up, essentially technical process. The economic-financial side of the strategic planning exercise allocates one particular national resource: Capital. This process starts with a comprehensive cost-benefit analysis for each investment initiative in sector portfolios and ensures "value for money" in every public investment project.

Strategic and economic planning are disconnected in Timor Leste. If these two planning exercises do not overlap and match, there will be severe inconsistencies in public policy priorities and future investment decisions. Both views must be reconciled because they deal with the same project portfolio. The two views should be complementary, not substitute. When strategic and economic analyses give conflicting answers, that conflict is usually considered a "fact of life" and not an anomaly that demands reconciliation.

One way of matching the two planning exercises is for all investment projects to submit their Log-Frame Matrix (i.e., Problem Tree, Solution Tree, Alternatives, KPIs, etc.) at the project profile level. To safeguard project strategic alignment, all public investment initiatives in Timor Leste should be designed considering and applying the Log-Frame Approach so that the strategic objectives are identified (i.e., the efficacy question) and measured by applying suitable indicators.

2) Focus first on the Pre-Investment Phase.

A project lifecycle consists of three phases: Pre-investment, Investment, and Operation. Most problems (e.g., cost overruns, schedule slips, abandonment, etc.) arise during the investment and operation phases. The typical reaction is to act as firefighters and solve the problems as they arise. However, professional experience demonstrates that, in most cases, the root problems are initiated in the pre-investment phase, at the initial stages of project design. Therefore, all PIM systems focus first on the pre-investment stage to avoid future risks. This is also Timor Leste's recommendation.

3) The Front-End Loading (FEL) stage gate system

The stage gates are filters that separate good projects from bad ones. Since there will be three Stage Gates, three different stage gate committees are needed.

- Stage Gate-01 committee only deals with the submissions of project concept notes (PCNs) or project profiles.
- Stage Gate-02 committee only deals with the submissions of project pre-feasibility studies.
- Stage Gate-03 committee only deals with the submissions of project feasibility studies.

All Stage Gate committees shall have permanent and non-permanent members. Permanent members are representatives of different divisions of the Ministry of Finance and the Ministry of Planning; non-permanent members are representatives of MDAs, experts, academics, and advisors. This governance structure is based on the Front-End Loading (FEL) concept.

When the Stage-Gate Committee is vetting a given project, the sponsoring agency may be invited to brief the committee members; in that session, the sponsoring agency cannot simultaneously participate as a committee member because of an obvious conflict of interest.

As a project advances in its lifecycle, the decisions involve increasingly more pecuniary resources; therefore, the composition of the stage gate committees must consider that fact.

- Stage Gate-01 committee members could be lower-ranking public officials. They must meet frequently because they deal with hundreds or even thousands of PCNs annually and provide recommendations to each one. However, the decision in Stage Gate-01 is whether to allow the project to advance to FEL 02 and invest in a pre-feasibility study.

- Stage Gate-02 committee members should be more experienced public officials because they must deal with maybe one hundred pre-feasibility studies annually and provide recommendations to each. The decision in Stage Gate-02 is whether to allow the project to advance to FEL 03 and invest in a feasibility study.

- Stage Gate-03 committee members must be senior public officials because they must review dozens of feasibility studies annually and make recommendations for each one. The decision in Stage Gate-03 is whether to recommend that the Minister of Planning grant the project the seal of quality.

4) The Seal of Quality

The strength and usefulness of a PIM System rest on one single condition: The Minister of Finance must not accept budgeting, financing, or supporting any public investment initiative that has not received the "Seal of Quality" from the Minister of Planning. The "Seal of Quality" must be required to initiate any funding negotiations.

By Law, the Public Investment Management Unit (PIM Unit) should be the only entity that has the vested power to recommend the provision of the "Seal of Approval" to any investment initiative that receives total or partial direct fiscal funding, obtains some government guarantees, or produces contingent liabilities to the government.

