

The 8th Meeting of the Asia Network on Corporate Governance of State-Owned Enterprises

Part 2: Workshop on Improving the Performance of SOEs

16-17 November 2015

Hanoi, Viet Nam

Sheraton Hanoi

With the support of Government of Korea



MINISTRY OF STRATEGY
AND FINANCE

Co-organised with:

Korea Institute of Public Finance (KIPF)

Vietnam Institute for Development Strategies (VIDS)

Korea Development Institute (KDI)

Session 4: Good practices of Performance Management in Asia

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Institutionalizing Performance Management among DHI SOEs in Bhutan

November 2015 – Hanoi

Dr. Damber S. Kharka, Officiating CEO, DHI

- * **SOE Definition:** In Bhutan, a state-owned enterprise is any enterprise with state ownership. They are legal entities created by the Royal Government of Bhutan (RGOB), in order to part-take in commercial activities on behalf of the Government. SOEs include both enterprises that are wholly owned and those with minority state ownership.
- * **SOE RGOB vs SOE DHI:** In 2007, His Majesty the King of Bhutan issued a Royal Charter to establish Druk Holding and Investments (DHI) to hold and manage the existing and future investments of the RGOB for the long term benefit of the people of Bhutan.

Currently, 20 SOEs form part of DHI's portfolio, and 8 SOEs remain with the RGOB (under the ownership of relevant Ministries). The DHI SOEs are categorized, similar to Vietnam, based on DHI's shareholding pattern.

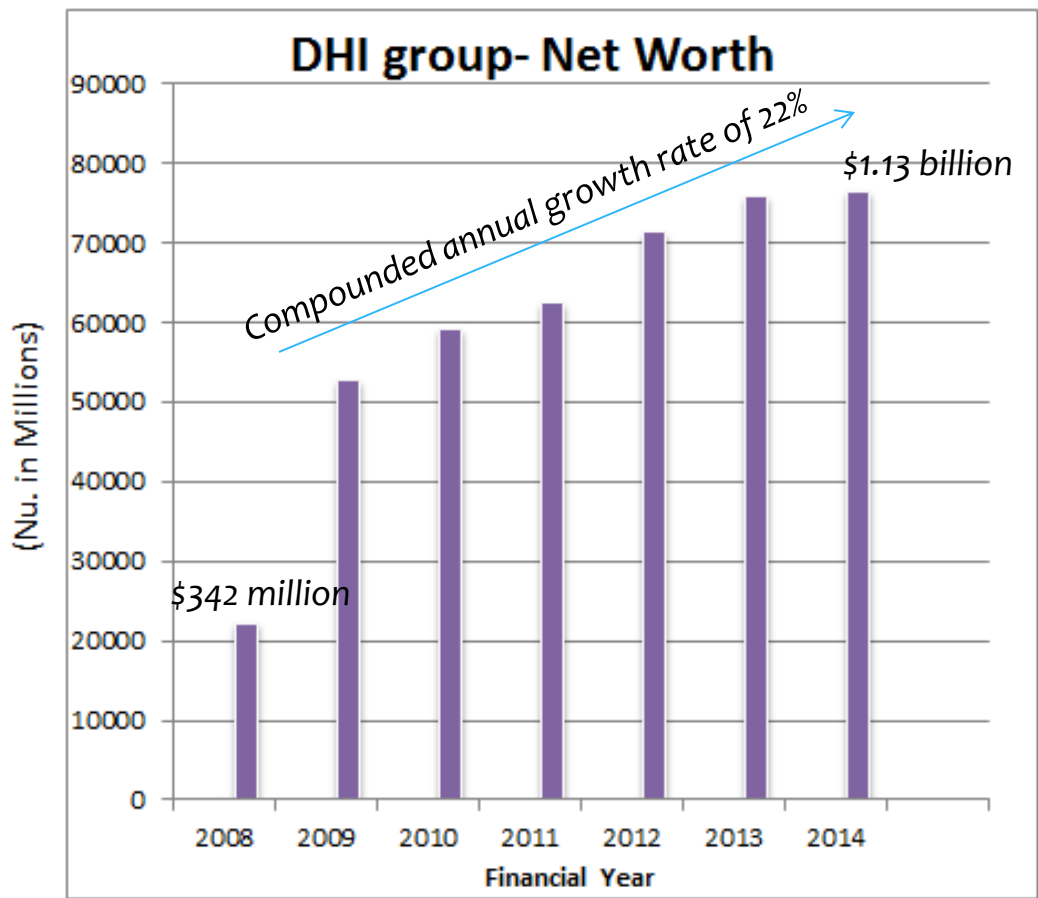
100% shares – DHI Owned Companies (DOCs)

More than 50% shares – DHI Controlled Companies (DCCs)

Less than 50% share – DHI linked Companies (DLCs)

Sl	Company	Sector	State Share	DHI Share
1	Bhutan Agro Industries Limited	Manufacturing	100	-
2	Bhutan Board Products Limited	Manufacturing		58
3	Bhutan Development Bank Limited	Financial Services		
4	Bhutan Broadcasting Services	Information/Media	100	-
5	Bhutan Power Corporation Limited	Energy & Resources		100
6	Bhutan Ferro Alloys Limited	Manufacturing		26
7	Bhutan Postal Corporation Limited	Communication & Transportation	100	-
8	Bhutan Telecom Limited	Communication & Transportation	-	100
9	Bank of Bhutan Limited	Financial Services	-	80
10	Bhutan National Bank	Financial Services		14
11	Construction Development Corporation Limited	Real Estate & Construction	-	100
12	DHI Infra Limited	Real Estate & Construction	-	100
13	Druk Air Corporation Limited	Communication & Transportation	-	100
14	Dungsam Cement Corporation Limited	Manufacturing	-	100
15	Dungsam Polymers Limited	Manufacturing	-	51
16	Druk Green Power Corporation Limited	Energy & Resources	-	100

SI	Company	Sector	State Share	DHI Share
17	National Pension and Provident Fund	Financial Services	100	-
18	State Trading Corporation of Bhutan Limited	Trading	-	51
19	Royal Insurance Corporation of Bhutan Limited	Financial Services	-	18
20	State Mining Corporation Limited	Energy & Resources	-	100
21	Thimphu TechPark Limited	Communication & Transportation	-	100
22	Wood Craft Center Limited	Manufacturing	-	100
23	Koufuku International Private Limited	Manufacturing	-	30
24	Kuensel Corporation Limited	Information/Media	100	-
25	Natural Resources Development Corporation Limited	Energy & Resources	-	100
26	National Housing and Development Corporation Limited	Real Estate & Construction	100	-
27	Food Corporation of Bhutan	Trading	100	-
28	Penden Cement Authority	Manufacturing	-	40



Druk Holding and Investments Limited (DHI)

Corporate Performance
Management Systems at
DHI Companies: *Lessons on
Introducing & Managing Change*

Improving State Enterprise Efficiency by Creating Corporate Culture and Performance Enhancing Systems

- * Introducing Corporate Governance and Performance Management systems based on international norms since 2007
- * Corporate Governance (CG) Code – developed based on the OECD Corporate Governance Principles
- * Performance Management Systems (PMS) – DHI PMS Compact Guidelines for owned and controlled companies
- * Delinking SOE employee compensation from civil service pay through a performance based compensation model

Governance Structure Before/After

Corporate Governance Pre-Establishment of DHI

SOEs under multiple administrative ownerships (Ministries/MoF)

SOEs report to line Ministries – report to MoF – report to Cabinet of Ministers

Control & Regulatory bodies: Parliament, RAA, RMA, ACC, etc.

Company Act 2000 as legal framework for governing SOEs

No separation between Board function and shareholder function

Limited capacity among Board Members – government senior officials appointed

Limited Board authority (chain of commands – Line Ministries, MoF, Cabinet)

Corporate Governance Post-Establishment of DHI

DHI established in 2007 through a Royal Charter to hold and manage commercially oriented SOEs

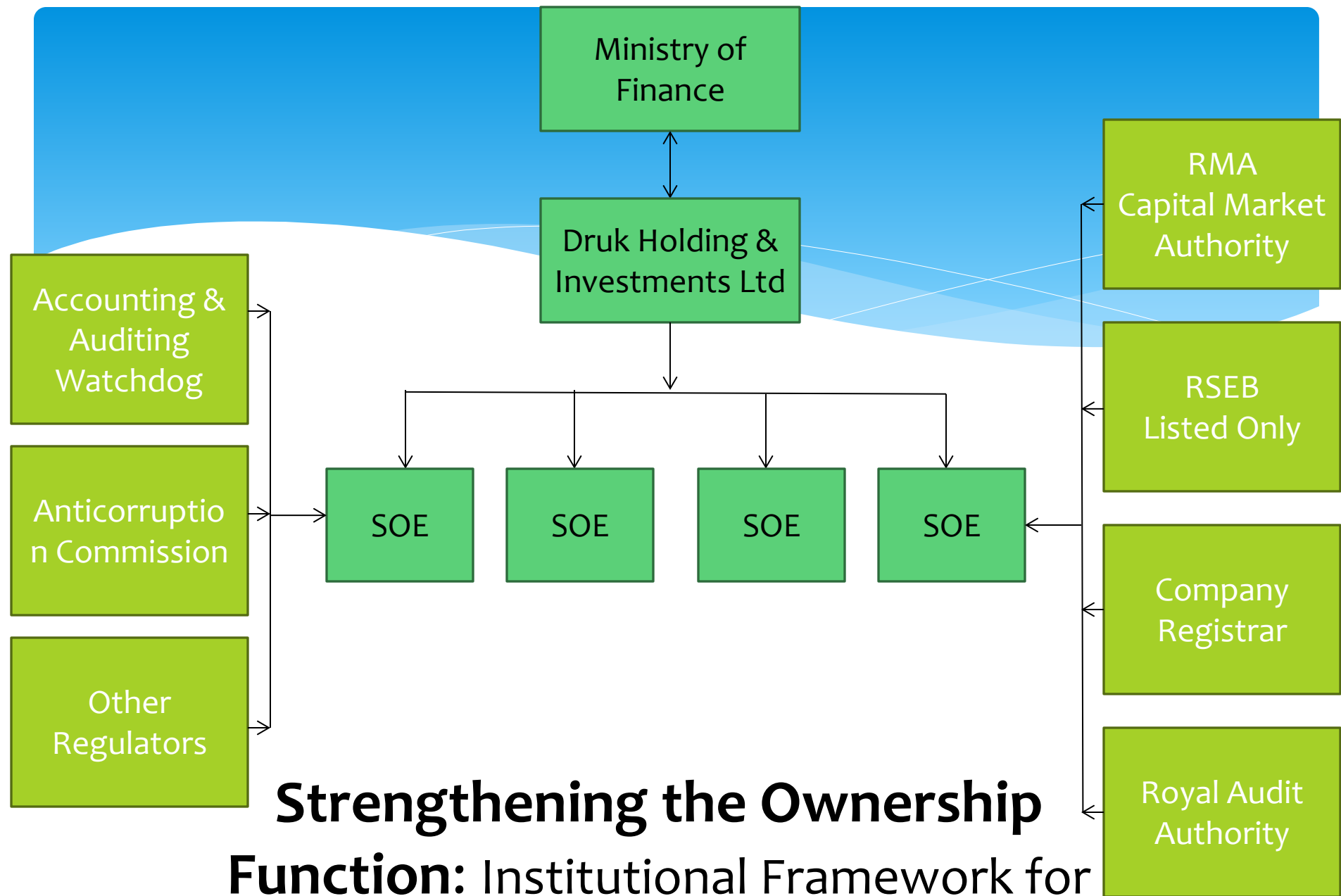
SOEs report to DHI (Performance Reports) - DHI provides revenue to MoF

Ownership Policy is the overall framework for the governance and investments under DHI

Role and responsibilities of Board clearly defined

Selection procedures (board diversity) and trainings (board orientation) instituted

Delineation of authority/responsibilities: DOCs direct interface with govt. and statutory agencies. DOCs consult DHI for issues that are of commercial & shareholder interest



Strengthening the Ownership

Function: Institutional Framework for Ownership & Control

Improving Corporate Governance:

Pursuing Good Practices beyond requirements of Company Act

Development of Corporate Governance (CG) Code & Ownership Policy (OP)

Among others the CG Code & OP provide guideline on:

- Interface between companies, shareholders and the government
- Board composition, appointment, responsibility, authority, fiduciary duties and liabilities and board evaluation
- CEO selection and appointment, roles and responsibilities and performance evaluation

To provide proper structure and increased capability for the implementation of standard corporate governance system aimed at enhancing corporate performance, additional initiatives undertaken:

- Chairmen's Forum
- CEO Roundtable Meeting
- CXO Forums

- Board Directors Onboarding Programs
- Professional Directors Training Programs
- Leadership Development Programs for senior managers
- Company Secretary training and manuals

Developing Guidelines:

- Target Formulation & Evaluation Guideline
- Investment Guideline
- Dividend Guideline
- Risk Management Guideline
- Board Recruitment Guideline
- Board Evaluation Guideline
- CEO Recruitment Guideline
- CEO Performance Evaluation Guideline
- Common HR Guideline
- Corporate Social Responsibility Guideline

Improving Performance Management Systems: Monitoring, Evaluating, & Linking Performance to Incentives

DHI introduced a system of signing **Annual Compacts** with its Board and Companies:

Annual Compact: Corporate Level Performance Management System that covers target setting and monitoring and evaluating in performance areas of (i) financials (ii) customer service (iii) corporate governance (iv) policy directed targets, looking at Key Performance Indicators (KPIs)

Compact agreement process: Discussions at Company management level
→ Company Board level discussions → Discussions with DHI →
Negotiation between DHI Board and Company Board

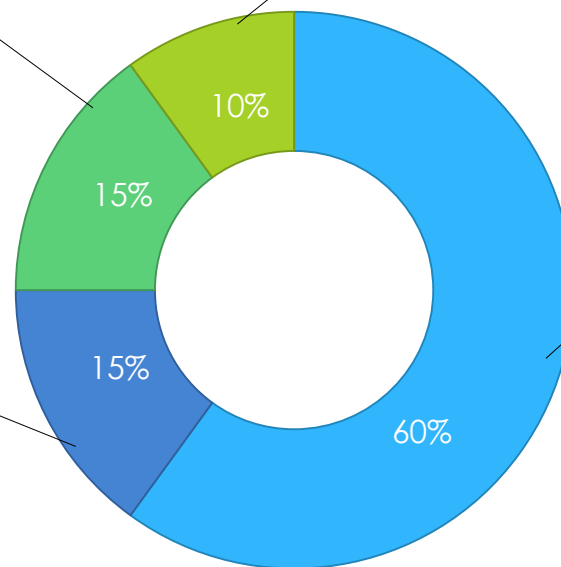
Key Result Areas

CUSTOMER SERVICE

- Customer satisfaction survey score

RGoB

- Specific targets from RGoB



CORPORATE GOVERNANCE

- Compliance
- Dealing with corruption
- Ensuring periodic audit
- HR, procurement, finance...

FINANCIAL

- Revenue
- RoE
- PAT
- Controllable Expenses

Linking Performance to Incentives:

Performance Based Variable Allowances (PBVA), CEO Evaluations, Linkage to HR

Compact Achievement	PBVA payout guideline based on Corporate Level Performance	
	CEO	Employees
≥ 95	25% of annual basic pay	15% of annual basic pay
75% - 95%	Prorated PBVA payout of 1.5% for every point of achievement	Prorated PBVA payout of 0.75% for every point of achievement
≤ 75%	No PBVA payout	No PBVA payout

* CEOs of the DHI companies receive their PBVA based on a total CEO's performance rating point which constitutes 20% from a leadership performance rating carried out by the Board and 80% from the company's compact achievement

Employee Level Performance Assessment: Performance Management Systems (PMS) & Performance Based Incentive Systems (PBIS)

- Corporate level targets cascaded down to departments, divisions, units, and individuals
- Individual metric: performance target agreed between supervisor and subordinate
- Individual performance ratings tied to annual bonus, meritorious and fast track promotions, etc.

Developing a Competitive & Sustainable Remuneration System: *Performance Based Salary Increment Model*

DHI is currently in the process of introducing an **Annual Salary Increment Model** – the model suggests that 60% of inflation (moving average of three years) should be provided as automatic. However, the remaining 40% should be based on the **ability to pay (API)** which is essentially the financial performance of the company.

API is decided based on three revenue indicators - Profit After Tax, Return on Equity, and Revenue per Employee and two cost indicators – Operational cost (OPEX: all cost excluding depreciation and interest payment) and OPEX per employee.

The formula for API based salary increment will be calculated as:

$$\text{Increment based on API} = \text{API} * (1 - 6I)$$

I= Moving average inflation rate of the past three years

Developing a Competitive & Sustainable Remuneration System: *Performance Based Salary Increment Model*

Performance Index for an individual employee will be calculated as:

$$PI = wt*CR+wt*DR*wt*IR$$

wt: weightage assigned to different levels of performance rating

CR: corporate level performance rating in terms of percentage

DR: department/unit level performance rating in terms of percentage (if department and unit level ratings are provided differently then the average of two should be considered)

IR: individual employee level performance rating of percentage.

Performance Based Annual Increment (PAI):

Performance Index (PI)	< 75%	>=75<85 %	>=85<90 %	>=90<95 %	>=95%
Performance based annual increment (PAI) in %	0.00%	1%	1.5%	2%	2.5%

Lessons from Change Management

To reflect on the processes of change management (introducing corporate governance best practices and performance management systems) that led to success, the following lessons are shared:

- Learning from the well functioning companies themselves on the best practices and sharing experiences with other companies in the informal forums such as CEO round tables meeting held every quarter has played an important role in introducing changes successfully.
- CEOs and the senior management team playing roles as champions of change management have been crucial in the successful identification of areas of change.
- Involvement of key members during the process of change identification and implementation proved useful.
- Realization of parent company to deal with change management as facilitator and allowing change areas conceptualized among leaders of companies through cross fertilization of ideas in informal discussion forums resulted in ownership of the idea.
- Leadership role in discussion forums in explaining desired change, involving people in the process and the art of arriving at consensus played a role in generating a “feel good factor” and confidence about the outcome of the proposed change.
- CEOs and CXOs (Department heads) in companies directly influence the uptake of new system by their people as they direct them on a day to day work, so any change that is not perceived important by these people is bound to bounce back as it is forcefully introduced.



Thank You & Tashi Delek!

Performance Assessment of Chinese Central SOEs

By Mr. Liu Yuan

Bureau of General Affairs, SASAC

Nov. 17th, 2015

Outline

- 1. Brief Introduction of Chinese SOEs**
- 2. General Framework of Performance Assessment**
- 3. Development of Performance Assessment**
- 4. The Results of Performance Assessment**

Brief Introduction of Chinese SOEs

State-owned capital should serve the national development strategy. We will invest more of state-owned capital in key industries and areas that are vital to national security and are the lifeblood of the economy, focusing on offering public services, developing important and forward-looking strategic industries, protecting the ecological environment, supporting scientific and technological progress, and guaranteeing national security.

Up to the end of 2014, SOEs' total assets is 102 trillion RMB (including shareholders' equity 35.6 trillion RMB), the number of staff is 27 million, sales revenue is 48 trillion RMB, total profit is 2.5 trillion RMB, and tax paid is 3.8 trillion RMB.

Brief Introduction of Chinese SOEs

Up to the end of 2014, there are 112 central SOEs under SASAC's portfolio, with total assets 38.7 trillion RMB (including shareholders' equity 14.3 trillion RMB), number of staff 12.8 million, sales revenue 25 trillion RMB, total profit 1.3 trillion RMB, and tax paid 1.96 trillion RMB.

Up to the end of 2014, there are 379 listed companies among all central SOEs under SASAC's portfolio, with total assets 21.3 trillion RMB (accounting for 55.1% of all central SOEs), shareholders' equity 8.2 trillion RMB (accounting for 57% of all central SOEs), sales revenue 15.5 trillion RMB (accounting for 61.8% of all central SOEs), and total profit 1.03 trillion RMB (accounting for 76.3% of all central SOEs).

General Framework

According to the requirement of management by objectives, SASAC adopted performance assessment method as follows:

1. Annual assessment & tenure assessment
2. Result assessment & process evaluation
3. Performance outcomes & incentives
4. Linkage of annual assessment result with yearly merit pay, and tenure assessment result with appointment & removal as well as long-term incentives

Basic Procedure

- 1. Work allocation.** According to the evaluation method ,we arrange relevant evaluation work.
- 2. Signing documents of evaluation target.** SOEs hand in suggestive targets for annual and tenure-based report. SASAC reviews the suggestive targets. Documents for annual or tenure-based performance assessment are signed by SASAC chairman and major executives of SOEs.
- 3.Dynamic Monitoring.** SASAC make dynamic monitoring to the implementation of the documents, while SOEs should hand in regular report on the implementation of the documents.
- 4. Verify evaluation result.** SOEs hand in analysis report of their performance. SASAC reviews the report (including the financial statistics), verifies evaluation result and presents feedbacks to enterprises.

Performance Evaluation and Remuneration

- ◆ Performance salary is connected with evaluation results:
- ◆ E-level: zero performance salary
- ◆ D-level: performance salary = 0-1 times of the base salary
- ◆ C-level: performance salary = 1-1.5 times of the base salary
- ◆ B-level: performance salary = 1.5-2 times of the base salary
- ◆ A-level: performance salary = 2-3 times of the base salary
- ◆ For enterprises in D and E-level, SASAC will change their executives.