The PIM Unit guarantees that all investment projects comply with the PIM regulations, are both technically and economically feasible, and have all the necessary permits and land acquisition; in other words, they are shovel-ready for implementation. The PIM Unit is, therefore, the exclusive and autonomous regulator of the public pre-investment process and the indirect project evaluator of all public sector investment projects[1].

Once the projects have been appraised and considered worthy (i.e., the efficiency approach), and the Minister of Planning has granted the seal of approval, the next step is to make the corresponding capital budget decisions. Prioritizing and selecting projects or the capital allocation exercise is

[1] It has an indirect project appraisal role because each sector must appraise its own projects, but according to PIM Unit's guidelines, norms and procedures.

political, and no technical formulas could guide that process. A multi-criteria tool could be developed for project prioritization and ranking to assist the project selection process.

5) The future PIM Unit

Our diagnostic shows that the PIM functions in Timor Leste are dispersed among too many institutions. This organizational atomization diffuses the power to deal with the project sponsors in a functioning checks-and-balances system. It also makes coordination very complex and slows down investment decision-making.

The Ministry of Planning and Strategic Investments (MPSI) is responsible for economic and financial planning in Timor Leste. Therefore, the natural location of a solid and unified PIM Unit in Timor Leste should be under the MPSI.

6) Future supporting legal framework.

The PIM system must be shielded and protected. Consequently, some parts of it should be mentioned in the amended versions of different legal bodies, such as the Financial Administration Act, the Public Procurement Act, the Law that creates the MoF, the Law of the Regional Governments, and numerous Office of the Budget regulations.

If the PIM is fully ingrained into Timor Leste's legal system, it will be difficult to bypass and disarticulate. This legal protection aspect is necessary, but it is not sufficient. The PIM system must also perform and deliver reasonably well, thus winning widespread public support and legitimacy.

Further norms and regulations that complement this Policy are needed, and the MPSI must enact them in due time.

7) The Timor Leste Integrated Bank of Projects (IBP) database

An Integrated Bank of Projects is simultaneously four systems in one:

- It is a relational database hosting all Nation's projects
- It is a workflow management system guiding the business process of the project cycle
- It is a document management system organizing all PIM documents and contracts
- It is a geographic information system (GIS)

Through its PIM Unit, the IBP shall enable the MPSI to control and coordinate public investment management and store and report core information on all public investment projects. The IBP also provides MDAs a platform and guidance (a workflow) to manage their respective projects through the PIM life cycle. Therefore, the IBP is an information system designed to assist spending agencies at the national and municipal levels in the critical processes over the life cycle of investment initiatives.

The IBP provides a comprehensive database for information on public investment. This system delivers timely reports on the status and performance of all public investment projects (including PPPs). The Public Investment Program (PIP), required by the annual budget, can be generated automatically from the IBP. Public information on the public investment portfolio can be easily made accessible to the public online.

The IBP objectives include:

a) Provide a dynamic information management process for public investment
b) Link institutions and improve institutional coordination
c) Enhanced decision making
d) Increased transparency in the public investment process

The PIMS Timor Leste must be a customized, centralized, web-based relational database system with the following generic functional modules.

(i) **Project module**: This module allows the registration, screening/appraisal, allocation of funds, annual budgeting, and Monitoring and Evaluation of projects.
(ii) **Contract module**: Helps to record and track bidding and contract management details of each project being implemented
(iii) **PPP module**: Details of PPP projects are captured and tracked using this module.
(iv) **Public Enterprise module**: Helps to record pertinent information about PEs/SOEs and track their performance.
(v) **Reporting module**: This provides management reports and views of data captured in PIMS for decision-making.

The IBP must be linked to other core government financial management systems, including the IFMIS and Budget System. MDAs will each have access and are expected to register and upload all their relevant project data and documentation.

8) Recommendations

A pragmatic approach to the PIM Reform is needed. The TL government should start by implementing the PIM Unit, leaving the corresponding legal framework for later. PIM training must also begin as soon as possible.

9) Next steps

8.1 To achieve a consensus on a PIM Policy and framework
8.2 To achieve a consensus on a Road Map and short-term Action Plan
8.3 To establish a PIM Unit
8.4 To establish a PIM & PPP Training Center
8.5 Develop a Project Management Office in each line ministry
8.6 PIM process mapping and re-engineering
8.7 Develop a PIM manual, specific project methodologies, guidelines, templates, circulars
8.8 Acquire a Commodity Specific Conversion Factor and National Parameter software
8.9 Develop a multi-criteria tool for project prioritization and ranking
8.10 Develop software components of the IBP
8.11 Enhance PIM legal framework
8.12 Develop project management procedures
8.13 Develop ex-post project evaluations.

3

Roles and responsibilities in Timor Leste's PIM

Current problems of duplication and overlapping functions

One of the critical challenges in PIM reform is the high number of institutions/departments involved in its execution. Under the Ministry of Planning and Strategic Investments (MPSI), a coordinating office for public investments is led by Mr. Pedro Lay, Advisor to the Minister of MPSI.

Other institutions dealing with PIM under MPSI include the Major Project Secretariat (MPS), a significant player handling the Infrastructure Fund with a current budget of $300 million and processing all projects above US$ 1 million. The MPS reports to the Council for Infrastructure Fund (CIF), which selects projects or refers them to the Council of Ministers. The CIF comprises of the Minister of Planning and Strategic Investment, the Minister of Finance, the Minister of Public Works, and the Minister of Transport and Communications.

The MPS works closely with the National Development Agency (NDA) under MPSI, which inspects investment proposals from government institutions to ensure they have followed the project preparation criteria. The NDA then authorizes government institutions to submit the projects to MPS. Other institutions under MPSI that deal with public investments include the Planning Integrated Unit, which deals with line ministries sector plans that include investments in infrastructure and other sectors, and the Investment Strategic Unit, which deals with legal issues related to investments.

In addition, MoF is involved in PIM too. The Treasury Directorate deals with policy for public investments; the Directorate for Planning and Budgeting deals with budgets for investments; the Directorate of Asset Management deals with keeping a record of fixed assets for completed projects; and the Directorate of External Resources deals with projects funded by external resources from mainly Development Partners. Another institution involved is the National Procurement Commission, which handles public procurement for government projects.

To address the issue of multiple institutions/departments, which influences the efficiency of processing projects, the Government of Timor-Leste may need to think of how to concentrate these functions under one PIM Unit that is responsible for coordinating all pre-investment stage processes.

Efficient and effective management of public investments requires coordination with a wide range of entities and stakeholders; thus, simple, clear roles & responsibilities are required. The current legislation guides the actions of stakeholders, and it includes: the Finance Act, Procurement Act, and the Budget Guidelines. Typically, the complete management of PIM –normally- corresponds jointly to two institutions: a specialized PIM Unit under the Ministry of Planning together with the Ministry of Finance's Budget Directorate.

Ministry of Finance (MoF)

During budgeting, the MoF conducts business as usual. First, it prepares draft capital ceilings for each MDA and defines their draft capital budget. Then, it negotiates with every line ministry's budget envelope and estimates the available fiscal space for new investment projects. It also prioritizes and ranks the investment projects. With each MDA, the MoF selects the project to be funded.

During the project's investment phase, the MoF monitors the financial implementation of the ongoing public investment program (PIP), i.e., it monitors the outlays of each project and compares it to the planned cash flow. It monitors the implementation of the sector capital investment program and the implementation and completion of individual projects and investment programs. MoF is also part of tender evaluation committees for construction contracts; it ensures cash releases during the budget year consistent with the efficient implementation of the capital investment budget and its component parts; and it chairs the Inter-Ministerial Public Investment Committee.