Indicators

- ◆ According to the principle of “simple but targeted” and “universal and individual”, indicators for evaluation are divided into 2 categories.
- ◆ 1. Two Basic indicators
 - ◆ 1) Two basic indicators for annual assessment: profit and value-added
 - ◆ 2) Two basic indicators for tenure assessment: ratio of value preservation & increment and turnover of total assets
- ◆ 2. Two classification indicators
- ◆ Classification indicators are different according to different industry and management shorthand. e.g. cost ratio, power generation of electricity enterprise

Target Value

- ◆ **How to decide the target value?**
- ◆ **1. Vertical comparison: no less than the average value of last 3 years or the actual value of last year**
- ◆ **2. Horizontal comparison: benchmarking within the same industry**

Annual Assessment

- ◆ **Total score = total profit score(30%)+ EVA score (40%) + classification indicator A score(15%)+ classification indicator B score(15%)**
- ◆ **EVA = net operating profit after tax (NOPAT) – cost of capital = NOPAT –capital after adjustment × the average rate of capital cost**

Tenure Assessment

- ◆ **Total score=preservation & increment ratio of state-owned assets value score (40%) + turnover score of total assets (20%) + classification indicator A score (10%)+ classification indicator B score (10%)+annual performance score (20%)**

Development of Performance Assessment

Phase 1 (2004-2009): Focus on scale

- 1. We choose total profit and ROE (Return on equity) as annual assessment indicators, which could mostly reflect investor's interest & requirement and which is our top concern.**
- 2. We choose preservation & increment ratio of state-owned assets and main business average growth rate in last 3 years as tenure assessment indicators, to ensure the preservation and increment of state-owned assets when enterprise grows. It is required that the target value of SOEs is no less than the average value of last 3 years or the actual value of last year.**

Development of Performance Assessment

Phase 2 (2010-2012): Introduce EVA into assessment to realize value management

There are some problem with SOEs during their rapid development, such as fast expanding capital coefficient, declining ROI (return on investment) and increasing operational risk, due to the impulsive scale expansion and aggressive investment increment.

Therefore, SASAC introduce EVA into the performance assessment since the 3rd tenure. Three core concepts are used to restrain SOEs' investment behavior: 1. Capital has its own cost. Executives must adopt full cost accounting in management in consideration of both liability cost and equity cost. 2. Capital has "discipline". Executives must be responsible to shareholders, and cannot step into the field which they cannot control. Profitability is priority for enterprises, however it is not the only pursuing.

Comparing with traditional financial indicators, as a comprehensive value indicator, EVA is more advantageous in performance assessment and long-term value orientation.

Development of Performance Assessment

Phase 3(2013-): To be stronger & better

1. Put quality of development in the first place.
2. Increase the share of EVA in annual assessment.
3. Total assets turnover displaces main business revenue growth rate in tenure assessment.
4. Benchmarking with international market and world-leading companies.

Development of Performance Assessment

New Modifications

- 1. Classified assessment based on different functions of state economy: there will be some differences in both indicators and weight among SOEs in fully competitive industry and those in important industries and key sectors that have a vital bearing on national security and are the lifeline of the national economy.**
- 2.Improving target management: classify the target; different assessment target related to different results; self-imposed stress is encouraged.**
- 3. Tenure incentives: Maximum 30% of the total annual pay according to the tenure assessment results.**

The Results of Performance Assessment

1. Economic benefits is obviously improved. Since SASAC was established ten years ago, central SOEs changed significantly.

2003-2012, total EVA of central SOEs increased from 2.1 billion RMB to 400 billion RMB, with annual growth rate 93.1%. Total profits increased from 300.6 billion RMB to 1.3 trillion RMB, with annual growth rate 17.3%. Sales revenue increased from 4.5 trillion RMB to 22.5 trillion RMB, with annual growth rate 19.6%. ROE (Return on equity) increased from 6% to 8.3%. Total assets increased from 8.3 trillion RMB to 31.6 trillion RMB, with annual growth rate 16%.

The Results of Performance Assessment

2. Decision-making becomes more rational. EVA becomes one of the core evaluation indicator. The executives must make balance between profitability and liability control, optimize investment plan and cut down those unprofitable and long-term investment. The annual growth rate of capital coefficient in the 3rd tenure is 13%, which is 5.7% less than the 2nd tenure.

The Results of Performance Assessment

3. Fine management is encouraged. Now SOEs attach great importance to analyzing value chain, cutting operational cost and increasing investment efficiency instead of being impulsive in scale expansion previously. SOEs improve the efficiency of capital and the value-creating ability through adjusting investment strategy, minimizing capital coefficient and strengthening management to cost, accounts receivable and stock.

The Results of Performance Assessment

4. Attach great importance to R&D (Research and development) investment. R&D investment of central SOEs in 2012 reached 312.3 billion RMB, which is 1.5 times more than last tenure. Core competitiveness of SOEs is relatively improved.

Performance Evaluation or Monitoring System for State Owned Enterprises

R K Mishra, Director

Institute of Public Enterprise, Hyderabad, India

SOEs in India: At a Glance

No of operating SOEs	290 as on 2013-2014	
Listed SOEs	47 as on 2013-2014	
Turnover	19,45,777 crore 6.79% (% growth over 11-12)	
Income	19,31,149 crore 7.01% (% growth over 11-12)	
Profits	1,43,559 crore (149) 14.00% (% growth over 11-12)	
Reserves & surplus	6,81,409	9.26%
Foreign exchange earnings	1,38,150	8.03%
Contribution to GDP	11.50%	

NOTE: 1 US\$ = Rs.60 1 Crore = US\$ 166666

SOE: Sectoral Framework

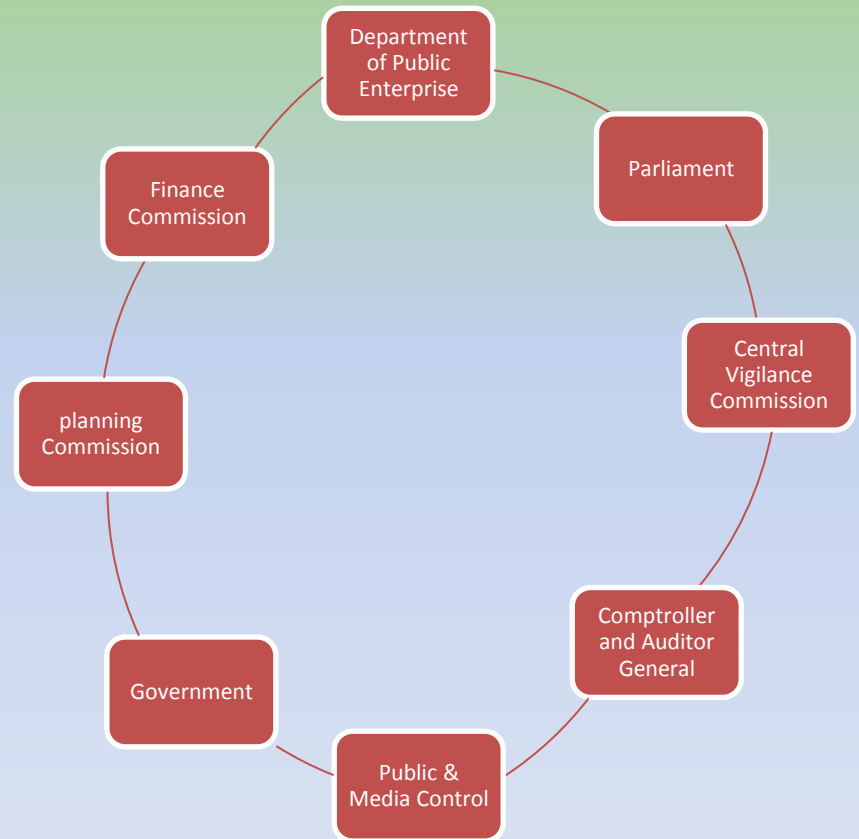
- ✓ As per the Companies Act 2013 of Government of India, any enterprise having a shareholding of 51% or more in the paid up capital, is termed as a public enterprise. The 51% shareholding may constitute the shareholdings from the central government, state governments or both taken together.
- ✓ In all, out of 290 Central SOEs, 47 SOEs listed on Bombay Stock Exchange had government shareholdings exceeding 51%, while the rest 243 Central SOEs had 100% government shareholdings

Ownership model

- ✓ “Dispersed ownership” model followed
- ✓ There are large number of government ministries and other high-level public institutions exercise ownership rights over SOEs
- ✓ There is a central coordinating agency in the form of Department of Public Enterprise at central level

Accountability

SOEs in India are accountable to multiple agencies including Parliament, administrative ministry, vigilance, CAG, Planning Commission, Finance Commission, media and others



SOE Evaluation System

- ✓ SOEs in India follow an elaborate system of performance evaluation and is called the MoU (Memorandum of Understanding) system. This system is not backed by a legal framework like the GPRA Act of USA
- ✓ MoU is a signed document highlighting the proposed targets set by SOEs to be achieved during the financial year. This document is signed by the Chief of the SOE as well as the head of its administrative ministry.
- ✓ The MoU system derives its strength from the fact that way back in 1985, in a meeting of the Group of Ministers (GOM) it was decided to introduce the MoU system in CPSEs and it was implemented in 1986. It was aimed at affording greater autonomy to public enterprises from government control.
- ✓ Along with the increased autonomy for managers there was a corresponding increase in accountability as well where the government would continue to have control over the enterprises through 'priori' supervision by target setting at the beginning of every year through 'performance evaluation'.
- ✓ The system derives further strength from the fact that a High Power Committee chaired by the Cabinet Secretary and the a Group of Secretaries as its members which gives direction and guidance to the system of MoU and keeps its utility and relevance with changing times.

Evaluation process

- ✓ The evaluation of SOEs is done through a rigorous process to make the targets more meaningful and challenging.
- ✓ **High Powered Committee (HPC):** A High Powered Committee is the apex committee in the MoU system and is a Committee of Secretaries (COS). The HPC is charged with assessing the performance of the MoU signing CPSEs against the targets set in the MoU. Along with this, the HPC is also charged with assessing how far the administrative ministries / departments have succeeded in keeping their end of the commitments as promised in the MoU. The body is headed by Cabinet Secretary, GOI.
- ✓ **Task Force:** The task force is charged with the target setting and assigning weightages to parameters along with evaluation of performance of the SOEs. The members of the task include ex- Civil servants, ex- Chief Executives of SOEs, Professionals and academicians from relevant disciplines. The task force has sub-groups called syndicates, each of which is charged with managing SOEs in a specific sector. The SOEs are categorized into 13 syndicates, each comprising of normally 5-6 members headed by a Convenor, SD expert, Finance / CA expert, CSR expert, R&D expert and HRM expert.

MoU Timelines

The process of the target setting and evaluation begins with the Department of Public Enterprises first, with the

- ✓ Release of the MoU guidelines in the month of October/ November;
- ✓ Draft MoUs to be prepared on the basis of the guidelines and submitted to the administrative ministries;
- ✓ Examination of draft MoUs by the MoU division of the Department of Public Enterprises and the subsequent circulation of the critiques to be handed over to the members of the task force.
- ✓ Scheduling the MoU negotiation meetings that begin from January / February.
- ✓ Negotiation meetings to finalize the MoUs with the task force (January – March) each year.
- ✓ Preparation and circulation of minutes. (vii) Draft MoU by CPSEs on basis of minutes.
- ✓ Evaluation of MoU by the task force members as submitted by CPSEs and vetted by DPE.
- ✓ All MoUs have to be signed before 31st March of every year

Evaluation Mechanism

<p>Financial performances</p>	<p><i>(Type I)</i></p> <p>Profits, gross margin, gross profit, gross sales, net profit, Resource mobilization, Loan sanctions, recoveries, Cash generation from Operations</p>	<p><i>(Type II)</i></p> <p>Productivity related, PBDIT/Total Employment, Net profit/Net Worth, Added Value/Sales, Working Capital/Turnover</p>
<p>Non-financial Performances</p>	<p><i>(Type III)</i></p> <p>Project implementation, Project cost(cost overrun), Strategic Planning / Corporate, planning / vision</p>	<p><i>(Type IV)</i></p> <p>HRM, customer satisfaction, corporate social responsibility, corporate governance,</p>

Thank you

SOE Oversight and Performance Monitoring in INDIA



Dr. Madhukar Gupta
Joint Secretary
Department of Public Enterprises (DPE)
Government of India

Department of Public Enterprises (DPE)

Ministry of Heavy industry, Govt. of India

- DPE acts as a nodal agency for all Central Public Sector Enterprises (CPSEs) or SOEs and formulates policy for the functioning of PSEs
- It lays down policy guidelines on performance improvement and evaluation, autonomy and financial delegation and personnel management
- It collects, evaluates and maintains information on several areas in respect of PSEs
- CPSEs not covered within the preview of DPE are departmentally run public enterprises, banking institutions, insurance companies and State Level Public Enterprises

Memorandum of Understanding (MoU)

- MoU is a mutually negotiated agreement between the management of the Central Public Sector Enterprises (**CPSEs**) or **SOEs** and the Government of India/ Holding CPSEs
- MoU system involves target setting in Financial and Non Financial areas and performance assessment of achievement against these targets
- High Power Committee under the chairmanship of Cabinet Secretary, the senior most civil servant in the country, oversees the MoU signing and adherence process

Objectives of MoU

- Improve the performance of CPSEs by increasing autonomy and accountability of management
- Fixing of targets in accordance with the goals and objectives of CPSEs
- Enable performance evaluation through objective criteria
- Provides a mechanism of rewarding and incentivizing performance

Institutional Structure I: High Power Committee (HPC)

- **High Power Committee (HPC):** Government of India constituted a High Power Committee (HPC) under the Chairmanship of Cabinet Secretary to review the performance of MoU signing CPSEs
- Performance of SOE's is assessed with reference to the commitments made in the MoU
- The Committee consists of the following members:

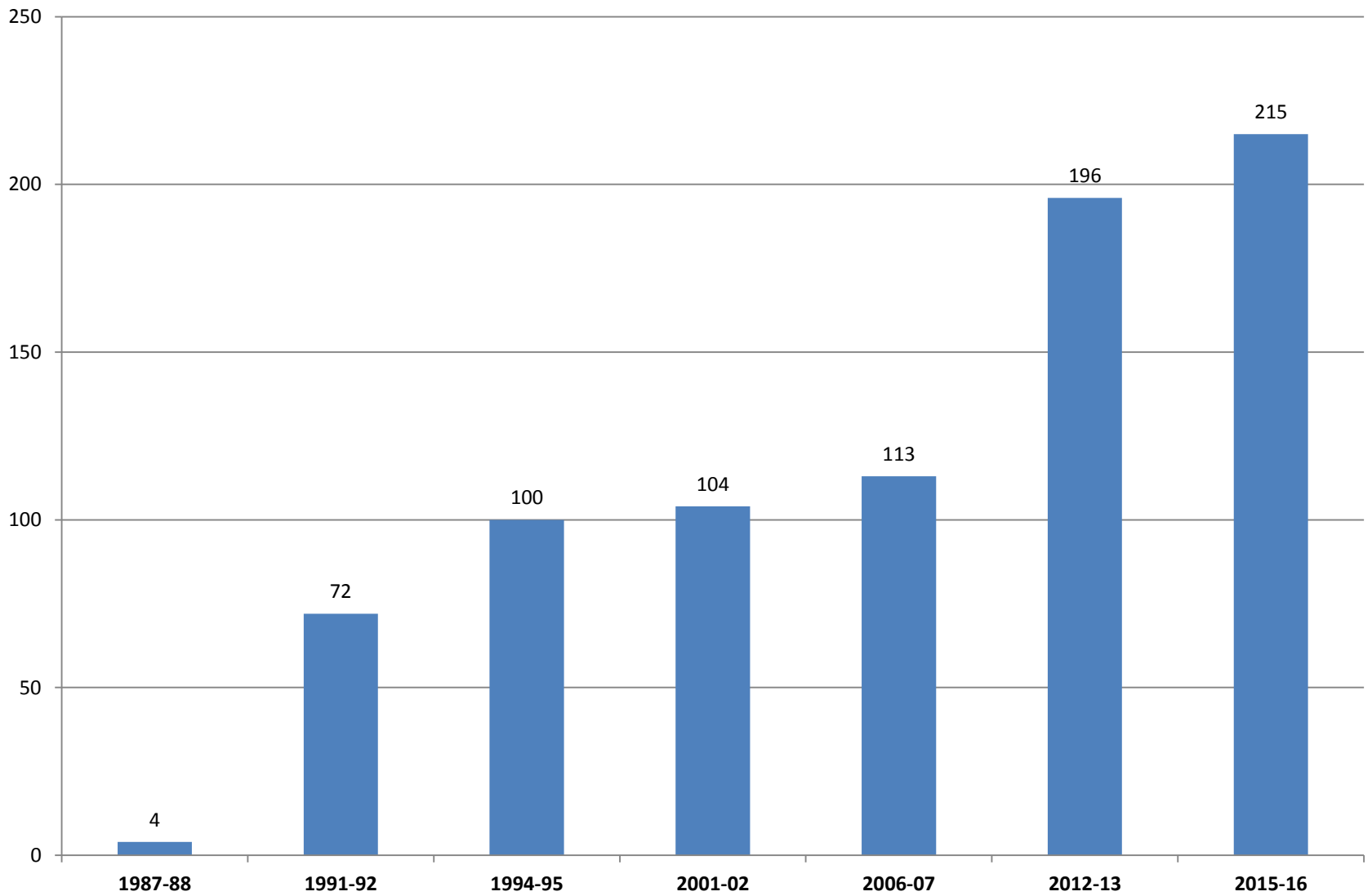
Cabinet Secretary	Chairman
Finance Secretary	Member
Secretary (Expenditure)	Member
Secretary (Planning Commission)	Member
Secretary (Statistics & Program Implementation)	Member
Chairman (Public Enterprises Selection Board)	Member
Chairman, Tariff Commission	Member
Chief Economic Adviser, Ministry of Finance	Member
Secretary (Performance Management Division)	Member
Secretary, Department of Public Enterprises	Member-Secretary

Institutional Structure

Task Force/ Expert Group / MRG

- Task Force for MoU is a neutral and independent body of experts that assists the High Power Committee on MoU and Department of Public Enterprises in setting annual MoU targets of CPSEs and performance evaluation of MoUs
- 290 CPSEs are regrouped as per operation into 12 syndicates for MoU. MoU Syndicate comprises of 5 task force members, including one convener
- Two experts groups, one each for finance / accounts and other for non - financial matters are set up to provide advice to the Task Force which can be co-opted with the approval of Secretary (DPE) for MoU Meetings
- Task force is further assisted by team of Chartered Accountants / Cost Accountants forming Member Resource Group (MRG) in DPE

Increasing trends in MoU Signing CPSEs



Trends of MoUs Signed and Evaluated

Sr. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	MoUs signed	198	197	196	197	207	181*
2	Evaluated	161	175	189	189	#	\$

Due in August 2015

\$ Due in August 2016

* Minutes of MoU Negotiation meetings for 215 CPSEs issued

MoU Evaluation: Grading of MoU signing CPSEs

Grades	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Excellent	55	47	74	67	76	75	77
Very Good	34	34	30	44	39	39	40
Good	15	25	20	24	33	37	35
Fair	8	17	20	24	25	36	29
Poor	0	1	1	2	2	2	8
Total	112	124	145	161	175	189	189

Financial Parameters: Principles

The basic targets of relevant financial parameters should have been achieved on the basis of:

- (i) projections based on last five years' actuals
- (ii) reference to sectoral as well as industrial growth
- (iii) forecast of growth outlook for the ensuing year
- (iv) benchmarking with peer Companies at national and global level
- (v) targets fixed by Niti Aayog (earlier Planning Commission) /Ministry of Finance

Parameters – Financial

Sl. No	Particulars	Suggested Weightage
1	Growth/Size/Activity	18-24
2	Profitability	10-12
3	Costs and output efficiency	8-10
4	Liquidity/ Leverage	8-10
5	Efficiency of asset use	6-8

CPSEs may choose upto 6 financial ratios

Non-Financial Parameters: Principles

- Non-financial targets should be SMART (Specific, Measurable, Attainable, Results-oriented & Tangible).
- Targets for non-financial parameters should be independently verifiable by an external agency, wherever applicable.
- CPSEs should specify the documentary evidence they would rely upon as proof of performance as well as the source/agency of such documentary evidence in the MoU.
- Internal documents submitted by CPSEs for evaluation of parameters should be certified by the concerned CPSEs' Board level officials.
- Automatic downgrading by one notch for lack of /inadequate documentation

Parameters – Non-Financial

Sl. No	Particulars	Suggested Weightage
1	CSR & Sustainability	Up to 3
2	R&D	Up to 2
3	Initiatives for growth	10-15
4	Project Management and Implementation	10-15
5	Productivity and Internal Process	7-10
6	Technology, Quality, innovative Practices	5-10
7	Human Resource Management	Up to 8
8	Enterprise/Sector Specific	Up to 5

CPSEs may choose upto 8 parameters from dynamic/ non-financial Parameters

New Initiatives

- **Standing Committee:** As per direction of HPC, meeting of Standing Committee for select CPSEs comprising of Joint Secretary, Advisor, Director-MoU of DPE, JS of the administrative Ministry, concerned Advisor of Niti Aayog (earlier planning commission) and Adviser/Director Ministry of Statistics & Programme Implementation (MoSPI) to review the draft MoU submitted by the CPSE
- **Online MoU (RFMS):** As per Result Framework Document (RFD) target to develop an online system for MoU to align RFD and MoU targets was developed in March 2014
- **Benchmarking:** Benchmarking studies involving (i) identification of benchmarks in the Upstream Oil sector with reference to select Upstream Oil sector CPSEs and (ii) Identification of benchmarks of steel sector with reference to select steel sector CPSEs for fixing realistic target in MoU 2015-16 were conducted in consultation with Administrative Ministry

MoU Guidelines: Salient Features

- 1. Principles for Target setting:** MoU targets should be realistic yet growth oriented inspirational and consistent with the proposed Annual Plan, Budget and Corporate Plan of the CPSE and Results Framework Document (RFD) of the Ministry/Department. Targets should be the maximum achievable under the given and anticipated circumstances.
- 2. Physical Targets:** In addition to the financial performance, quantifiable physical targets which reflect productivity and efficiency of CPSEs are to be taken as parameters by CPSEs in MoU.
- 3. Fixation of Targets-Non Financial:** There are no mandatory non-financial parameters for 2014-15. The non-financial parameters are Corporate Social Responsibility (CSR) & Sustainability; Research & Development (R&D); Initiatives for Growth, Project Management & Implementation; Productivity and Internal Processes; Technology, Quality, Innovative Practices; Human Resource Management and Sector Specific Parameters/ Enterprise Specific Parameters.