Ministry of Planning and Strategic Investments (MPSI – MPIE in Portuguese)

The MPSI is responsible for coordinating capital investment planning and management as described in this and other regulations. It updates the regulation as necessary, including governance, planning, and management of capital investment. It assures the quality and integrity of the PIM system by analyzing and preparing opinions on the financial, economic, and fiscal feasibility of project proposals at the identification and appraisal stages.

Integrated Planning Unit (IPU)

1. The Integrated Planning Unit is the MPSI's direct administration service responsible for executing or coordinating the country's technical socio-economic strategic planning activities that leverage economic and social development in coordination with other relevant government departments.

2. The Integrated Planning Unit is responsible for:

a) Propose economic development strategies for the country and its policies.
b) Coordinate the preparation of medium and long-term strategic development projects and development plans in cooperation with other entities, public or private.
c) Participate in preparing the annual macroeconomic reference framework and ensure its alignment with the country's strategic development options.
d) Propose strategic frameworks for medium and long-term economic and social development.
e) Coordinate the preparation of infrastructure necessary for the economic and social development of the country.
f) Coordinate the formulation of strategies for the valorization and development of human capital, framing them with the country's economic and social development strategies.
g) Carry out the necessary studies to create and implement an agency responsible for integrated planning.

3. The Integrated Planning Unit is headed by a director, equivalent to a general director, appointed under the legal regime for management and leadership positions in the Public Administration and subordinate to the Minister.

Strategic Investment Unit (SIU)

The Strategic Investment Unit is the MPIE's direct administration service, responsible for coordinating technical planning activities for strategic investments in infrastructure and services that promote the country's economic and social development in coordination with other relevant government departments.

The Strategic Investment Unit is responsible for:

a) In collaboration with other relevant entities, prepare annual and multi-annual national public investment programs.
b) Develop the selection criteria for public investment projects following rules of economic rationality and within the scope of the Strategic Development Plan.
c) Evaluate the execution of public investment projects.

d) Organize, coordinate and manage an information system for planning and executing public investment projects to assess the impact of projects on the country.

2. The Strategic Investment Unit is headed by a director, equivalent to a general director, appointed in accordance with the legal regime for management and leadership positions in the Public Administration and subordinate to the Minister.

Petroleum Fund of Timor-Leste

Establishment of the Petroleum Fund (PF)

The Petroleum Fund of Timor-Leste was established under the provisions of the ***Petroleum Fund Law*** , which was promulgated on 3 August 2005. The Petroleum Fund Law was amended on 23 August 2011. The Petroleum Fund Law:

- provides mechanisms that assist Timor-Leste to manage its petroleum revenue sustainably
- details the parameters for operating and managing the Petroleum Fund
- defines the asset allocation and risk limits
- governs the collection and management of receipts associated with petroleum wealth
- regulates transfers to the State Budget, and
- provides for government accountability and oversight of these activities.

A ***Management Agreement*** between the Ministry of Finance and the Central Bank of Timor-Leste was signed in 2005. This was amended in June 2009 and its annex 1 was then amended in October 2010.

Petroleum Fund Investment

The Petroleum Fund Law requires that all petroleum revenues be entirely transferred to the Fund and invested abroad in financial assets. According to parliamentary approval, the Fund's only outgoings are transfers back to the central government budget.

From 2005 to June 2009, the Central Bank of Timor-Leste (formerly the BPA) managed the entire portfolio and invested only in US government bonds.

In June 2009, the Bank for International Settlements (BIS) was appointed as the Fund's first external manager. BIS managed 20 percent of the total Petroleum Fund and invested in a broader range of Government and Supranational bonds.

In October 2010, Schroder Investment Management, the Fund's first equity manager, was brought in to manage a global equity mandate amounting to 4 percent of the total Petroleum Fund.

See Quarterly Reports and Monthly Performance Reports on the Central Bank of Timor-Leste's website for details on the performance of the Fund's portfolio.

Governance Structure of the Petroleum Fund

The Petroleum Fund governance model is based on a high degree of transparency and disclosure of information to help build public support for the wise management of petroleum revenues and to reduce the risk of bad governance.

As the Executive, the Government through the Ministry of Finance is responsible for the overall management of the Petroleum Fund, on behalf of the people of Timor-Leste.

The Petroleum Fund Law makes the Government accountable to Parliament through various reporting requirements.

The operational management is currently carried out by the Central Bank of Timor-Leste, which invests the Fund's capital according to guidelines established by the Ministry of Finance and mandates developed by the Investment Advisory Board.

The Ministry of Finance must seek advice from the Investment Advisory Board before making decisions on any matter relating to the investment strategy or management of the Petroleum Fund.

The Infrastructure Fund (IF)

The Infrastructure Fund (IF) was established by the Government in 2011 to finance core infrastructure and essential capital development projects to support the implementation of the Strategic Development Plan of Timor-Leste 2011-2030 (SDP). The SDP identifies priorities for the infrastructure sector as a central pillar of the country's social and economic development. The main target of the IF is to build and maintain essential infrastructure, including roads and bridges, ports and airports, provide reliable electricity across the country, improve water and sanitation, public facilities, and other strategic sectors.

However, the Conselho de Administração do Fundo Infraestrutura (Infrastructure Fund Council), chaired by the Prime Minister and including key ministers, has been established to provide overall leadership to infrastructure. The council's secretariat—the Major Projects Secretariat —oversees new business processes adopted for major projects. The secretariat also has a planning role for the infrastructure sectors, is responsible for PPPs, and is the executing agency for all loan-financed projects. This function overlaps and duplicates the functions of a PIM Unit.

THE WORLD BANK

4

Roadmap for Developing an Effective and Efficient Public Investment Management (PIM) System in Timor Leste from 2025 to 2030.

January 2025

Table of Contents

Introduction

This Public Investment Management (PIM) Roadmap for Timor Leste aims to propose how to reform the country's public investment management system according to the concepts outlined in the PIM Policy and Framework. The PIM Policy and Framework provided the context for building a coherent, sustainable, and effective system for managing public investments, addressing the shortcomings in Timor Leste's PIM system.

This draft roadmap aims to ensure the planning, prioritization, and implementation of public investment projects based on strategic priorities and the medium-term budget framework. It aims to create a system that directs resources to society's most essential needs, ensures financial sustainability, and enhances the efficiency and effectiveness of public investments. Additionally, the roadmap seeks to promote transparency, accountability, and environmental sustainability in the management of public investments.

The roadmap outlines specific actions to achieve these objectives, including legislative regulation, strategic planning, project appraisal and selection, budget planning, procurement procedures, project implementation, and monitoring and evaluation. These actions will be implemented in two stages, with the first stage focusing on creating the necessary prerequisites for the transition to a new model of public investment management.

By implementing the PIM roadmap, Timor Leste aims to establish a robust and transparent public investment management system that effectively allocates resources, promotes economic growth, and improves the quality of public services.

The following sections of the roadmap provide a detailed overview of the objectives, actions, responsible entities, and timelines for each area of focus. By following this roadmap, Timor Leste can build a strong foundation for managing public investments and ensure the efficient utilization of resources for the benefit of its citizens and the country.

PIM Roadmap for Timor Leste

There is broad consensus on the positive effects of infrastructure investments on economic growth, especially in countries with a similar level of economic development to Timor Leste. However, an essential condition to achieving this goal is to force all public investments to progress through a rigorous system that ensures specific quality controls regarding technical effectiveness and economic efficiency. Therefore, it is necessary to strengthen Timor Leste's PIM system.