MoU Guidelines: Salient Features

4. **Group Targets:** The performances of some CPSEs are inter – dependent because their operations cut across more than one CPSE and/ or Ministries/Departments. In such circumstances, MoU targets of the concerned CPSEs are so fixed that they are jointly and severally responsible for their performance and for achievement of the targets
5. **Research & Development (R&D):** “Research& Development”, a ‘Non-financial parameter” may be included for CPSEs desirous of taking up R&D projects. It should be linked to improvements in operational efficiencies in all activities, including manufacturing, processing, product development, packaging, marketing, and even work processes, through innovation, adaption, and application of available and emerging technologies and techniques

MoU Guidelines: Salient Features

7. **Commitment and assistance from Government:** Performance of Central Public Sector Enterprises (CPSEs) is assessed with reference to the commitments made and actual assistance given to CPSEs by Administrative Ministries/Departments. The commitments/assurances in the MoU document are to be incorporated appropriately in the Result Framework Documents (RFD) of the concerned administrative Ministry/Department

8. **Negative Marking:** There is provision for negative marking in cases of non-compliance with guidelines of:
 - (i) Corporate Governance
 - (ii) DPE Guidelines
 - (iii) MSME Procurement guidelines
 - (iv) CSR provisions under companies Act 2013
 - (v) Online submission of PE Survey data
 - (vi) Online submission of MoSPI data

Implications of MoUs

- Performance Appraisal of Chairman and Managing Director, Functional Directors, Executive Directors and General Managers
- Determination of Performance Related Pay of Executives (40%-200%) of basic pay subject to profitability of the CPSE and MoU Rating
- Grant of *Maharatna*, *Navratna* and *Miniratna* status
- MoU Excellence Awards and Certificates
- Affects credibility , morale and self belief of CPSEs

MoU Excellence Awards & Certificates

A total number of 12 MoU Excellence Awards are given annually

- i. One from each of the 10 Syndicate groups
- ii. One from the listed CPSEs
- iii. One from amongst the sick/loss making CPSE on way to turnaround

All other 'Excellent' performing CPSEs get MoU Excellence certificates

Features of Result Framework Management System (RFMS - MoU)

- **User Friendly:** It is a user friendly internet based system which allows 24X7 process of MoUs
- **Green Initiative :** It creates paper less environment of processing of MoU activities
- **RFMS linked with RFD:** This system allows facility creating link among RFD of Administrative Ministry, Ministry of Statistics and Programme Implementation, Niti Aayog (earlier Planning Commission) and other states on RFD in various phases
- **Online Monitoring:** Facilitating on line monitoring of performance by CPSE and Administrative Ministry

Introduction of revised Wage Policy

- Policy for the 7th round of Wage negotiations for unionised workmen w.e.f. 01.01.2012 issued in June 2013
- Based on the recommendations of the 2nd Pay Revision Committee (PRC) under the chairmanship of Justice M. J. Rao, pay scales were revised w.e.f. 01.01.2007 for Executives & Non Unionized Supervisors

Introduction of Performance Related Pay (PRP) in Central Public Sector Enterprises (CPSEs)

PRP/Variable pay concept has been introduced in CPSEs by Government of India during the 2007 pay revision w.e.f. 01.01.2007

For Board level and below Board level executives and non-unionized supervisors (NUS) based on the reports of 2nd Pay Revision Committee

PRP Provisions in 2007 Pay Revision

- PRP directly linked to profit of each CPSE as a separate entity
- PRP progressively increases with rise in hierarchy of executives
- Mandatory for CPSEs to sign MoU with parent Ministry/Department/Holding Company
- Rating under MoU one of the determinants for PRP
- PRP is based on CPSE's current year profit and incremental profit (total PRP limited to 5% of PBT of a CPSE)
- 'Bell Curve Approach' to be followed (not more than 15% executives in a CPSE to be graded as outstanding and 10% to be graded below par (not eligible for PRP))
- Disbursement of PRP by a Remuneration Committee headed by an Independent Director

PRP and Performance Based on Performance Management System

PMS Rating	PRP
Excellent	At 100% eligibility levels
Very Good	80%
Good	60%
Fair	40%
Poor	0%

Amount of PRP from current and Incremental Profit for the incumbent

- Basic Pay X MoU rating X PAR
- 60% pay will be from current years PBT
- 40% pay will be from incremental profit
- Depending on availability of funds, the PRP would be paid proportionately

Maximum PRP for different Grades

Grade	% of Basic Pay
E0 to E3	40
E4 to E5	50
E6 to E7	60
E8 to E9	70
Director (C&D)	100
Director(A&B) & CMD(C&D)	150
CMD(A&B)	200



Performance Evaluation and Monitoring System for State-Owned Enterprises in Indonesia

Dr. Antonius Alijoyo
National Committee on Governance

Presented on Asia Network on Governance of SOE
Hanoi, Viet Nam, 7 November 2015



SOE Definition

- State-owned Enterprises (*Badan Usaha Milik Negara* or "**BUMN**") are generally governed by Law No. 19 of 2003 on State-Owned Enterprises dated June 19, 2003 ("**Law No. 19/2003**").
- BUMN are companies which are wholly or partly, and directly or indirectly, owned by or form part of the Government of the Republic of Indonesia, divided to two categories :
 - Public utility enterprise/Special Purpose Entity (*Perusahaan Umum* or "**Perum**")
 - Limited liability State-owned enterprise (*Perusahaan Perseroan* or "**Persero**").



SOE Ownership Function

- Law No. 19 of 2003 on State-Owned Enterprises dated June 19, 2003. :
 - The Ministry of State-Owned Enterprises is appointed and/or authorized to represent the government of Republic of Indonesia as State Shareholder in Persero by taking account the prevailing laws and regulations, as governed by Law No. 19 of 2003 on State-Owned Enterprises dated June 19, 2003.



Total Number of SOEs

Total Number of SOEs

	2010	2011	2012	2013	2014
Listed/Public SOEs	17	18	18	20	20
Non Listed SOEs	111	109	108	105	85
Special Purpose Entity (Perum)	14	14	14	14	14
Total Number of SOEs	142	141	140	139	119
Enterprises with minority govt ownership	18	18	13	12	24



Specific legislation about managing SOE

Law No. 19/2003 :

- SOEs are managed by Board of Directors which is an Organ of Company who authorized and fully responsible for management of the Company for benefit of the Company
- SOEs are also supervised by Board of Commissioners which is an Organ of Company who in charge of supervising the general and/or special in accordance with Articles of Association as well as giving advice to Board of Directors.



Performance evaluation or monitoring system for state-owned enterprises

- KPKU-BUMN (Assessment Criteria for Performance Excellence), a performance excellence measurement criteria that developed by Ministry of SOEs.
- KPKU provides a framework and method for assessment in order to understand the strength, the opportunities for performance improvement, as well as to guide the corporate planning and its implementation effectively.
- The KPKU for SOEs adopts and adapts the concept of Malcolm Baldrige using the balanced scorecard performance measurement.



Legal framework of SOE's performance evaluation

- Secretary's letter the Ministry of State-Owned Enterprises No.S-08/S.MBU/2013 dated January 2013 regarding the Submission of Guideline for Determination of Key Performance Indicators (KPI)
- Assessment Criteria for Performance Excellence (KPKU) BUMN.



Ministry of SOE's Performance Evaluation and Monitoring System

- To assess the overall performance of SOES and to identify things that need to be improved to achieve performance excellence and provide benefits for stakeholders.
- The evaluation system consists of Interview and Examination of Documents
- The evaluation indicators :
 - *Financial Performance :*
 - *Financial Ratios, Net Profit, Growth, Risk Management, Share Performance*
 - *Non-financial Performance :*
 - *Corporate Events, Corporate Social Responsibility Program, Corporate Soundness Level, to ensure the punctual submission of reports to regulators, public service obligation, Implementation of GCG, Awards*
- Ministry of SOE's annually publishes a report in the name of "Ikhtisar Laporan Keuangan Perusahaan Negara (BUMN)/ The Summary of SOEs Financial Report.



SOE's Annual Report

- Guidelines : Financial Services Authority Regulation (POJK) about Annual Report.
- Annual report content :
 - Complete Financial Information such as asset, net profit, financial ratio etc.
 - Non Financial Information such as Boards Information, GCG Implementation, etc.
- Every SOE engages Independent party to evaluate the accuracy of annual report contents.



Performance Evaluation and Reappointment or Dismissal of Executives

Article 3 Financial Services Authority Regulation (POJK) No. 33/POJK.04/2014 dated December 8, 2014 regarding the Board of Directors and The Board of Commissioners of Issuers or Public Company, stated that:

Paragraph 1:

Members of Board of Directors are appointed and dismissed by General Meeting of Shareholders (GMS).

Paragraph 2:

Members of Board of Directors are appointed for the period of time and could be reappointed.

Paragraph 3:

One Period of tenure of Board of Directors is not later than 5 (five) years or until the closing of AGM in that period.

The process of Appointment and dismissal of executives is clearly stated in the Minister of SOE's Regulation No. PER-03/MBU/02/2015 dated on Requirements and Guidelines of Appointments and Dismissals of Members of Board of Directors of State-Owned Enterprises.



Performance Evaluation and Monetary Compensation

- Performance results from the last fiscal year have impacts on the settlement of annual remuneration of the next fiscal year for CEOs or executives, as regulated in the Minister of State-Owned Enterprises Regulation No. PER-04/MBU/2014 dated March 10, 2014 on the Guidelines for the Remuneration of Board of Directors and Board of Commissioners in State-Owned Enterprises.
- Salary or Honorarium and other facilities received by Board of Directors and Board of Commissioners, as regulated in the Minister of State-Owned Enterprises Regulation No. PER-04/MBU/2014 dated March 10, 2014 on the Guidelines for the Remuneration of Board of Directors and Board of Commissioners in State-Owned Enterprises.



SOE's Performance Evaluation Process

- In conducting KPKU, The assessors visit the SOEs directly. They provide guidelines to evaluate the performance of SOEs. The guidelines provide things that will be asked to the management of SOEs. The assessment can be conducted through interview and documents review.
- There are 7 (seven) indicators used to evaluate the performance of SOEs:
 1. Leadership
 2. Strategic Plans
 3. Focus on Customers
 4. Measurement, Analysis and Management's knowledge
 5. Focus on Labour
 6. Focus on Process
 7. Business Performance
- After the process of evaluation is finished, the assessor will soon make a scoring and feedback report, including recommendation. That feedback report provides the strength, weaknesses, opportunities and threats of the SOES.
- It is expected that through the assessment, the SOEs can improve their performance in order to achieve performance excellence and provide benefits too stakeholders.



Thank You

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Performance Evaluation of SOEs in Korea

November 17th, 2015

Park, Hanjun, Ph.D

Korea Institute of Public Finance

Overview

I

Designating and Monitoring of SOEs

II

Performance Evaluation for SOEs

III

Evaluation of Management Performance

IV

Incentives and Penalties

V

Accomplishments and Limitations

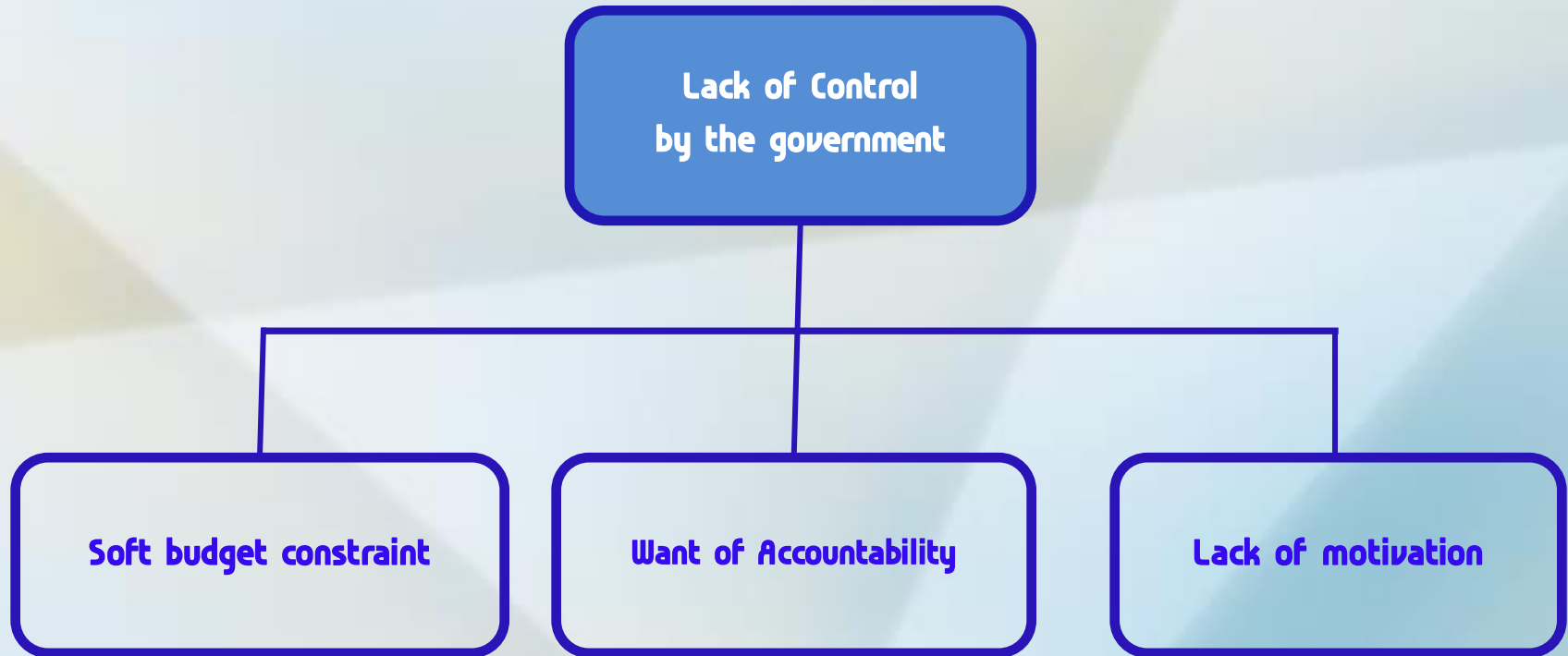
I. Designating and Monitoring of SOEs

Designation and Classification of SOEs

- ◆ Established or funded by the government to provide public services
- ◆ A total of **316** institutions designated as SOEs by the *Act on the Management of Public Institutions* ('15.6)
- ◆ Grouped into 3 types, depending on the institution's nature; financial status, employees, etc.

	Public Corporations	Quasi-governmental Institutions	Non-Classified Public institutions
Numbers	30	86	200
Conditions	Generates more than 50% revenue by itself ₩ 50 or more employees	Generates less than 50% revenue by itself ₩ 50 or more employees	Other than Public Companies and Quasi-governmental Institutions
Examples	Korea Electric Power Corporation, Korea Expressway Corporation	National Pension Service, Korea Transportation Safety Authority	Government-funded research institutions, National University Hospital

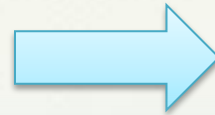
Inefficiency Issues of SOEs



Korea has conducted performance evaluation since 1984

Goal of the Performance Evaluation System

A fair and objective performance evaluation to establish autonomous and responsible management system each year



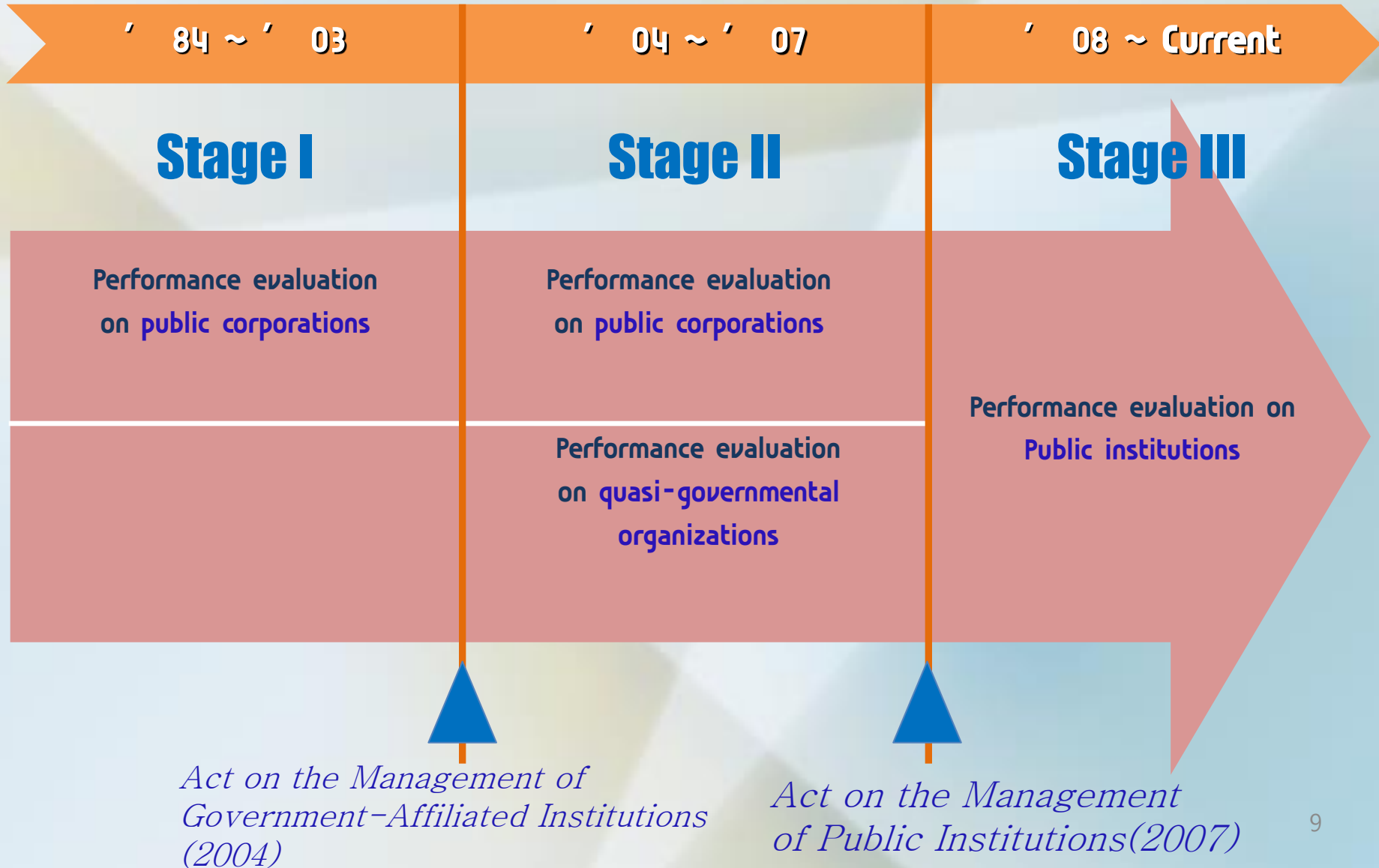
Establish a responsible management system
by minimizing government intervention

the most influential policy
for monitoring public institutions

- **Cyclic assessment**
- **Based upon evaluation indicators**
- **Performance-based payments**
- **Successive business plans**

II. Performance Evaluation for SOEs

Transition of Performance Evaluation System



Ministry of Strategy and Finance (MoSF)

- MoSF organizes an independent performance evaluating team consists of experts in public administration, business and various industries

Performance evaluation team

- A temporary team consists of approximately 160 experts
 - Most of them are research analysts, CPAs, or professors in the field of public administration, business mgmt and industries
 - Evaluation team is organized in February each year, the team executes the evaluation from March to June

Procedures of the Performance Evaluation

Performance Evaluation Periods

- Evaluating performance of year 2014



- Evaluation Period : March 2014 ~ June 2014

III. Evaluation of Management Performance

Technique of the Performance Evaluation

Qualitative Assessment

- Detailed performance evaluation criteria and methods are stated in the evaluation manual
- Evaluate the performance result out of 9 grades
- Determine the performance grade by the collective decision-making process