This PIM system for Timor Leste will be developed as a comprehensive set of concepts, techniques, standards, and methodological procedures and a uniform information and document depository and management system (i.e., the IBP) for formulating, preparing, and appraising projects. Based on international good practices, it is proposed that the following activities be developed in Timor Leste to improve the current public investment procedures and install a complete PIM system in the country. These actions and corresponding activities and tasks are proposed in a calendar for short- and medium-term implementation (2025–2030).

Table N°01 – Eight actions for a PIM SYSTEM in Timor Leste

Action 1	Formalize the institutional PIM setting.
Action 2	Develop capacity-building processes in project design, appraisal, prioritization, and selection.
Action 3	Improve capital investment project design, appraisal, prioritization, and selection.
Action 4	Enhance Timor Leste's legal and regulatory framework of the PIM system.
Action 5	Establish a project registration process in the IBP system (Integrated Bank of Projects).
Action 6	Establish project selection criteria for 2025, 2026, and subsequent periods.
Action 7	Formalize the role of key performance indicators in the context of the PIM system.
Action 8	Improve project management (execution, monitoring, and follow-up) and ex-post-project evaluations.

Source: International good practices in public investment management systems.

These actions are intended to strengthen the Timor Leste PIM system, ensuring an effective and efficient investment process, maximizing the expected socio-economic return on investment projects, and ensuring their contribution to increasing national welfare.

Short-Term Actions (2025—2027)

The actions proposed for the short term are related to developing the tools to improve the PIM System in terms of project design, appraisal, and selection. The proposed Actions are then further subdivided into Tasks, each with their corresponding Outputs.

Action 1. Formalize the PIM institutional setting

The government's approach to further developing and gradually strengthening an efficient PIM system in Timor Leste is based on the following policy activities:

- Ensure that public investments promote welfare growth and reduce inequalities and unemployment and that fiscal risks are well-managed
- Integrate all line ministries, independent budget agencies, and local governments in sector strategic planning and procurement processes to establish a solid foundation for inter-sector and territorial coordination and budget integration adjusted to government priorities.
- Force all public investment to progress through a strengthened PIM system that ensures specific quality controls regarding technical effectiveness and economic efficiency.
- Ensure that projects remain within the budget envelope and have confirmed sources of financing. The government must be able to budget the necessary level of recurrent project costs to secure the operation and maintenance of newly acquired public assets.
- Establish a Central PIM Unit at the Ministry of Planning and Strategic Investments (MPSI).
- Make growth more effective through the private sector development and enable policies that ensure the private sector can use public infrastructure well.

In concrete, the action includes the following tasks (shown in Table N°2).

Table N°02 – Seven tasks in Action 1

Task 1.1	Institute that the Council for Infrastructure Fund (CIF) shall also lead the development of the PIM Roadmap and guide the implementation of the new PIM Processes.
Task 1.2	Establish new functions and governance of the Council for Infrastructure Fund (CIF), comprised of four members of the Cabinet of Ministers and chaired by the Prime Minister
Task 1.3	Establish a dedicated Central PIM Unit at the Ministry of Planning and Strategic Investments (MPSI) to guide public investment preparation and appraisal.
Task 1.4	Enhance the role of the dedicated Central PIM Unit at the Ministry of Planning and Strategic Investments (MPSI).
Task 1.5	Develop a transitional model for PIM to establish and formalize simplified project selection criteria for public investment prioritization for 2026 and 27
Task 1.6	Sectoral PIM Units are introduced in line ministries, and Territorial PIM Units in subnational governments
Task 1.7	PIM Sector Units in line ministries and Territorial PIM Units in local governments are in place

Task 1.1 Establish that the Council for Infrastructure Fund[1] shall lead the development of the PIM Roadmap and guide the implementation of new PIM Processes.

The Council for Infrastructure Fund (CIF) must be crucial in shaping a country's long-term economic growth, competitiveness, and sustainable development. Besides administering the Infrastructure Fund, the Council should have the following new functions.

Functions and Activities of the Council:

- The Council's primary purpose is strategically guiding the country's development initiatives according to the National Development Plan and sector and Local Development Plans.
- Developing a pipeline of strategic projects (i.e., the Public Investment Plan- PIP) that align with national priorities.
- Prioritizing investment projects based on economic impact, technical feasibility, sustainability, and innovation. Focusing on high-impact and megaprojects, policies, and reforms that align with national priorities.
- Making final investment decisions allocating resources (financial, human, and technological) to critical sectors.
- Policy recommendations and stakeholder engagement.
- Regarding Public-Private Partnerships (PPPs), the Council shall collaborate with private-sector entities to leverage their expertise and resources. Encourage PPPs for infrastructure development and investment projects.
- The Council regularly assesses progress and adjusts investment strategies as needed.
- The Council anticipates and mitigates risks related to investment initiatives.

[1] Regulation (EU) 2015/1017 of the European Parliament and of the Council of June 25th, 2015, on the European Fund for Strategic Investments, the European Investment Advisory Hub, and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (europa.eu)

Task 1.2 Establish new functions and governance of the Council for Infrastructure Fund[2], comprised of four Cabinet of Ministers members and chaired by the Prime Minister.

- The new functions and governance of the Council must be established through an executive order defining its powers, responsibilities, and structure.
- The Prime Minister shall chair the new Council.
- The Minister of Finance, the Minister of Planning and Strategic Investments (MPSI), the Minister of Public Works, the Minister of Transport and Communication, and the Prime Minister should be the permanent members of the Council for Infrastructure.
- The Major Project Secretariat of the Ministry of Planning and Strategic Investments (MPSI) should act as the Executive Secretariat of the Council for Infrastructure Fund. It should manage day-to-day operations, research, and coordination and organize regular meetings to discuss investment opportunities, challenges, and strategies.
- Other relevant sector ministries could be invited to participate as non-permanent members of the Council as needed.
- Also, private sector leaders (CEOs, entrepreneurs, and industry experts), academics, experts, advisors, and researchers provide insights and expertise, and civil society representatives (Advocates, NGOs, and community leaders) could be invited to participate in specific sessions.

Monitoring and evaluating the implementation of the PIM Reform:
- Establish performance indicators to measure the Council's effectiveness.
- Regularly assess progress and adjust investment strategies as needed.

Transparency and Accountability:
- Ensure transparency in decision-making processes.
- Publish reports, project updates, and financial information.

International Cooperation:
- Engages and collaborates with international organizations, development banks, and other countries.
- Learn from successful models worldwide, like the European Fund for Strategic Investments (EFSI), which mobilizes private investment for EU projects.

Output 1.2.1 Establish a mechanism for engaging external expertise (especially at the stage of project preparation and appraisal) through the creation of a **Pre-investment Fund**:

A **Pre-investment Fund** is a competitive financial mechanism supporting initial project development stages. Detailed technical and economic studies assess a project's feasibility and viability during this phase. The Pre-investment Fund is essential for setting the stage for successful projects and ensuring they are well-prepared before they are completed.

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[2] Some success stories:
- United Arab Emirates (UAE): The Strategic Development Fund (SDF) focuses on equity investments and developmental funding in strategic sectors[1].
- Kerala, India: The Kerala Development and Innovation Strategic Council (K-DISC) formulates technology-driven plans for the state's development[2].
- Chile: The Consejo Minero promotes sustainable mining development in Chile[3].

Key points about pre-investment funds:

1. **Purpose**: The primary purpose of a Pre-investment Fund is to lay the groundwork for a project. It involves conducting thorough analyses, identifying potential risks, and designing a robust project structure.