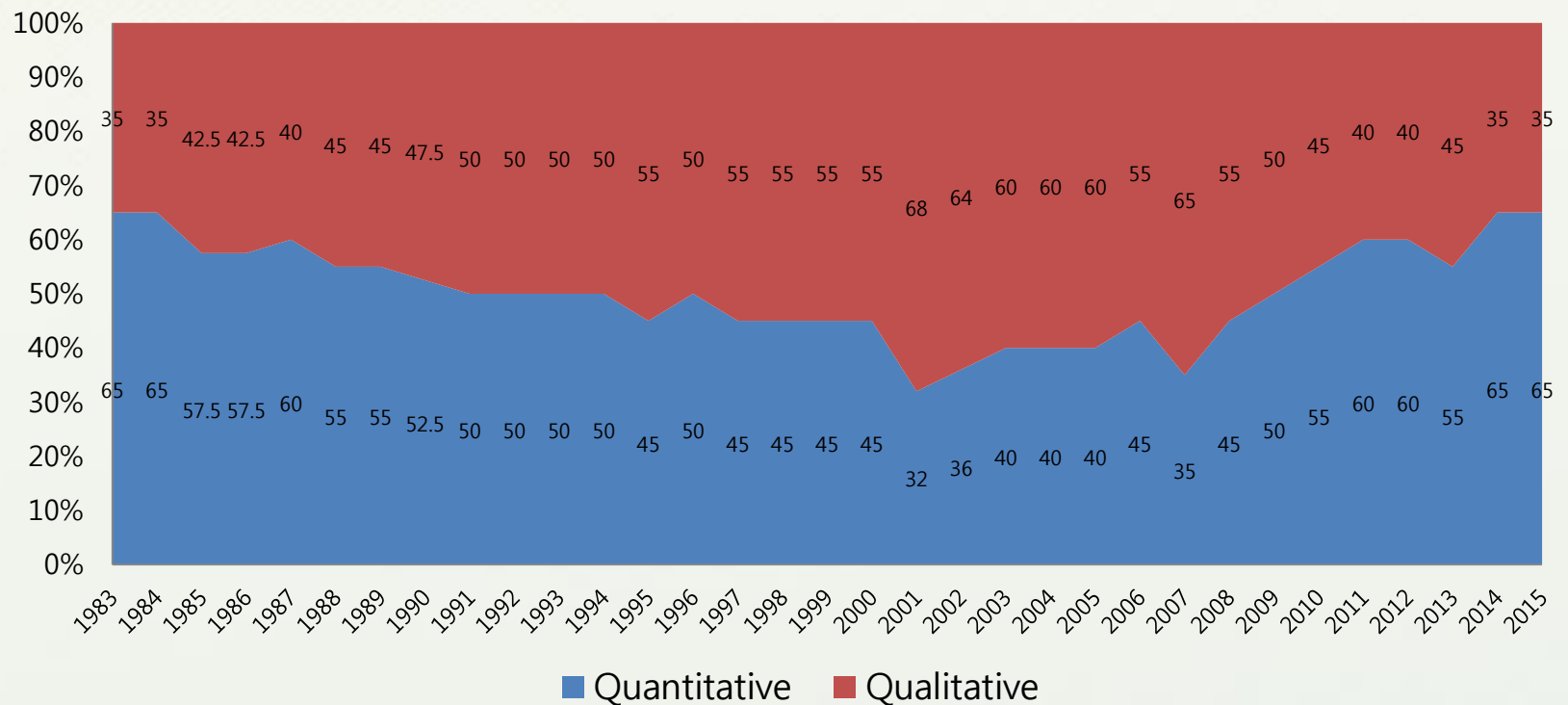
Quantitative Assessment

- Set the performance targets numerically
- Determine the grade by comparing the quantitated performance targets and the actual performance
- By applying a variety of statistical techniques to calculate the performance score

Conclude the final score and grade

Ratio Shifts between quantitative/qualitative assessment

- The ratio of the quantitative to the qualitative keeps changing
- Quantitative assessment enables an objective performance evaluation
- Qualitative assessment is rather subjective but suitable for evaluating public goals



Evaluation Indices and Weights (2015 Public Corporations)

Criteria	Evaluation Indices	Submitting Long-term Financial Management Plan		Not Submitting Long-term Financial Management Plan	
		Qual.	Quant.	Qual.	Quant.
Business Management	1. Business Strategy and Social Contribution				
	-Strategic Planning	2		2	
	-General Public Recognition		2		2
	-Government 3.0		1		1.5
	-Disclosure of Management Information		1		1.5
	-Government-recommended Policy		5		5
	2. Operation Efficiency		8		8
	3. Management of Organization, HR, and Performance	2		3	
	4. Financial Budget Management Performance				
	-Budget Management	3		6	
	-Outcome of Self-directed Financial Restructuring	6			
	-Budgeting Performance (Reduction in debt) (Outcome of Long-term Financial Improvement Efforts)		6 -2 -2		6
	-Management Cost		2		3
	5. Management of Remuneration and Benefits				
-Remuneration and Benefits	6		6		
-Increase Rate of Total Labor Cost		3		3	
-Labor Relations	3		3		
Subtotal		22	28	20	30
Main Business	Comprehensive Evaluation of business plan, operation, and output	13	37	15	35
	Total	35	65	35	65

Evaluation Indices and Weights (2015 Quasi-Gov. Inst. (Entrusted Type))

Criteria	Evaluation Indices	Submitting Long-term Financial Management Schedule		Not Submitting Long-term Financial Management Schedule	
		Qual.	Quant.	Qual.	Quant.
Business Management	1. Business Strategy and Social Contribution				
	-Strategic Planning	2		4	
	-General Public Recognition		2		2
	- Government 3.0		1.5		1.5
	- Disclosure of Management Information		1.5		1.5
	- Government-recommended Policy		5		5
	2. Operation Efficiency		6		6
	3. Management of Organization, HR, and Performance	2		3	
	4. Financial Budget Management Performance				
	-Budget Management	3		4	
	-Outcome of Self-directed Financial Restructuring	6			
	-Budgeting Performance (Reduction in debt) (Outcome of Long-term Financial Improvement Efforts)		6 -2		4
	-Management Cost		3		6
5. Management of Remuneration and Benefits					
-Remuneration and Benefits	6		6		
-Increase Rate of Total Labor Cost		3		4	
-Labor Relations	3		3		
Subtotal		22	28	20	30
Main Business	Comprehensive Evaluation of business plan, operation, and output	13	37	15	35
	Total	35	65	35	65

Evaluation Indices and Weights (2015 Quasi-Gov. Inst. (Fund-managing Type))

Criteria	Evaluation Indices	Submitting Long-term Financial Management Schedule		Not Submitting Long-term Financial Management Schedule	
		Qual.	Quant.	Qual.	Quant.
Business Management	1. Business Strategy and Social Contribution				
	-Strategic Planning	2		4	
	-General Public Recognition		2		2
	- Government 3.0		1.5		1.5
	- Disclosure of Management Information		1.5		1.5
	- Government-recommended Policy		5		5
	2. Operation Efficiency		4		5
	3. Management of Organization, HR, and Performance	2		3	
	4. Financial Budget Management Performance				
	-Budget Management	3		4	
	-Outcome of Self-directed Financial Restructuring	6			
	- Reduction in debt		1		
	- Outcome of Long-term Financial Improvement Efforts		1		
	(Management and Performance of Fund Operation)		5		5
	- Management Cost		4		6
5. Management of Remuneration and Benefits					
-Remuneration and Benefits	6		6		
-Increase Rate of Total Labor Cost		3		4	
-Labor Relations	3		3		
Subtotal		22	28	20	30
Main Business	Comprehensive Evaluation of Business Plan, Operations, and Output	13	37	15	35
Total		35	65	35	65

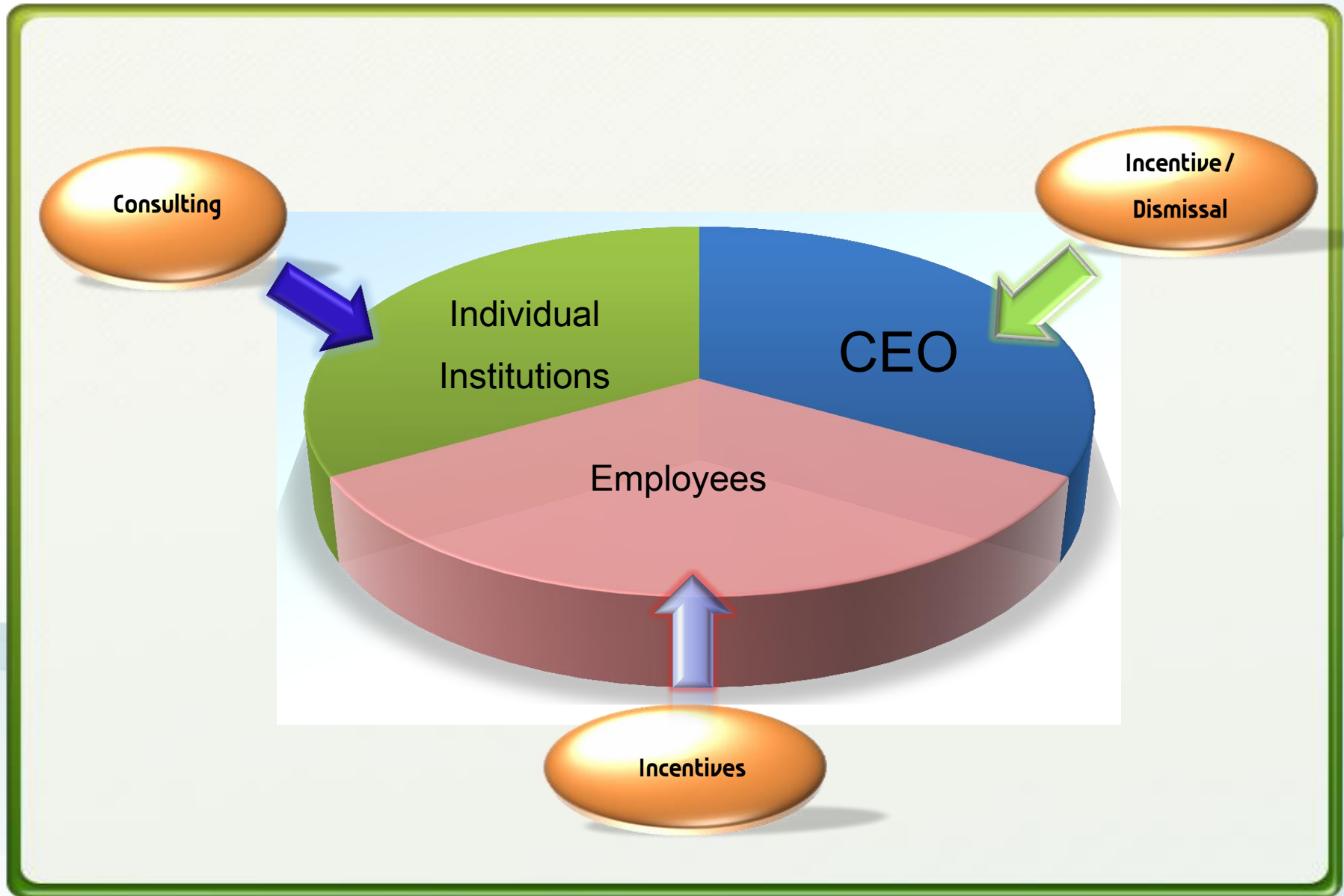
IV. Incentives and Penalties

Performance Evaluation Results

- Grade is determined by converting scores into 100 scale
- Divided into six grades; S (Superior), A, B, C, D, E (Inferior)

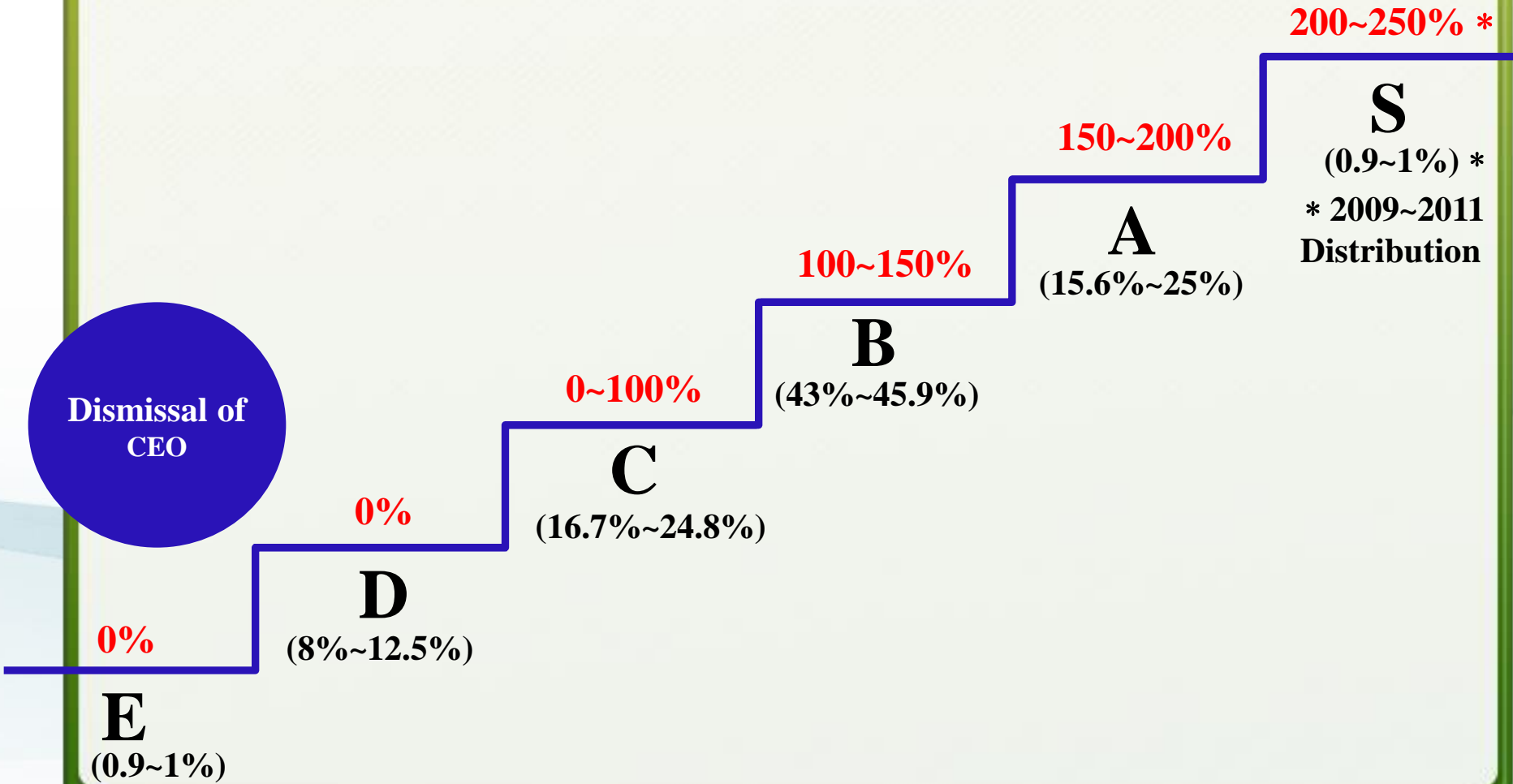


Use of Evaluation Results



Use of evaluation results: Allocation of incentives

* Performance bonus for each employee
(based on monthly salary)



V. Accomplishments And Limitations

Accomplishments of the Performance Evaluation

- **Monitoring scheme**
 - Proactive input administration
 - Reactive output evaluation
- **Competition & Improvement**
- **Achievement-oriented culture**
- **Stabilized and structured Monitoring system**
- **Feedback and consultation based on the performance evaluation result**

Factors of success

- **Setting up the evaluation system by the laws and regulations**
- **Attractive incentives & Penalties**
- **Rich understanding on the institutions**
- **Independence and neutrality**
- **Target for a continuous improvement**
- **Feedback and collecting opinion**

Limitations & Considerations

- **1-year basis: Short-term performance**
- **Institutions ' characteristics vary**
- **Determine the evaluation grades in comparison with the other public institutions**
- **Subjectivity in the assessment**
- **Complaints against the expertise of the evaluation team**
- **Costs**
- **Too much concerns on the result**

Thank You

Myanmar SOEs : Corporate Governance Implementation and Implication

Khine Khine Nwe
Joint Secretary General, UMFCCI
4 November, 2015, Hanoi, Vietnam

Myanmar: Macroeconomic Overview

General Statistics

Population (2014)	51.4 million
Area	676,578 sq. km

Macroeconomic Indicators

GDP (US\$)	\$56.8 Billion
Real GDP Growth (IMF estimate)	8.7%
GDP Per Capita (USD)	1113

Balance of Payment (2013-2014)

Exports (US\$), fob	\$12.2 billion
Of which, Gas exports' composition	\$4.2 billion
Imports (US\$), cif	\$14.8 billion
Balance	-\$2.6 billion
Number of existing SOEs	44 (?)

SOEs : PRE - 2012 ERA

- ▶ Nationalization : The Myanmar economy virtually became one big state owned enterprise in the Ne Win era beginning in 1962.
- ▶ Military-led Government : The failure of this Myanmar's way to socialism came to an end in 1988 with a declaration of its support for market-oriented economic growth.
- ▶ Privatization : A process of privatizing state enterprises proceeded in waves over the next 23 years. Still, SOE sector remained significant until end of military rule in 2011.

POST - 2012 ERA

- ▶ Democratic Government : The elected President U Thein Sein launched an ambitious program of peace building, democratic institution building and economic reforms.
- ▶ Myanmar SOE sector is underperforming in 2 major ways.
 - ▶ (1) Its financial returns are well below potential
 - ▶ (2) The quality of its goods and services is generally inferior to those offered by private sector competitors.
- ▶ Privatization and corporatization of SOEs was and still is one of the government's priorities, the strong intent attracted international institutions' interest which in following years, becomes a strong supporter and enhancer in the SOEs' corporatization process of the country, yet common policies or procedures still need to define.

President's 2nd wave speech

- ▶ June 2012 : “We must trim down uneconomical and redundant enterprises and cut expenses while shrinking the state-owned business sector and encouraging privatization.”

FESR (2012) and NCDP (2015 ?)

- ▶ FESR (2012) : Specific actions regarding corporatization of SOEs along with the objective of keeping the government's "fiscal regime in order" were explicitly described and presented to Development Partners at 1st MDCF in January 2013.
- ▶ NCDP (2015?) : It is widely expected to include ambitious measures for improving the performance of SOE sector and is scheduled to be presented to the legislature for approval.

Strong supporting statement of policy

- ▶ On Ministry of Finance website, Budget Department page :

SOEs no longer have automatic access to the budget to cover their deficits starting from FY 2012-13. Any deficit financing requires cabinet approval and enterprises incurring deficits are to be privatized or corporatized.

SOE sectors at present

- ▶ Can be classified into 8 categories
- ▶ (1) Energy sector (Petroleum, Oil and Gas, etc.)
- ▶ (2) Extractive sector (Mining and Timber)
- ▶ (3) Public utilities (Electricity, Hydro power etc.)
- ▶ (4) Industrial sector
- ▶ (5) Others (Agriculture, Co-operatives, etc)
- ▶ (6) State-owned banks and Financial firms
- ▶ (7) Semi-SOE enterprises (UMEHL and MEC)
- ▶ (8) Myanmar Gems Enterprise

Reforms on State-Owned enterprises

- ▶ Myanmar has been undertaking a long-term plan to privatize or corporatize state-owned enterprises in various sectors since early 1990s, but then, without much success.
- ▶ One of several key priorities of the government for economic reforms is the development of the private sector, and efforts to continue to corporatize the remaining state-owned enterprises and privatize them keep continuing.
 - ▶ Corporatization of State-owned Telecommunication Company, MPT, is one role model in Myanmar which has been broadly appreciated by locals and internationals, which is now competing in the market with two other international firms, Telenor and Ooredoo.
 - ▶ The Yangon City Electric Distribution Board is now under planning to be corporatized.
 - ▶ Myanmar remains committed to private sector development, and is also working to reforming legislative measures to ensure that SOEs as well as other private sector businesses would be able to compete effectively in most sectors, except in areas of national strategic importance.

Capital Market & Financial Reform & Development

- ▶ Since the elected government took office, in 2011, Myanmar first reformed its currency exchange regime, moving from a fixed rate to a managed-floating rate system. This is just the beginning of a long process of financial reforms.
- ▶ In addition, the financial reforms are also underway.
 - ▶ In October 2014, nine foreign banks were given license to operate in Myanmar.
 - ▶ In addition, the local banks also undertook a series of expansions in their own operations.
 - ▶ In 2013, Myanmar saw the wide-spread utilization of ATMs and the arrival of Master Card and Visa Card.
 - ▶ The local banks have also expanded the number of branches opened to serve the population better.
 - ▶ The Bank & Financial Institution Law is also expected to be passed by parliament.

Capital Market & Financial Reforms

- ▶ Myanmar is also preparing to initiate operations for the capital market by December 2015.
 - ▶ Relevant Rules and Regulations for the operation of the capital markets are expected to be passed in the near future.
- ▶ With the onset of the financial markets, private sector as well as the SOEs are keenly interested in participating in the capital markets.

The importance of Good practices with SOEs

Good practices with State Owned Enterprises lead big gains to the country's economy and improve the capacity of the sector while ineffective practices can inhibit private sector involvement, waste country's budget, stimulate bribery and seeking opportunity for one's own sake

Corporatizing MPT: Myanmar's good performance experience

- Liberalization of Myanmar Telecommunications sector under Ministry of Communications and Information Technology since 2013
- In the process of transforming, MPT (State-owned operator) has been corporatized, firstly into 100% government owned company.
- To maintain its competitiveness and role, government strived to transform MPT into a commercially oriented company.
- Entering into a Joint Operating Agreement with a Japanese consortium of KDDI and Sumitomo Corporation since July 2014, whose set-up and operation is approved by MIC.

Steps towards Corporatization

- ▶ MPT needs assistance to become an autonomous commercial telecommunications operator.
- ▶ Government requested World Bank assistance to support MPT's transition from a government department to a corporate entity that is able to operate successfully in a competitive market with quality.
- ▶ MPT is registered as 100% State Owned Corporate Entity only for Administrative purpose.
- ▶ But its telecommunication business is planning to be registered under the Companies Act as a state owned commercial entity.
- ▶ World Bank is providing technical support for the corporatization process.

Guidance by the World Bank

Primarily in the following areas:

- Business line separation strategy &
- Asset valuation and accounting systems

Activities in MPT's corporatization process

- A . Define and detail the strategic and business objectives

- B. Develop the chart of accounts and opening balance sheet for the corporatized entity based on internationally acceptable standards.

- C. Support for Human Resource Management

A. Define and detail strategic and business objectives

- ▶ Clear vision and mission
- ▶ Identify short, mid and long term specific, measurable, reasonable and achievable commercial goals
- ▶ Realistic milestones and timelines for achievement of each goals
- ▶ Designing high level strategic plan, business plan for next 10 years
- ▶ Outline service and performance standards for the corporatized MPT

A. Define and detail strategic and business objectives

- ▶ Strategic planning for capturing a fair share of the market in the short term
- ▶ Prepare MPT for attracting a strategic partner in the short or mid term
- ▶ Describe the internal and external resources needed to implement
- ▶ Assessing the available resources within MPT and outsource if required
- ▶ Describe the implication of each step and milestone for MPT's organizational structure, resources, business lines and financial position.

A. Define and detail strategic and business objectives

- ▶ Describe the human, budgetary and time resources needed to implement each step and to achieve each milestone
- ▶ Design detailed project management plan etc...

B. Develop the chart of accounts and opening balance sheet for the corporatized entity based on internationally acceptable standards

- ▶ Drafting Financial Guidelines
- ▶ Prepare Chart of Accounts for MPT
- ▶ Support MPT to transfer its financial systems into internationally acceptable practice
- ▶ Training finance staff across MPT on relevant accounting standards etc...

C. Support for Human Resource Management

- ▶ Planning an organizational reform for enforcing strong governance
- ▶ Designing a staffing plan
- ▶ Defining the nature, cost, length, and depth of the training for internal human resources
- ▶ Designing the organization structure and Roles and responsibilities for staff
- ▶ Drafting staff management guidelines
- ▶ Drafting forms of employment contract etc...

Another Example of SOE Reform- Myanmar National Airways

- ▶ While the previous example of MPT's corporatization illustrates key outcomes and achievements serving as a guideline and framework for future SOE corporatization and reforms, another example also exists:
 - ▶ Myanmar National Airways also underwent corporatization.
- ▶ While MNA undertook corporatization, the internal structure and management remains without much changes.
 - ▶ In this regard, much can still be undertaken to take key insights gained from MPT's corporatization process here.

Conclusion

- ▶ As part of Myanmar's economic reforms, Myanmar has undertaken various reforms to the existing SOEs in order to improve the country's economy, as well as improve the efficiency and effectiveness of government's functions and budget.
- ▶ In this regard, various experiences and examples are also generated in our path serving as guidelines and insights for future direction.
 - ▶ With an aim for improving efficiency of operations, and focusing on good corporate governance, much efforts were undertaken and achieved.
- ▶ As highlighted by our examples, there's still much to improve upon, but with key insights gained from our experiences, we are committed to the continued improvement of the overall economy, and to improve the efficiency of our SOEs and to align them with the existing market conditions and the needs of our consumers.



Thank You

Khine Khine Nwe
Joint Secretary General
UMFCCI

Session 4

Good Practices of Performance Management of SOEs of Asia

PSCs PERFORMANCE

PAKISTAN

By: Abdullah Yusuf

Chairman Public Sector Committee (ICAP)

Member IPSAS Board (IFAC)

PRESENTATION OUTLINE



I. PSCs – Current Status

- 1.1 Definition
- 1.2 History
- 1.3 Classification
- 1.4 Employees
- 1.4 Performance
- 1.6 Boards Composition

II. Questionnaire - Answers

III. Global Best Practices

IV. Way Forward

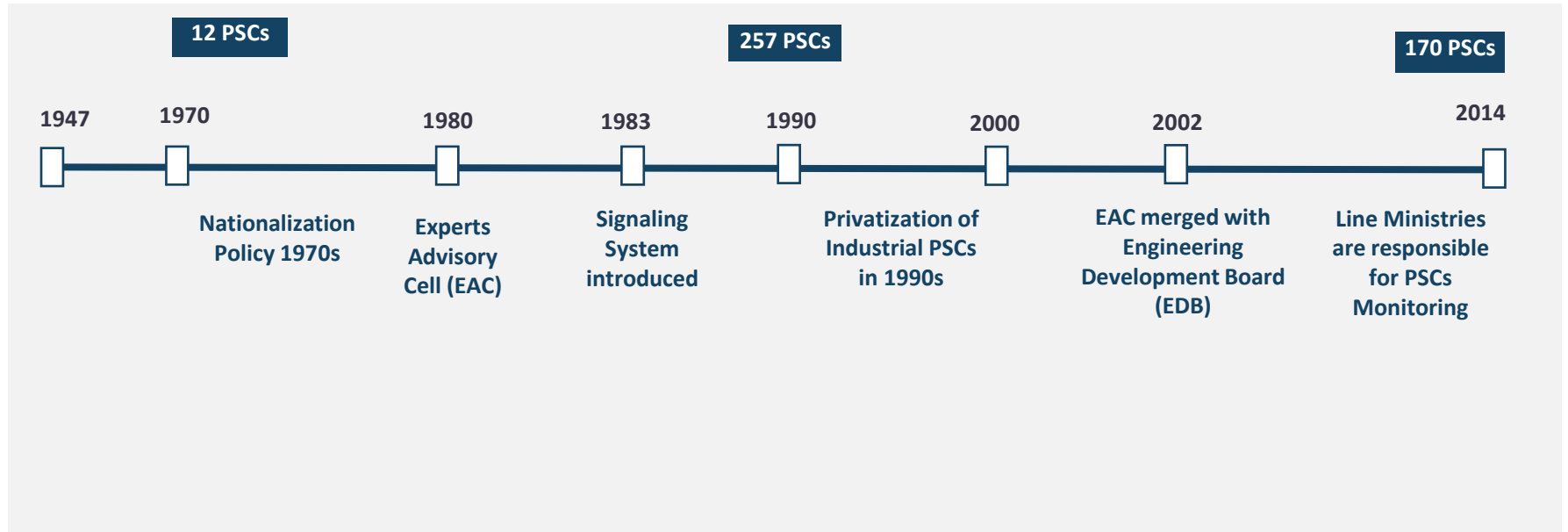
PART-I

CURRENT STATUS OF PSCs

1.1 Definition: Public Sector Company (PSC)

“Public Sector Company” means a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty percent of the voting securities or voting power of which are held by the Government or instrumentality or agency of the Government or a statutory body, or in respect of which the Government or any instrumentality or agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors, and includes a public sector association not for profit, licensed under section 42 of the Ordinance.”

1.2 Evolution of PSCs Governance in Pakistan



Public Sector Governance

Project to Improve Financial Reporting and Auditing (PIFRA)

PIFRA: One of the milestone achieved in Public Sector is PIFRA (Project to Improve Financial Reporting and Auditing) aimed at improving the governance in fiscal management sphere to achieve the vision of strengthened Integrated Financial Management.

The project is included in Medium Term Development Framework (MTDF) 2005-10

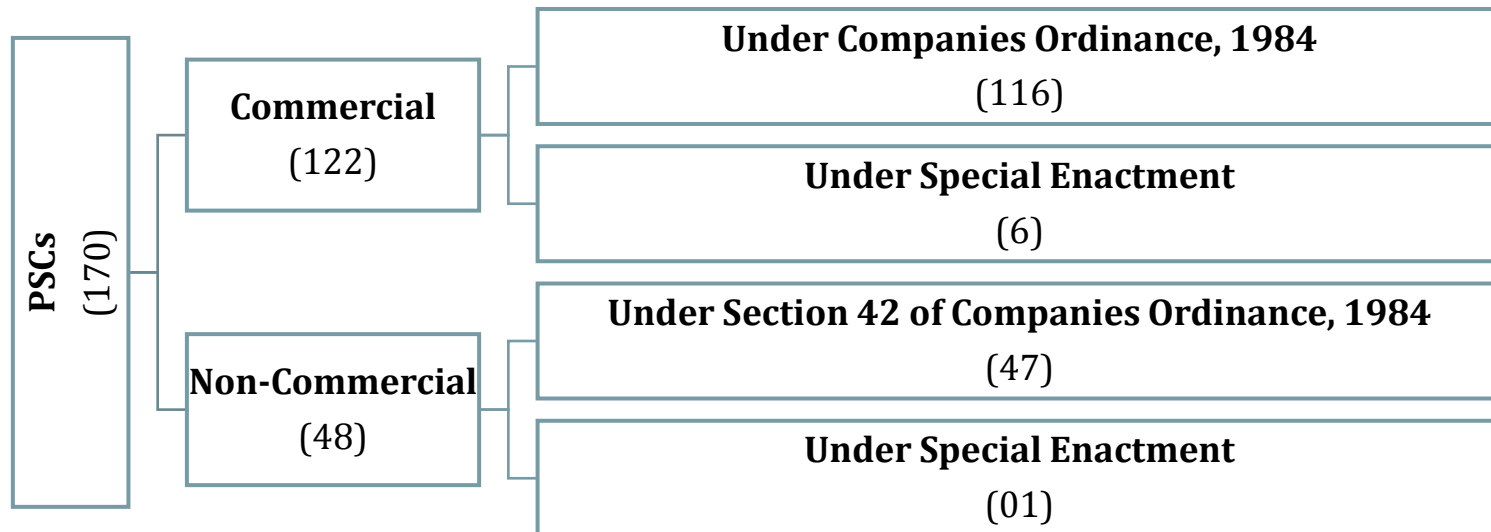
Four Components of PIFRA are:

- Financial Accounting and Budgeting System (FABS)
- Capacity Building of Auditor General's Office
- Capacity Building of Controller General of Accounts' Office
- Project Management

Output:

- Consolidated statements of all Government Departments both quarterly and annually

1.3 PSCs - CLASSIFICATION



1.3 PSCs - CLASSIFICATION

Incorporation Structure based Classification

163 Entities under
Companies
Ordinance, 1984

Listed Public Limited
Companies

8

Unlisted Public Limited
Companies

51

Private Limited Companies

59

Section-42 Companies (Not-
for-Profit)

45

7 Entities under
Special Enactment

Listed Public Limited
Companies

3

Unlisted Public Limited
Companies

3

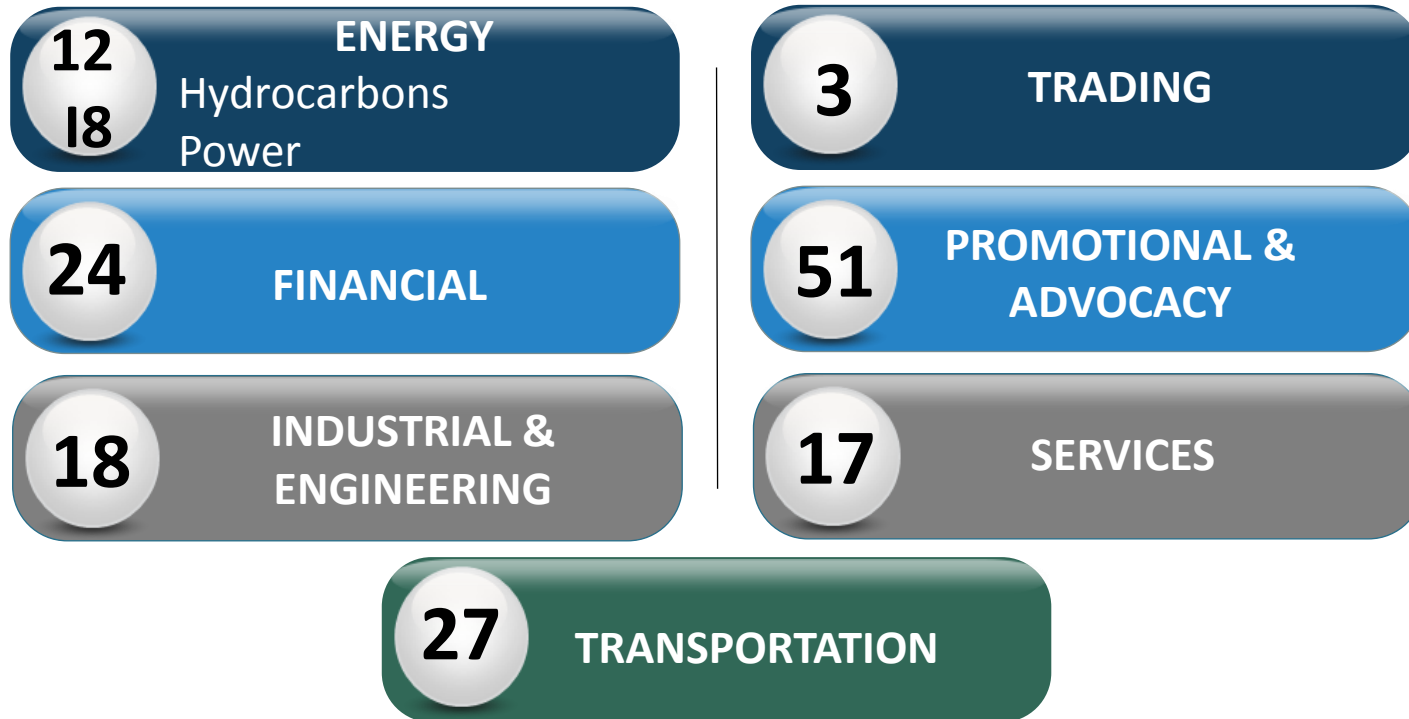
Non-Commercial PSC

1

1.3 PSCs - CLASSIFICATION

Sectoral Classification

Total PSCs: 170



1.3 PSCs - CLASSIFICATION

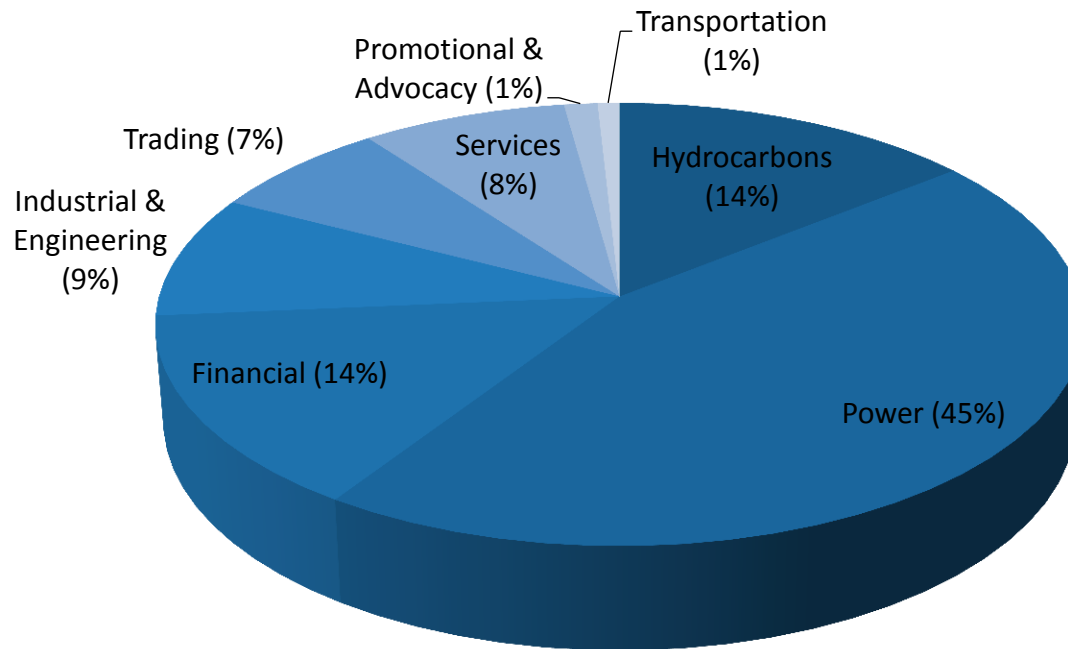
Ministry based Classification



1.4 PSCs – Employees Distribution

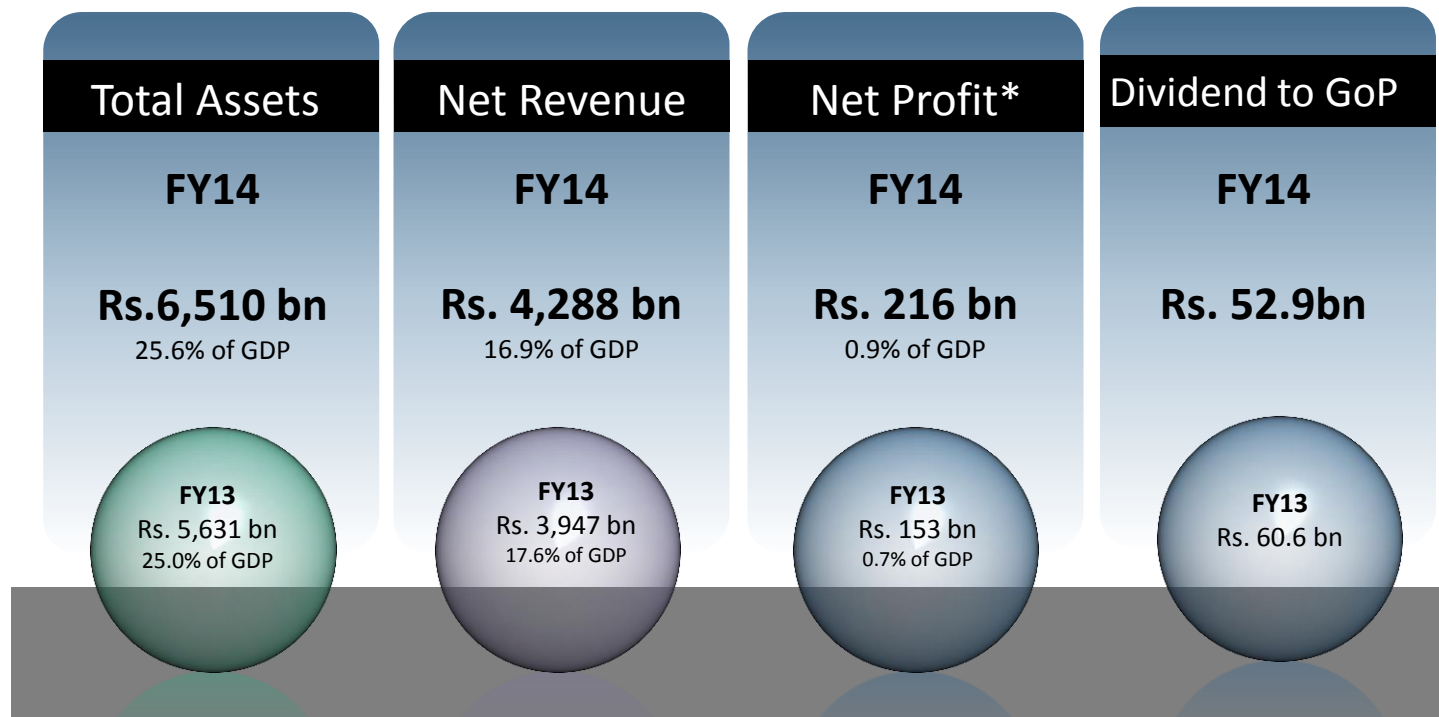
218,527

Sector-wise Distribution



1.5 PSCs PERFORMANCE

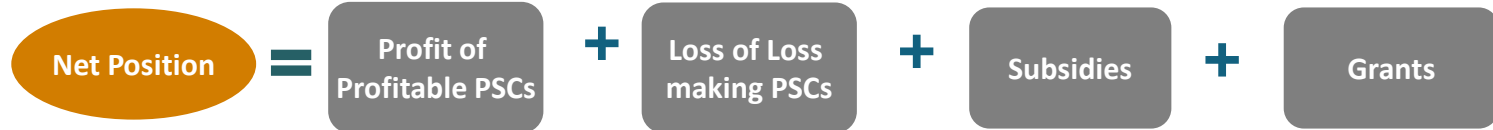
FINANCIAL HIGHLIGHTS (PSCs) – FY13 & FY14



*It shows aggregate net Profit/Loss of PSCs Portfolio, as reported in their Financial Statements.