2. **Activities**:
   - Technical-Economic Studies: These studies evaluate the project's technical aspects (engineering, design, etc.) and economic feasibility (cost-benefit analysis, financial cash flow projections, and economic resource flows).
   - Risk Assessment: The Pre-investment Fund assesses the construction, operation, and maintenance risks.
   - Contractual Structuring: The Pre-investment Fund helps create well-designed contracts, minimizing information asymmetry between parties.
   - Implementation Kick-Off: The Pre-investment phase concludes with the start of project implementation.

3. **Benefits**:
   - Cost Savings: A well-prepared Pre-investment phase reduces the likelihood of cost overruns, delays, and rework during project execution.
   - Better Execution: Projects with complete technical and economic studies are more likely to be executed efficiently.
   - Improved Decision-Making: Decision-makers can make informed choices based on comprehensive data.

Example: The Global Pre-investment Fund Program II by the Inter-American Development Bank (IDB) supports pre-investment activities in various sectors.

For instance, in Jamaica, the IDB provided a loan for pre-investment operations, contributing to better project execution and reduced risks[3]

Task 1.3 Establish a dedicated Central PIM Unit at the Ministry of Planning and Strategic Investments (MPSI) to guide public investment preparation and appraisal.

Output 1.3.1 Decouple the pre-investment phase from the investment phase.

It is crucial to decouple the "pre-investment" phase (i.e., the project preparation and appraisal functions) from the annual budget cycle and the "investment" phase (i.e., the project execution). The pre-investment phase should be assigned to the PIM Unit at the Ministry of Planning and Strategic Investments (MPSI). The Ministry of Finance's Office of the Budget must lead the capital budgeting processes and monitor the project's disbursements during its execution. The investment phase should be entrusted to the project sponsoring agency for all project management functions and control.

Decoupling the pre-investment phase from the annual budget cycle in investment projects has proven essential for effective public investment decision-making and future project success. This factor is another argument for assigning the pre-investment phase to the PIM Unit and entrusting the investment phase to the project sponsoring agency and the Office of the Budget.

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[3] https://www.iadb.org/en/project/JA0021

Why does decoupling matter?

A project's lifecycle has its multiannual timing involving several stages; therefore, it must refrain from complying with the annual budget cycle. For a project to travel from initiation to the final investment decision (i.e., project idea to profile, pre-feasibility study, and feasibility study) may take several years. A project gradually matures as it diminishes uncertainty through progressive studies and stakeholder engagement. Therefore, to force all investment projects to travel from inception to the final investment decision within one fiscal year is absurd.

However, when an investment project must comply with the annual budget cycle, the only way to do so is to cut corners and fast-track the pre-investment studies.

NOTE: ***Too often, some government entities try to run too fast in the pre-investment phase (i.e., on the Front End), only to be forced to give back all that time gained, multiplied several times over throughout the project's execution and implementation phase.***

- **Risk Assessment**: Decoupling allows a thorough assessment of risks and benefits before committing significant resources.
- **Efficiency**: The stage gate system prevents unnecessary feasibility studies for projects unlikely to proceed to the investment phase.
- **Focused Research**: Research becomes more targeted and efficient by phasing out ideas and presenting alternative solutions.

The benefits of decoupling:

- **Strategic Decision-Making**: Decoupling enables strategic decisions based on a holistic analysis of investment opportunities.
- **Resource Allocation**: It ensures resources are allocated to projects with higher chances of success.
- **Process Improvement**: By separating the pre-investment phase into project profiles, pre-feasibility studies, and feasibility studies, organizations can improve their processes within a dynamic political environment [3].

Challenges:

- **Balancing Speed and Rigor**: Decoupling requires timely decisions without compromising due diligence.
- **Stakeholder Alignment:** Ensuring alignment among stakeholders during all phases is crucial.
- **Adaptability:** Projects may evolve, requiring adjustments even after the investment decision.

In short, decoupling the pre-investment phase from the annual budget cycle allows organizations to explore opportunities, assess risks, and make informed decisions before committing substantial resources to investment projects. It promotes efficiency, strategic planning, and better project outcomes.