1.5 PSCs PERFORMANCE

Net Position of Public Sector



	2013		2014 (Rs. bn)	
	No.	Amount	No.	Amount
Profit generating PSCs	77	218	88	268
Loss making PSCs	62	(426)	49	(353)
Subsidies*		271		269
Grants		2		
NET POSITION		65		184

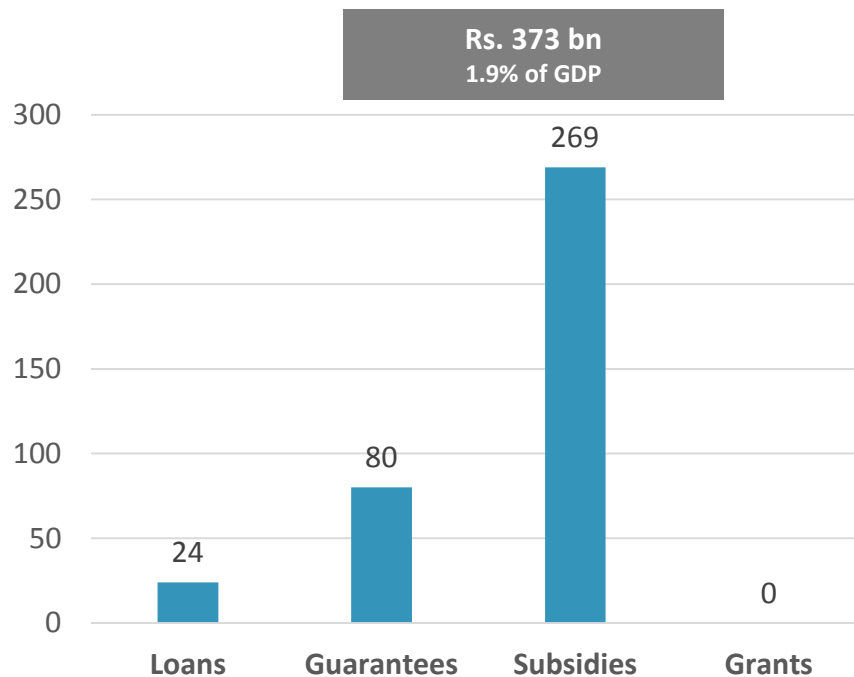
*Subsidies released during the year. However, the reported subsidies (in DISCOs) amounted to an estimate of Rs. 340 bn and Rs. 258 bn in FY13 and FY14 respectively. Therefore, the difference in the profitability of PSCs portfolio is mainly because of the reported and actually released subsidies during the two years.

1.5 PSCs PERFORMANCE

GoP Support to PSCs



GoP Support during FY14

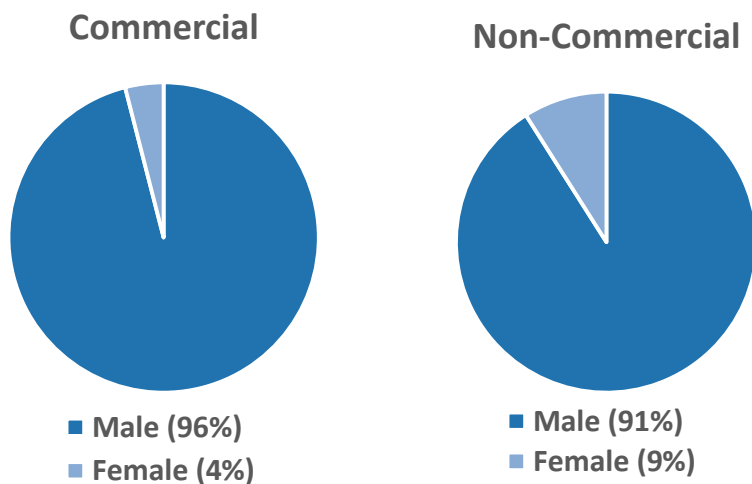


YoY reduction in GoP support is mainly driven by reduction in subsidies.

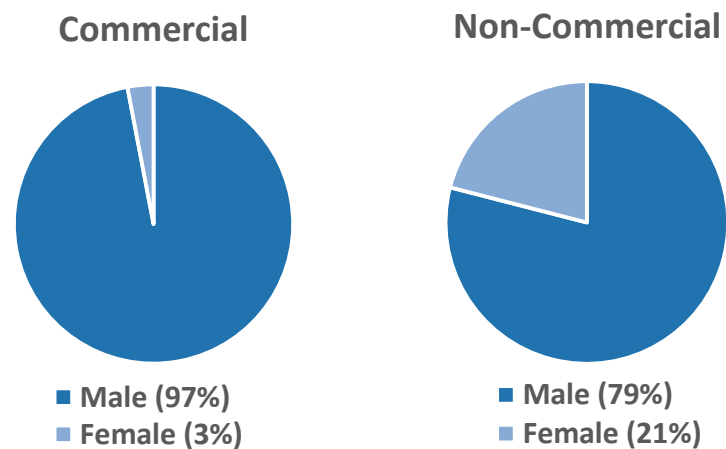
1.6 PSCs – BoDs Composition

Gender Distribution (FY14)

A. Board Members



B. Chairman



PART-II

ANSWERS TO
QUESTIONNAIRES

Part I: General Framework of the SOE Sector

Sr. No.	QUESTIONS	ANSWERS
1.1	Define SOEs	As given by Public Sector Companies (Corporate Governance) Rules, 2013
1.2	SOEs Classification	<ul style="list-style-type: none">• Legal Form<ul style="list-style-type: none">• Companies Ordinance, 1984• Special Enactment• Commerciality<ul style="list-style-type: none">• Commercial• Non-Commercial
1.3	SOEs Ownership	One Designated Government Ministry exercises the ownership function as well as coordinating power Other entities involved are: <ul style="list-style-type: none">- Regulatory Bodies- Securities & Exchange Commission of Pakistan (SECP)
1.4	Specific Legislation for SOEs Management	<ul style="list-style-type: none">- Companies Ordinance, 1984- Corporate Governance Rules, 2013

Part II: General Framework of the Performance Evaluation System of SOEs

Sr. No.	QUESTIONS	ANSWERS
2.1	Performance Monitoring & Evaluation system for SOEs	Currently, there is no proper monitoring and Evaluation System for PSCs

Part III: Various Aspects in practicing the Evaluation System of SOEs

Sr. No.	QUESTIONS	ANSWERS
3.1	Legal Framework for Performance Monitoring & Evaluation system for SOEs	Currently, there is no proper monitoring and Evaluation System for PSCs
3.2	Authorized agency to manage the Performance Monitoring & Evaluation system	
3.3	Is evaluation consist of more than one evaluation	
3.4	Evaluation Period	
3.5	Evaluation is based on Evaluation Indicators	
3.6	Publishing of Annual report with consolidated performance Information	

Part IV: Application and the use of Performance Evaluation

Sr. No.	QUESTIONS	ANSWERS
4.1	Performance Evaluation and Reappointment or Dismissal of Executives	Currently, there is no proper monitoring and Evaluation System for PSCs
4.2	Performance Evaluation and Monetary Compensation	
4.3	In what cases, Performance Evaluation is Exploited	

Part V: Absence of Performance Evaluation System

Sr. No.	QUESTIONS	ANSWERS
5.1	Designated Entity evaluate or monitor aspects of SOEs performance	SECP is responsible <ul style="list-style-type: none">- to ensure information disclosures in compliance with international reporting standards.- To issue guidelines and rules to improve Corporate Governance practices in SOEs for the implementation of Corporate Governance Rules, 2013.
5.2	In case of delegation of ownership rights, how entities are monitored	In case of Subsidiaries, Holding Companies prepare and submit their Consolidated and unconsolidated information both quarterly and annually.
5.3	Monitoring system varies for Commercial and Non-Commercial SOEs	Yes, it varies. Since their purpose of operations are different.
5.4	How often, State entities monitor or assess performance	It is obligatory for SOEs to prepare their Financial Statements on quarterly and annual basis and submit these to SECP. However, Line ministries can monitor and assess their performance at any time.
5.5	Supplementary information about the procedures actually in place	No proper procedures are actually in place. However, There are several other layers for reporting and monitoring: <ul style="list-style-type: none">- Ministry of Finance- SECP- Sectoral Regulatory bodies

PART-III

Global Best Practices

International Practices:

Focus on CG, clarity of roles & authorities and autonomy

- Independent central bodies to oversee and supervise affairs of SOEs in the forms of holding companies (Singapore's Temasek Holding); central shareholding (Malaysia's Khazana model), dedicated departments (India's Department of Public Enterprises); and central monitoring authorities (New Zealand's Crown Monitoring Authority)
- Performance contracting between the government and SOE in India.
- *MoU system India and*
- *Signaling System Pakistan (1980-2003)*
- Sound legal and regulatory frameworks for corporate governance.
 - Finland's Management of State Capital Act 2007,
 - Hungary's State Asset Law 2007,
 - New Zealand's [State-owned Enterprises Act 1986](#) and
 - Philippine's Government-owned and Controlled Corporation Act 2010

1. Role of Treasury – New Zealand

- ❑ SOEs segregated into
 - Crown Entities (non-commercial) governed under Crown Entities Act 2004
 - State Owned Enterprises (commercial) governed under New Zealand State Owned Enterprises Act 1986
 - ❑ Acts require entities to prepare a Statement of Intent stating
 - strategic objectives over a 4-year period
 - scope of operations
 - performance targets
- to be presented to the concerned Minister and revised at least once every 3 years.
- ❑ Each SOE has two shareholding Ministers - one is the Minister of Finance and the relevant portfolio Minister
 - ❑ BoDs of an SOE are accountable to the shareholding Ministers for the performance of SOE

2. MoU System - India

- ❑ Established in 1986
- ❑ Goal is improving performance through autonomy based accountability
- ❑ Beginning in 2007, the Department of Public Enterprises (DPE) required all Central Public Sector Enterprises to have a MOU
- ❑ The contents of each MOU include:
 - a mission statement;
 - the objectives of the enterprise;
 - areas where power has been delegated to the enterprise;
 - performance targets; and
 - commitments from the government to the enterprise.
- ❑ A balanced-scorecard approach is used for MoU Evaluation, with 50 percent of the weight given to financial targets and 50 percent to nonfinancial targets.
- ❑ Performance is measured on a five-point scale, ranging from excellent (1) to poor (5) for each target area
- ❑ Performance incentives include
 - monetary payments
 - excellence awards for the best-performing enterprises
 - and excellence certificates by the Prime Minister

3. Tamasek – Singapore

- ❑ Investment Company (Ministry of Finance, sole shareholder) holding a portfolio of Public Sector Companies
- ❑ Operates under Singapore Companies Act
- ❑ It operates like any other commercial entity, with ultimate objective to maximize shareholder return
 - ✓ Pays taxes to Tax authorities
 - ✓ Distribute dividends
 - ✓ Own Board of Directors and a professional management team
- ❑ Neither the President of Singapore nor the shareholder, the Singapore Minister for Finance, is involved in their business decisions
- ❑ Business decisions are centered on following themes:
 - ✓ Transforming Economies;
 - ✓ Growing Middle Income Populations;
 - ✓ Deepening Comparative Advantages;
 - ✓ Emerging Champions

4. Khazanah– Malaysia

- ❑ Investment Fund, owned by the Finance Minister (Government) with an investment portfolio of 50 major public companies
- ❑ Incorporated in 1993 as a public limited company under the Companies Act, 1965
- ❑ Mandate is shareholder value creation, efficiency gains and enhance corporate governance in SOEs, commonly known as Government-Linked Companies, or GLCs
- ❑ Khazanah ensure that adequate key systems and controls are in place and with that, influence the evolvement of the industry structures by optimizing the competitive and regulatory landscape

Way Forward: Pillars for Strengthening PSCs

1. RESTRUCTURING

Corporate & Financial
Governance

2. CORPORATIZATION

Legislative Amendments
Effective application of
Companies Ordinance
1984, CG Rules 2013, and
listing regulations (where
applicable)

3. DISINVESTMENT

Privatization through
Strategic Partnership
Direct sale of assets/
entities
Public offerings on
domestic and
international capital
markets
Cabinet Committee on
Privatization (CCoP)
approved a list of 39
entities for Privatization in
the next two years

1. Key Steps in Restructuring

Restructuring of Boards

Induction of CEOs and Management

Development of **operational restructuring / turn around plans** by respective Boards & CEOs/Mgt

Approval by Government

Implementation of turn around plans

Periodic monitoring and **review of implementation**



2. Corporate Governance Rules, 2013

Salient Features of the Rules

I. Board Composition and Dynamics

- Have 40% independent directors within 2 years of the notification of the Rules and a majority subsequently.
- Recommend three individuals to the GoP for appointment as chief executive.
- Appoint the chief executive after receiving concurrence of the government in line with the provisions of the Ordinance.

II. Formation of Special Committees of the BoD

- Human resources, nomination procurement, risk management and audit committees respectively.

III. Separation of the Chair from the CEO

Salient Features of the Rules

IV. Chief Financial Officer, Company Secretary and Chief Internal Auditor

- Every PSC shall appoint a CFO, company secretary and chief internal auditor, as per prescribed criteria.

V. Formulation and compliance with a 'Code of Conduct'

BoD to prepare & implement a code for its directors and employees, based on following principles:

- Probity and propriety;
- Objectivity, integrity and honesty;
- Relationship with the stakeholders.

VI. Capacity building of board of directors and PSC transparency:

- Undergo trainings and obtain certifications in appropriate fields by local or foreign institutions.
- External Audit.
- Ensure that its annual accounts are audited by an independent external auditor in line with requirements of Companies Ordinance 1984.

3. Pre-Conditions for attracting Private Investment

- Improve corporate governance including transparency and disclosures by SOEs
- Advocacy and communication for benefits of private sector capital mobilization through various modes
- Improve quality of regulatory framework
- Strengthen contract enforcement for commercial disputes.
- Separate courts need to be established for commercial disputes
- Separation of policy, regulations and operations in selected sectors including aviation, shipping and rail sector.
- Deepen and strengthen capital markets

THANK YOU



Performance Governance of State-Owned Enterprises in the Philippines

Presentation to the OECD
The Asia Network on Governance of SOEs
Ha Noi, Vietnam
17 November 2015

By CHAIRMAN CESAR L. VILLANUEVA
Governance Commission for GOCCs



Overview

- State-Owned Enterprises (known as “GOCCs” in the Philippines) are created by law (special charter) or under the Corporation Code
- GOCCs are created **to address market failures** (*i.e.* natural monopolies, underserved industries/sectors, social security)

1965 : 37 GOCCs

1981 : 212 GOCCs

1984 : 303 GOCCs

1988 : Reform Program

1992 : 166 GOCCs

2011 : 157 GOCCs

2015 : 102 GOCCs

Overview of the GOCC Sector

2014

Assets of the GOCC Sector
In USD Billion

138.11

Revenues of the GOCC Sector
In USD Billion

20.65

Revenues as % of GDP

7.59%

Personnel (est.)

80,000

Source: 2008 Study by the Asian Development Bank, GCG



Classification of GOCCs

SECTOR <i>In USD Million</i>	Assets	Liabilities	Revenues	Program Subsidies	Net Income*
Financial Institutions and Social Security	84,005	38,777	13,568	938	5,152
Trade, Area Dev't, Tourism	6,700	1,966	1,232	613	121
Education and Culture	370	40	24	1	(1)
Gaming	1,175	659	1,679	-	149
Energy and Materials	32,604	23,314	2,027	313	167
Agriculture	1,117	3,971	1,053	140	(8)
Utilities and Communications	12,146	6,577	1,068	34	283
TOTAL	138,117	75,304	20,651	2,039	5,863



Ownership Framework

The State as Owner is represented –

- Primarily by the President of the Philippines
- By the Governance Commission in the specific instances mandated by Republic Act No. 10149:
 1. Shortlisting of Candidates for Appointment to the Boards of Directors based on the *Fit and Proper Rule*
 2. Performance Monitoring and Evaluation
 3. Setting Standards for Compensation, Incentives and Benefits
 4. Rationalizing the Number and Functions of GOCCs pursuant to the *Ownership and Operations Manual for GOCCs*.
- By the Boards of Directors, who are **primarily and directly accountable** for corporate governance and performance



Hybrid Ownership Model

Primary Representative of the State as Owner

President of the Philippines

Departments / Supervising Agencies

GCG

Policy and Program Coordination

General Public

GOCC Boards

Employees

Management

Republic Act No. 10149 created the GCG as a “central advisory, monitoring, and oversight body with authority to formulate, implement and coordinate policies”



Performance Evaluation System for GOCCs



1. *Corporate/Organizational: Performance Evaluation System (PES)*

- Based on Performance Agreements negotiated annually between the GCG and each GOCC Board
- Modified Balanced Scorecard format consisting of 8 to 25 measures/performance indicators weights
- Complemented by Good Governance Conditions (*e.g.* Manual of Corporate Governance, Disclosure Requirements)

2. *Board Member Level: Performance Evaluation of Directors (PED)*

- Appointed by the President for one (1) year terms, subject to reappointment based on a performance rating of **at least “above average”**



Corporate Level: Performance Negotiations

- Submission by GOCC based on prescribed templates
- Technical Panels: Data Gathering; Alignment; Preparation for the Negotiation
- Principals: High-Level Negotiation with the Boards of Directors of each GOCC



1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<ul style="list-style-type: none"> • Performance Audit of Previous Year • National Government Budget Planning for Next Year 		<ul style="list-style-type: none"> • Performance Negotiations: Setting Targets for the Succeeding Year • Renegotiations 	



Balanced Scorecards for GOCCs



Social Impact

What is the strategic impact of the GOCC in the context of inclusive growth and economic development? **What are the measurable breakthrough results in the next 5-10 years?**

Introduced by
GCG

Finance

How do we ensure the company's financial viability? What is the outcome of responsible financial stewardship?
e.g. EBITDA

Customers/ Stakeholders

Who are our key customers/stakeholders? What critical services do we need to deliver?
e.g. Customer Satisfaction Survey Rating

Internal Processes

In what processes do we need to excel to provide excellent service delivery to our stakeholders / customers?
e.g. Turn-Around Time, Automation

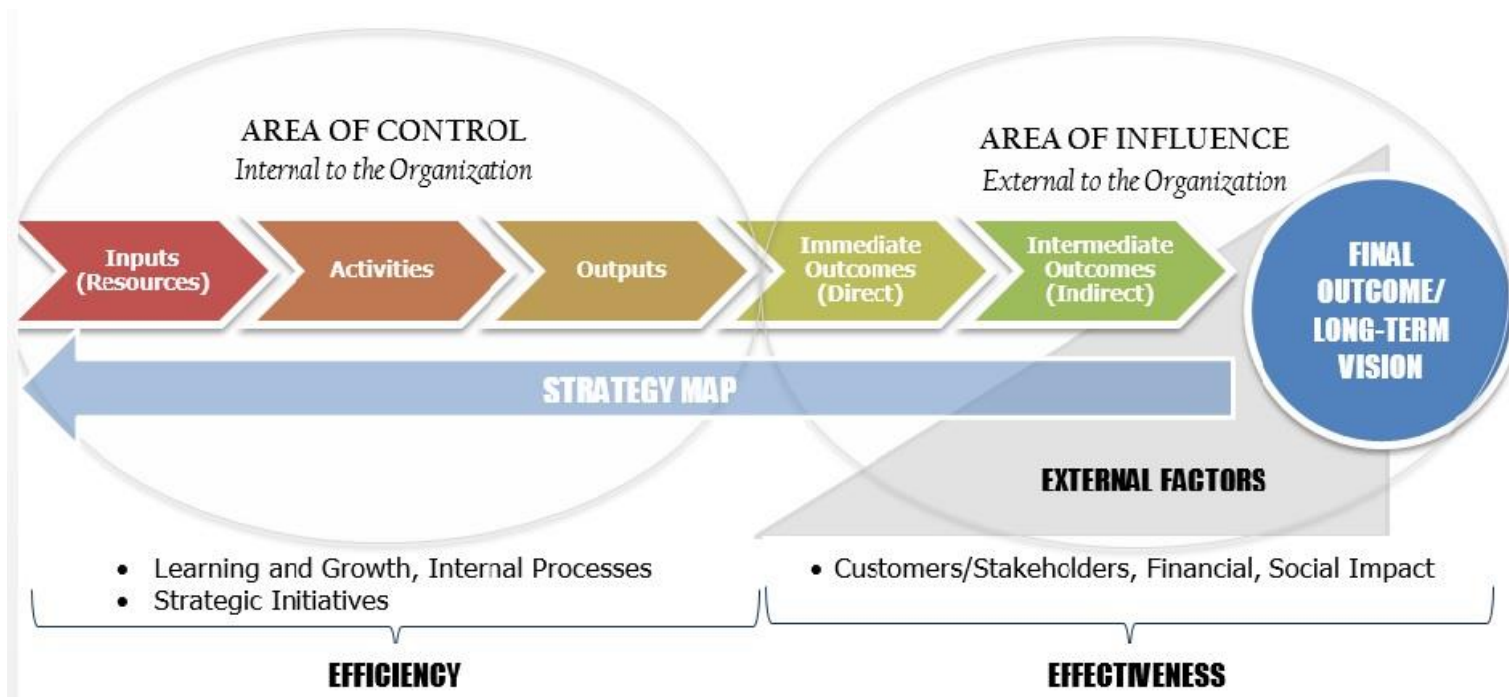
Learning & Growth

How do we effectively equip our people to execute the processes that are key to the strategy?
e.g. Improvement of human capital based on Competency Framework



DEFINING Strategic Performance

- The PES has enhanced focus of GOCCs in looking past the constraints of existing resources and planning for long-term breakthrough results
- Strengthened GOCCs awareness of their respective areas of influence

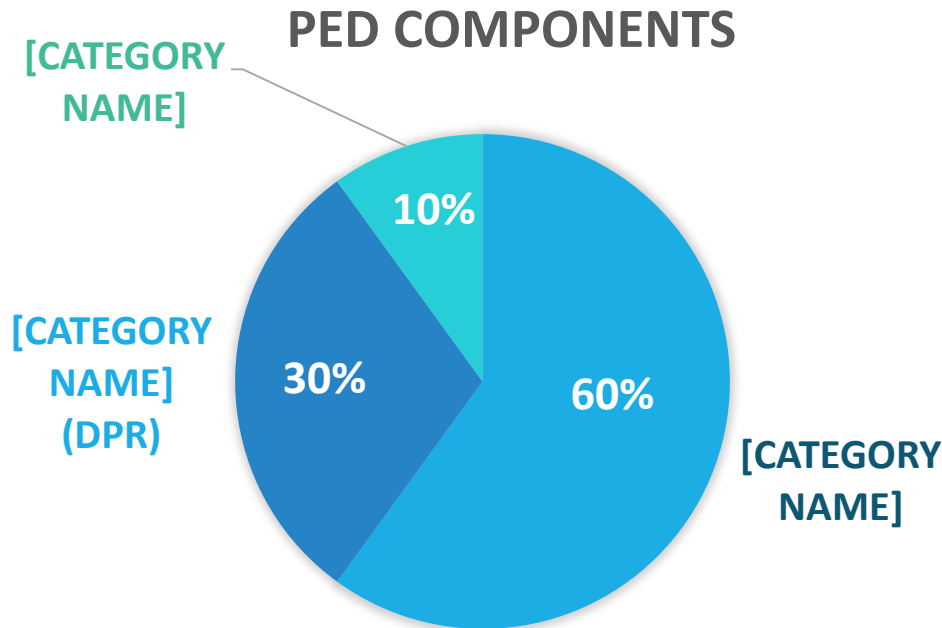




INDIVIDUAL LEVEL Evaluating Directors

An individual board member must receive an overall rating of **at least 85%** to be eligible for:

- ▶ Inclusion in the shortlist of nominees for the succeeding term
- ▶ Performance-Based Incentives (% of *per diems* received for the year)



DPR Overview	
Categories where Directors are Rated	DPR Breakdown
<ul style="list-style-type: none"> • Knowledge and Personal Development • Preparedness and Participation • Teamwork and Communication • Conduct/Behavior 	<ul style="list-style-type: none"> • Chairman's Appraisal (12.5%) • Peer Appraisal (12.5%) • Self-Appraisal (5%)



INTITUTING Performance-Based Pay

- A GOCC must achieve a weighted-score of **90%** in its Balanced Scorecard to be eligible to grant Performance-Based Bonuses (PBB) to its Personnel
- Reported scores are validated by GCG prior to authorizing a GOCC to grant the PBB

Performance Bonuses for Personnel		Forced Ranking by Personnel Groups:
Distribution based on Percentile	Multiple of Monthly Salary	
Top: Maximum 10%	2.5	• Senior Management
Next: Maximum 25%	1.5	• Middle Management
Remaining: Minimum 65%	1.0	• Professional & Supervisory
Unsatisfactory rating	None	• Clerical/General Staff



INSITUTIONALIZING Strategic Performance Management



Strategic Engagement & Monitoring

- Leadership Commitment: Negotiations with the Board of Directors
- Online reporting

Effective Incentive System

- Financial
- Non-Financial

Clear Accountability

- Abolition of underperforming GOCCs
- Termination for unsatisfactory performance

Innovation Cycle

- Performance Analysis
- Impact Assessment and Data Analytics

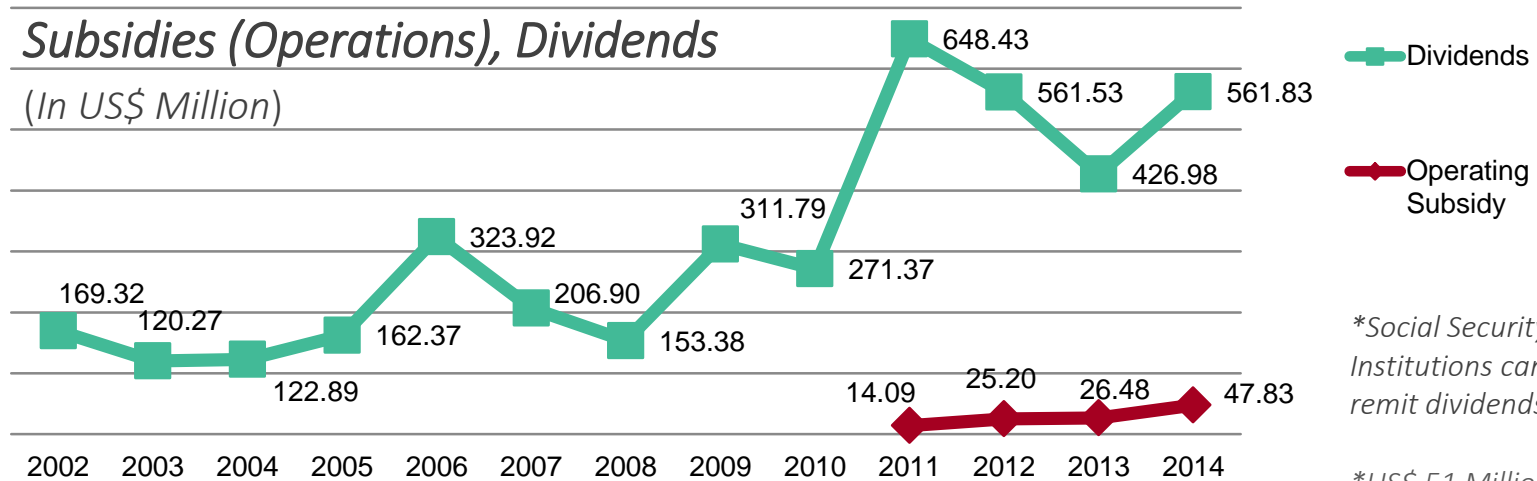
Transparency & Integrity: Good Governance Conditions

Reform Results

- 85 GOCCs with Performance Agreements (from 80 in 2012)
- 71 GOCCs with Manuals of Corporate Governance and No Gift Policies
- 33 GOCCs with ISO 9001:2008 Quality Management Systems

Subsidies (Operations), Dividends

(In US\$ Million)



■ Dividends
◆ Operating Subsidy

**Social Security Institutions cannot remit dividends*

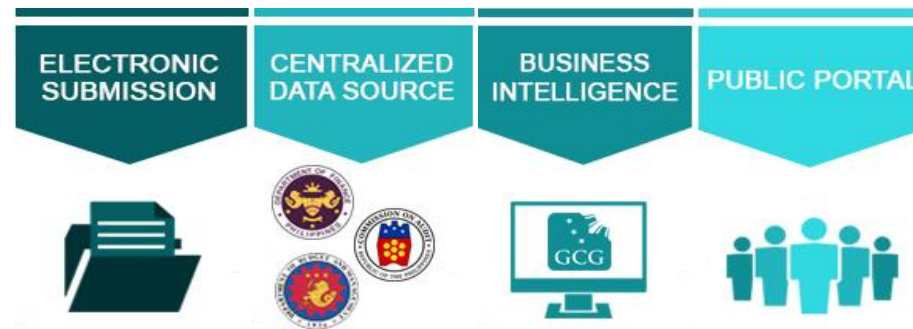
**US\$ 51 Million: Total PBB and PBI paid for 2014 across 55 GOCCs as of 29 September 2015*

	2011	2012	2013	2014
No. of GOCCs	35	39	47	46
Compliance Rate	31%	52%	70%	71%

Moving Forward

Enhancing Transparency of Performance and Operational Reports for *Public Consumption*

- Integrated Corporate Reporting System (ICRS) in 2016



- Corporate Governance Scorecard for GOCCs
- Mainstreaming Sustainable Development Reporting in collaboration with the Global Reporting Initiative (GRI)

Continuous Sectoral Evaluation and Restructuring



Transforming GOCCs

VISION

By 2020, the GCG shall have transformed the GOCC Sector into a significant tool of the State in the attainment of inclusive economic growth and development.

	2012	2014	2016	2020
Rationalizing the number of GOCCs in line with the State Ownership Policy	158	100	94	85
GOCCs Achieving Stakeholder Satisfaction based on Third Party Surveys	Not required. Few GOCCs measured stakeholder satisfaction	56% of GOCCs adopting Third Party Surveys	90% of GOCCs adopting Third Party Surveys	90% of GOCCs reporting Satisfactory Ratings
Total Comprehensive Income <i>In US\$Million</i> <small>*Net of subsidies and unrealized gains/losses</small>	3,404.9	6,121.9	To be determined after roll out of ICRS in 2016	To be determined after roll out of ICRS in 2016



E N D

***“Building the Nation through
Good Corporate Governance.”***

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The 8th Meeting of the Asia Network on Corporate Governance of State-owned Enterprises

Session 4 Good Practices of Performance Management in Asia

16th – 17th November 2015

Hanoi, Vietnam

John K M Lim
Chairman, Boustead Projects Ltd and
Immediate Past Chairman, Singapore Institute of Directors

Good Practices of Performance Management in Asia

- Singapore does not have special regulations for SOEs whose activities are commercial in nature
- All commercial SOEs are corporatised and many are listed
- Performance management and performance evaluation are key areas of focus for both shareholder, board and management.

Good Practices of Performance Management in Asia

- Temasek Holdings Pte Ltd
 - Main holding company for the Singapore's Investments in various sectors of the economy
 - Formed in 1974 under its Companies Act
 - Wholly owned by Minister of Finance
 - Manages all assets on commercial principles

Performance Measure

- Wealth added in \$ terms based on returns against risk adjusted hurdles
- Investments in riskier sectors and markets have higher hurdles
- Wealth added bonus pool

Remuneration Philosophy

- Emphasizes long term over short term
- Aligns employee and shareholder interest
- Puts organization above individual

Delivering Sustainable Returns over the Long Term

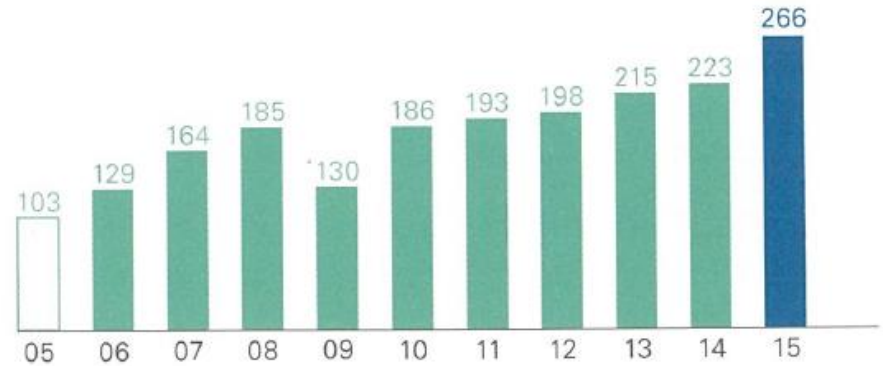


Net Portfolio Value – Temasek Holdings

S\$266b

Net portfolio value

Up S\$43 billion
from last year

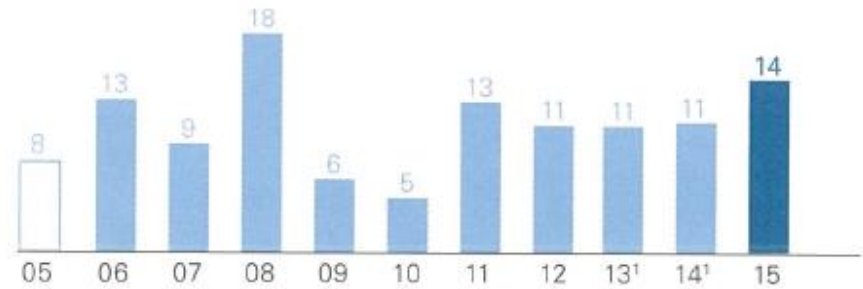


Group Net Profit – Temasek Holdings

S\$14b

Group net profit

Average annual group net profit
of S\$11 billion over the decade



Total Shareholder Returns – Temasek Holdings

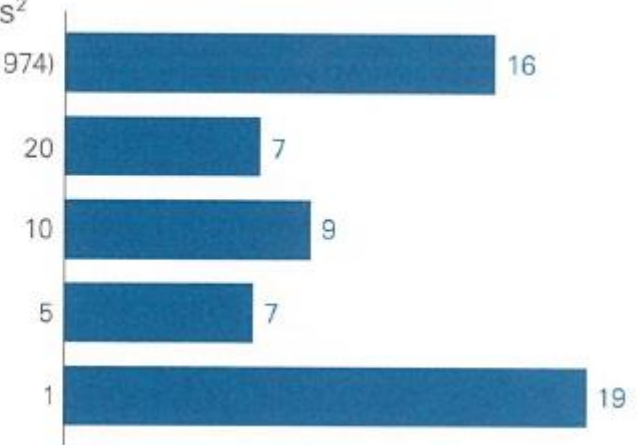
19.20%

One-year return to shareholder

Total shareholder return
of 9% over 10 years

Period in years²

Since inception (1974)



Geography – Temasek Holdings

Geography³ (%)



	2015	2014	2013
● Asia ex-Singapore	42	41	41
● Singapore	28	31	30
● North America and Europe	17	14	12
● Australia & New Zealand	9	10	13
● Africa, Central Asia & the Middle East	2	2	2
● Latin America	2	2	2










Sector – Temasek Holdings

Sector³ (%)



	2015	2014	2013
Financial Services	28	30	31
Telecommunications, Media & Technology	24	23	24
Transportation & Industrials	17	20	20
Consumer & Real Estate	15	12	11
Energy & Resources	5	6	6
Life Sciences & Agriculture	3	2	1
Others	8	7	7

Market Capitalization or Shareholder Equity – Temasek Holdings

Transportation & Industrials		Shareholding ⁴ (%) as at 31 March 2015	Currency	2015	2014
 EVONIK	Evonik Industries AG	5	EUR'm	15,471	13,178
 Keppel Corporation	Keppel Corporation Limited	20	SGD'm	16,351	19,760
 NOL	Neptune Orient Lines Limited	65	SGD'm	2,610	2,579
 PSA The World's Port of Call	PSA International Pte Ltd	100	SGD'm	10,648	10,057
 sembcorp	Sembcorp Industries Ltd	49	SGD'm	7,539	9,810
 ST Engineering	Singapore Technologies Engineering Ltd	51	SGD'm	10,818	11,903
 SINGAPORE AIRLINES	Singapore Airlines Limited	56	SGD'm	13,974	12,313
 SINGAPORE POWER	Singapore Power Limited	100	SGD'm	8,528	9,221*
 SMRT	SMRT Corporation Ltd	54	SGD'm	2,435	1,552

The Singapore Power Group

- A leading energy utility company in Asia-Pacific
- Owns and operates electricity and gas transmission and distribution businesses in Singapore and Australia
- Also owns and operates world's largest underground district cooling network in Singapore
- Serves more than 1.4 million industrial, commercial and residential customers in Singapore
- Setting up district cooling operations in China

The Singapore Power Group – Our Mission

We provide reliable and efficient energy utility services to enhance the economy and the quality of life.

The Singapore Power Group – Our Values

- **COMMITMENT**

- We commit to creating value for our customers, our people and our shareholders
- We uphold the highest standards of service and performance

- **INTEGRITY**

- We act with honesty
- We practice the higher ethical standards

- **PASSION**

- We take pride and ownership in what we do

- **TEAMWORK**

- We support, respect and trust each other
- We continually learn, and share ideas and knowledge

Financial Highlights

REVENUE FROM CONTINUING OPERATIONS

(S\$million)



NET PROFIT AFTER TAX

(S\$million)



Financial Highlights

TOTAL ASSETS
(S\$million)

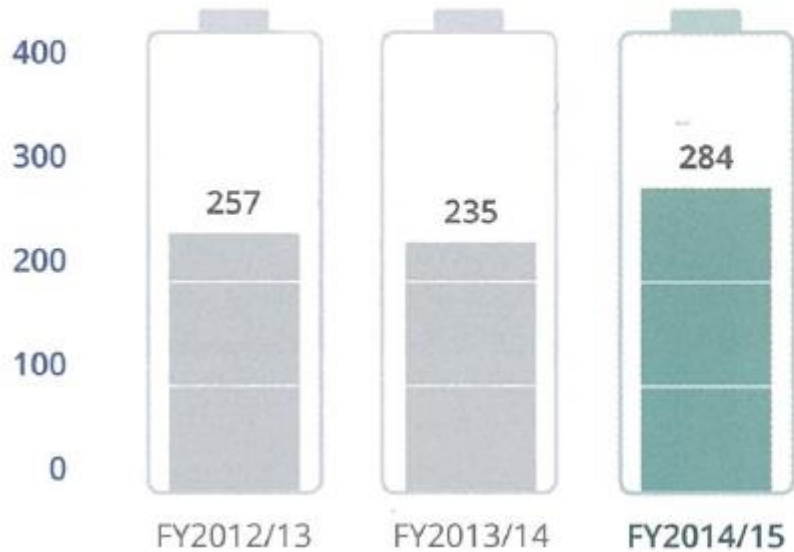


SHAREHOLDERS' EQUITY
(S\$million)

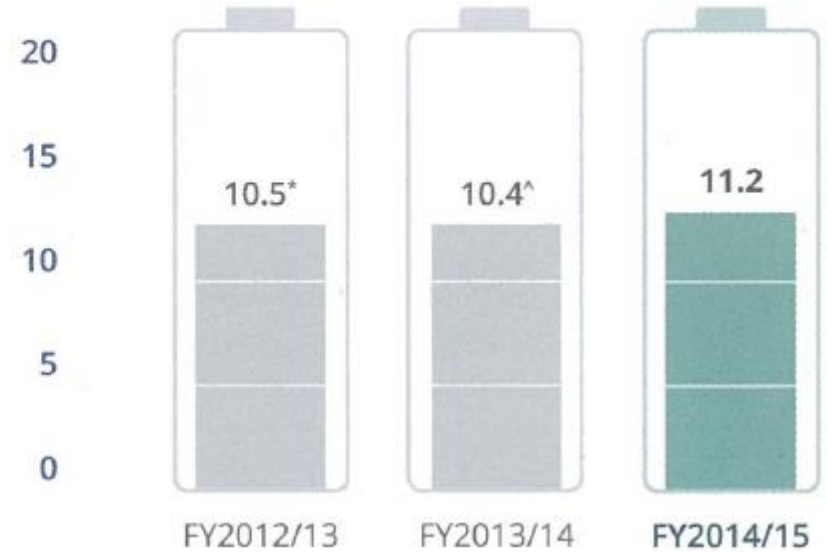


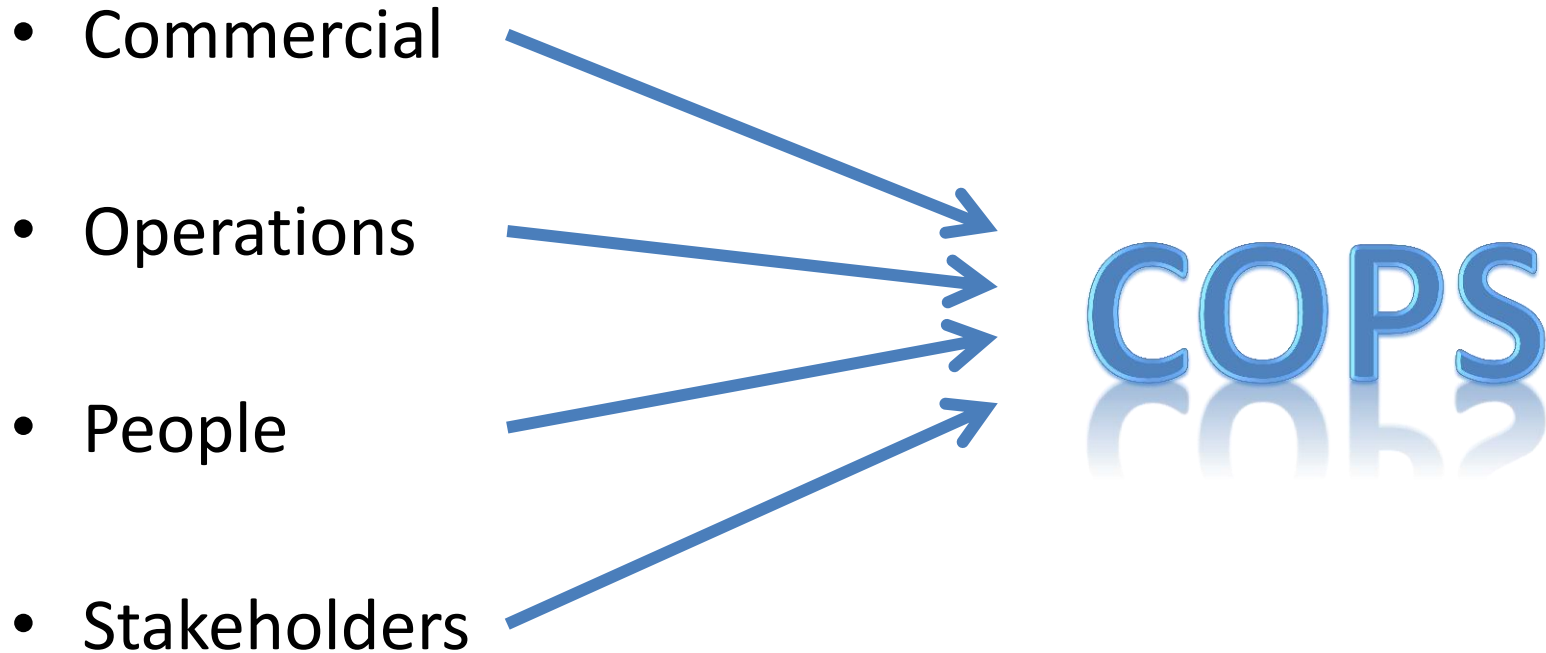
Financial Highlights

ECONOMIC VALUE ADDED (EVA)
(S\$million)



RETURN ON EQUITY
(%)





Operations – Some Performance Targets

- Systems Average Interruption Duration Index (S.A.I.D.I.)
 - less than 1 minute per annum
- Safety
 - Lost Time In Frequency Rate (L.T.I.F.R.)
 - Less than 0.8 man hours per annum

Financial Goals

- ROIC (Return on Invested Capital) must exceed WACC (Weighted Average Cost of Capital) by at least 1%
- Gearing not to exceed 30%
- Credit rating not to be lower than a minus
- NPAT in excess of S\$900 million

Regulator is a key stakeholder.

SingPower must:

- Demonstrate industry thought leadership
- Be seen as a trusted partner
- Have positive public exposure

Union / Employees

- Collaborative partner
- People developer

Consumers

- Tariff increase for transmission, distribution and billing lower than inflation

CSR

- Green initiatives
- Less energy usage

- Short and medium term incentives
- Split of fixed and variable

Remuneration for:

Senior management 40 : 60

Other ranks 80 : 20

Performance Tied Bonus

- Evaluation rating based on 5 point rating
 - Below target by 10% = Rating of 1
 - Above target by 10% = Rating of 5
 - Meet target = Rating of 2.5
- Economic Value Added (EVA) for senior management only
- Creation of EVA bonus pool
- Long term incentive plan currently being considered

Remuneration Benchmarking

- Comparison with companies with revenue between 1.5 to 2.5 times

Performance Evaluation and Talent Management

- Half yearly and annual evaluation
- Development of pipeline and management succession
- Mentoring system
- Coaching
- Crucial conversations

Performance Enablers

- Effective boards
- Clear goals and values
- Performance tied remuneration system
- Human Resource focus

ĐOÀN KẾT - SÁNG TẠO

VIDS

VIỆN CHIẾN LƯỢC PHÁT TRIỂN

Performance Evaluation for SOEs in Vietnam

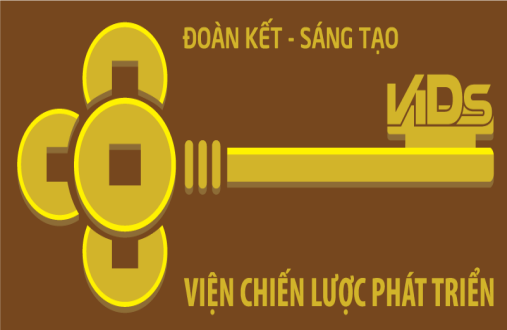
PhD. Huong Nguyen

National Institute for Development Studies

*A presentation for the ASIA SOE Network
Hanoi, November 16-17, 2015*

Table of Contents

- State-Owned Enterprise Reform in Vietnam
- Performance Evaluation for SOEs in Vietnam
- Key challenges



SOE Reform in Vietnam

- SOE reform is a component of the Doi Moi (Renovation) Plan started in 1986
- Vietnam's approach in SOE reform:
 - Sharp cuts in SOE numbers: 12,084 (1989) -> 6,000 (1992) -> 3,135 (2013)
 - Changes in SOE business practice: 1992-now
 - Efforts to establish “national champions”
 - ✓ Since 1994: Decision 90 & 91/TTg: 100 State General Corporations (SGC) (2013)
 - ✓ Since 2005: Biggest SGCs were transformed into giant State Economic groups (SEG): 13 SEGs (2011) -> 8 SEGs (2013)

SOE Reform (Con't)

- Innovation was attempted during the economic transformation
 - 1995-2003 : Act on State Owned Enterprises
 - 1999-2005 : Act on Enterprises
 - 2003-2010 : revised Act on SOEs
 - 2005- : Common Act on Enterprises
(containing all kinds of enterprises)
- However, the state sector, in which SOEs is the major component, has always taken for granted the dominant role in the economy



Performance of SOEs

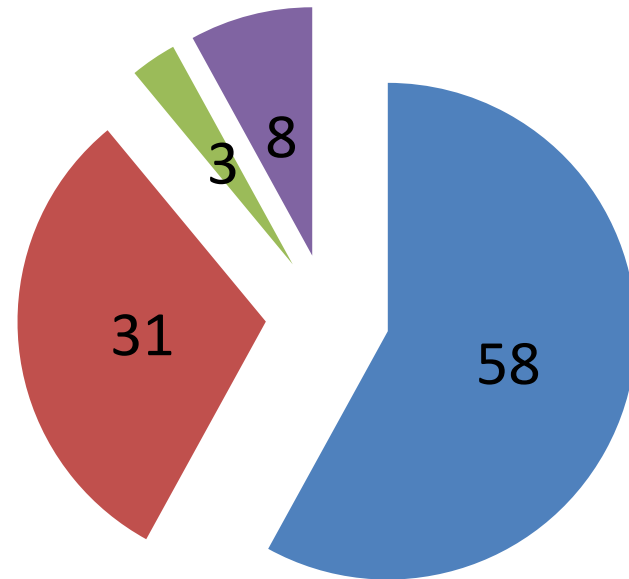
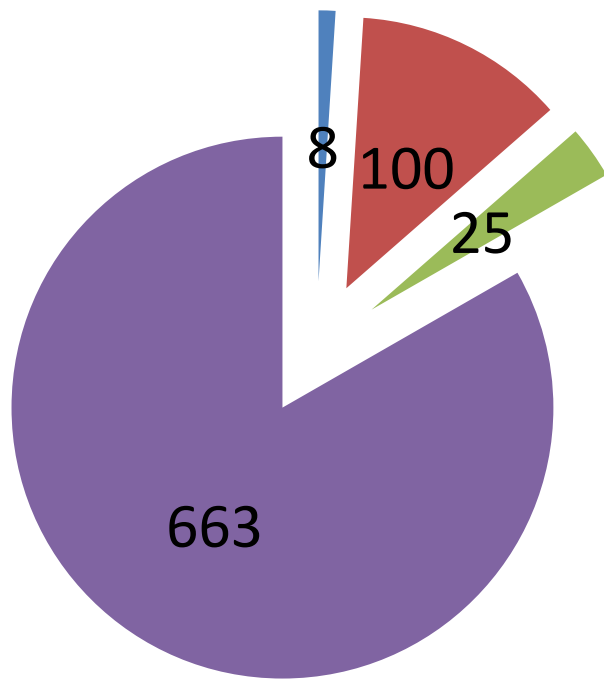
As of end-2013:

- **3,135 SOEs in which the government owns 51 percent more of the charter capital**
 - 32.2% GDP
 - 16.3 % industrial output
 - 33.3% domestic budget revenue (non oil)
- **796 SOE with 100% of State ownership:**
 - Total assets: 2,8 trillion VND (\$127 billion) or 74% GDP
 - Total debts: 1,5 trillion VND (\$67 billion) or 39% GDP)
 - By law, since 2014 only companies with 100% of state ownership can be defined as SOEs

Performance of SOEs

Contribution to SOE Revenue by category in 2013 (%)

Number of SOEs by category in 2013



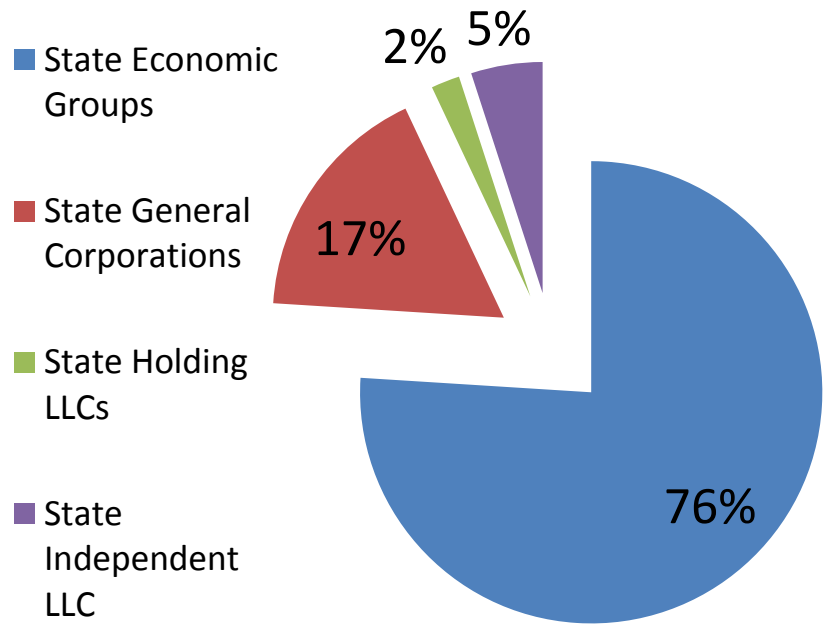
- State Economic Groups
- State General Corporations
- State Holding LLCs
- State Independent LLC

Source: MOF (2014)



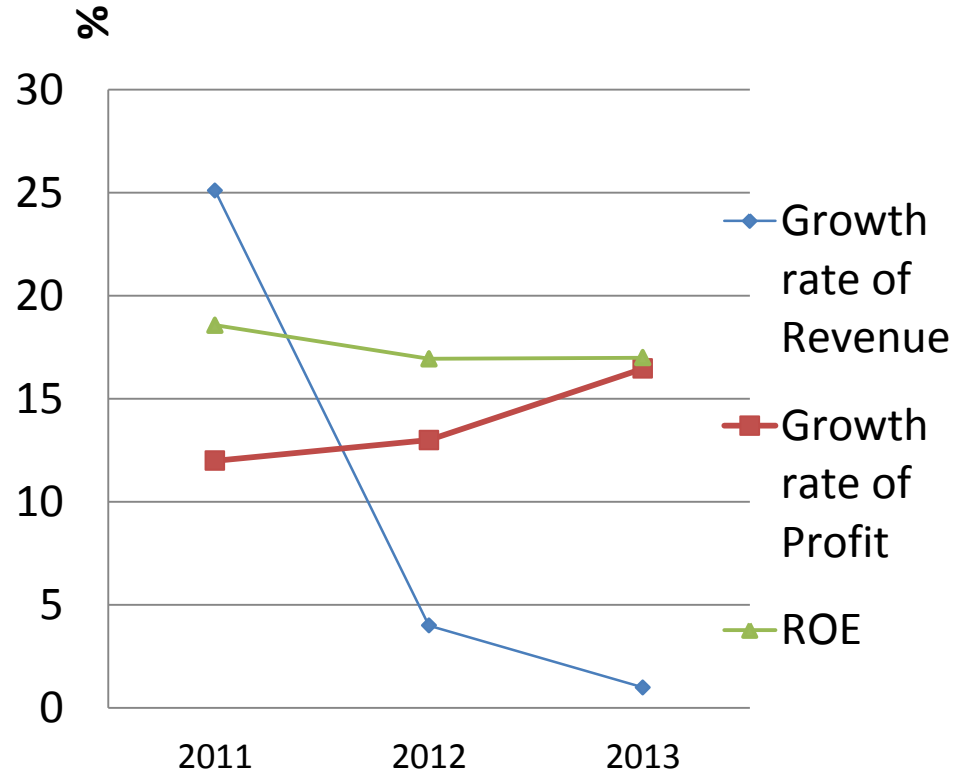
Performance of SOEs

Contribution to SOE profit by category in 2013



Source: MOF (2014)

Financial Performance of SEG & SGC





Performance of SOEs

RESOURCE UTILIZATION & RELATIVE CONTRIBUTION TO THE ECONOMY OF THREE SECTORS 2001-2010

	SOEs		Domestic Non-state		FDI	
	2001-05	2006-10	2001-05	2006-10	2001-05	2006-10
RESOURCE UTILIZATION (%)						
Investment	56.6	44.7	26.4	27.5	17.0	27.8
Credit	36.6	30.9				
CONTRIBUTION (%)						
GDP	30.0	27.8	46.7	46.1	14.6	17.9
Budget Revenue (non-oil)	19.6	17.6	6.7	10.3	6.6	10.5
Employment	43.5	23.1	40.1	54.8	16.3	22
New job creation	-4.1	-13.1	74.1	84.8	30.0	28.3
Industrial Output	28.9	25.5	28.3	34.3	42.7	40.1

Source: Vu Thanh Tu Anh (2014)

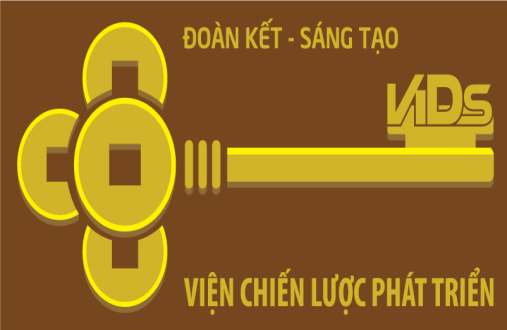


Performance Evaluation for SOEs in Vietnam

Legal Basis:

• Pre-2013:

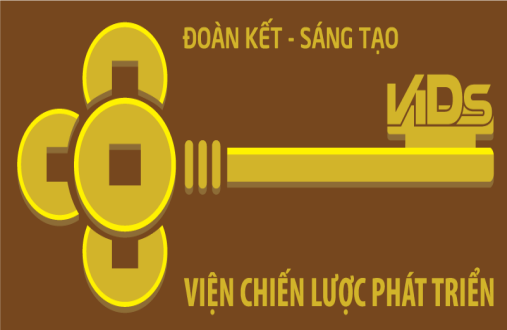
- SOE performance evaluation is mainly regulated by a decision of the Prime Minister
(Decision No. 224/2006/QĐ-TTg dated 10/6/2006)
- Prime Minister has the overall responsibility of the supervision and evaluation of the operational efficiency of SOEs
- Each line ministry is responsible for formulation and execution its own concrete regulations in adopting Performance Evaluation System



Performance Evaluation for SOEs in Vietnam

- **Evaluation Criteria:**

- 5 kinds of criteria for evaluation
 - ✓ Turnover and other incomes.
 - ✓ Profit and ROE
 - ✓ Overdue liabilities and the capability to pay due liabilities
 - ✓ Legal compliances
 - ✓ Supplying public goods and services
- 3 (A, B, C) grades of evaluation to each criteria



Performance Evaluation for SOEs in Vietnam

- **Evaluation Criteria:**

- 5 kinds of criteria for evaluation

- ✓ Turnover and other incomes.

- ✓ Profit and ROE

- ✓ Overdue liabilities and the capability to pay due liabilities

- ✓ Legal compliances

- ✓ Supplying public goods and services

All criteria are compared with that of the previous year

- 3 (A, B, C) grades of evaluation to each criteria



Performance Evaluation for SOEs in Vietnam

	A	B	C
Criterion 1: Revenue and other incomes compared with the previous year			
Agriculture, forestry, fisheries, mining sector (excluding oil and gas), mechanical engineering industry (manufacturing metal products, machinery and equipment):	Increase by 5% or more	Increase or decrease by less than 5%	Decrease by 5% or more
Processing sector; gas, water and electricity generation and distribution, oil and gas exploitation, transportation, warehousing, information and communication, trade, tourism, hotel and other services.	Increase by 7% or more	Increase or decrease by less than 3%	Decrease by 3% or more

Performance Evaluation for SOEs in Vietnam

	A	B	C
Criterion 2: Profit and ROE			
For SOEs except enterprises operating at planned losses	Profit > 0 and ROE higher than that of the previous year	Profit > 0 and ROE equal or less than that of the previous year	Profit < 0
For enterprises operating at planned losses	Loss less than planned	Loss = planned	Loss higher than planned

Performance Evaluation for SOEs in Vietnam

No.	Criterion	Class A	Class B	Class C
3	Overdue liabilities and capability to pay due liabilities	No overdue liabilities and a coefficient of the capability to pay due liabilities exceeding 1	No overdue liabilities and a coefficient of the capability to pay due liabilities of between 0.5 and 1	No overdue liabilities and a coefficient of the capability to pay due liabilities of under 0.5
4	Observance of current law provisions	No violations of current law provisions	Committing violations of current law provisions as already concluded by competent agencies but not seriously enough to be administratively sanctioned	Be sanctioned for administrative violations, or committed law violation

Performance Evaluation for SOEs in Vietnam

No.	Criterion	Class A	Class B	Class C
5	Supply of public goods and services	Topping the set outputs of products or volumes of services of prescribed quality standards	Achieving the set outputs of products or volumes of services of prescribed quality standards	Under achieving the set outputs of products or volumes of services or the products or services of substandard quality

Performance Evaluation for SOEs in Vietnam

- **Evaluation Process:**

SOE submits self-evaluation to supervising entity (parent company, line ministry, provincial government) for verification

Supervising entity completes performance evaluation reports and send to the Ministry of Finance (MOF) before June 30th of the next year

The MOF synthesizes reports to develop the overall report on performance and classification of SOEs



Performance Evaluation for SOEs in Vietnam

- On the basis of the classification results, SOEs are ranked class A, B or C

Type of SOEs	Class-A enterprises	Class-B enterprises	Class-C enterprises
Commercial SOEs	Having none of their criteria being of class C, of which criterion 2 and criterion 4 being of class A	The rest which are ranked neither class A nor class C	Criterion 2 being of class C or the other three criteria being of class C
Policy SOEs	Having none of the criteria being of class C and criterion 5 being of class A	the rest which are ranked neither class A nor class C	Having criterion 5 being of class C or criterion 5 being of class B while criteria 3 and 4 being of class C
State holding companies (SEG, SGC included)	class-A member enterprises and subsidiaries accounting for over 50% of the aggregate turnovers of the corporations and the whole corporation is making profits	the remaining corporations	class-C member enterprises and subsidiaries accounting for over 50% of the aggregate turnovers of the corporations



Performance Evaluation for SOEs in Vietnam

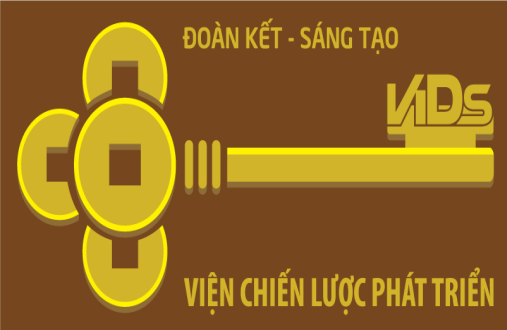
- Linkage between Performance and Remuneration of Board of Managers**

Criterion	Complete the Mission excellently	Complete the mission	Incomplete the mission
(i) Set aside reward fund for management and executive boards	Allowed	Allowed	Not Allowed
(ii) Maximum ratio of profit over self- mobilized capital mobilized can be set aside for reward fund	5%	2.5%	Not allowed



Performance Evaluation for SOEs in Vietnam

Criterion	Complete the mission excellently	Complete the mission	Incomplete the mission
iii. The maximum amount of profit set aside for reward fund			Not allowed
- SOE with BOM	Not exceed 500 million VND (or 23,809 USD)	Not exceed 250 million VND (or 11,900 USD)	Not allowed
- SOE without BOM	Not exceed 200 million VND (or 9,550 USD)	Not exceed 100 million VND (or 4,760 USD)	Not allowed
iv. The performance result for two consecutive years	Received the title of “a good manager” by authorized agencies and is considered for salary increase		Replace or dismiss chairman of BOM, CEO or director (if SOE without BOM);

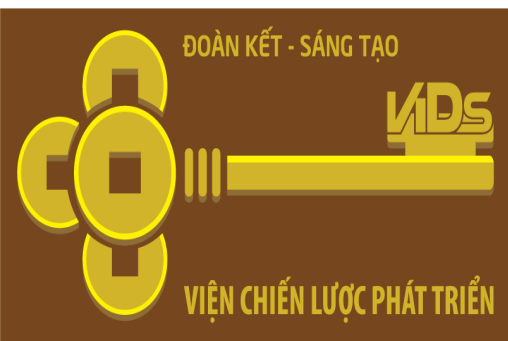


Key challenges

- **An evolving legal framework with frequent changes to laws and regulations regarding the evaluation and supervision of SOE performance**

From 2013-now:

- Decree 61/2013/NĐ-CP: effective date Aug 15, 2013 – expired Dec 1, 2015: Same evaluation method & techniques to that adopted pre-2013
 - Law on Investment of State Capital in Enterprises dated Nov 26, 2014
 - Decree 87/2015/NĐ-CP to replace Decree 61/2013/NĐ-CP: effective date Dec 1, 2015
- **No independent evaluating committee involves in the whole process**
 - **Criteria focus mainly on financial performance**
 - Too simple,
 - no linkage to
 - leadership of CEO,
 - organization management,
 - ethical management
 - satisfaction of customer



Thank You!

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