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

SUMMARY OF THE PROCEEDINGS

16-17 November 2015

Hanoi, Viet Nam

Sheraton Hanoi

With the support of the government of Korea

Co-organised with:

Korea Institute of Public Finance (KIPF)

Vietnam Institute for Development Strategies (VIDS)

Korea Development Institute (KDI)

Overview and highlights

Re-launching of the Asia SOE Network

- The Network meeting was opened by high-level representatives from the Ministry of Planning and Investment of Viet Nam, the Vietnam Institute for Development Strategies (VIDS), the Ministry of Strategy and Finance (MOSF) of Korea and the Chair of the OECD Working Party on State Ownership and Privatisation Practices (WP SOPP).

Recent experiences and prospects

- Participants discussed the revised *OECD Guidelines on Corporate Governance of State-Owned Enterprises* and means to ensure their effective implementation at the national level. Participants welcomed the heightened standards of ownership and corporate governance introduced by the revision of the Guidelines, in particular those bearing on the autonomy of boards of directors and the role of the state as owner.

- Five countries (China, India, Myanmar, Pakistan and the Philippines) provided an update on recent national SOE governance reforms, identifying priorities and discussing challenges in implementing a whole-of-government approach to state ownership.

- The Network reviewed progress in the implementation of SOE reforms in the host country, Viet Nam. Discussions highlighted that reforms have improved the governance of SOEs over the last two decades. However, a number of priority reform areas remain, including the need to enhance the global competitiveness of SOEs, to strengthen the independence of boards and to provide training and capacity building to SOE ownership and governance practitioners.

Thematic discussion: Good practices for performance management of SOEs in Asia

- The Network meeting provided a platform for structured policy dialogue and an exchange of practical experiences in implementing performance management systems for SOEs. Ten countries contributed detailed information on national practices in this domain (Bhutan, China, India, Indonesia, Korea, Myanmar, Pakistan, the Philippines, Singapore and Viet Nam).

- Participants agreed to provide comments and feedback on a report synthesising national practices towards performance management of SOEs in Asia, prior to its finalisation and public release.

The Asia SOE Network in 2016

- The Secretariat agreed to inform Network members of the date and venue of the 9th meeting. Members were invited to consider whether they could host the Network meeting in 2016.

- Network members agreed that the next meeting should feature updates on national progress in implementing reforms to improve SOE governance and performance. Proposed thematic areas included: strengthening the operational autonomy of independent boards; managing risk; and separating the ownership and regulatory functions of SOEs.

1. Opening session

In his opening remarks, the representative of the Ministry of Planning and Investment (MPI) in Viet Nam, **Mr. Dang Huy Dong**, congratulated the OECD for re-launching the Asia SOE Network and noted that the meeting was an important occasion for all participants to share insights and experiences on policies and governance practices of SOEs. He put forward that the presentations and discussions, as well as delegates' valuable opinions, would contribute to improving the effectiveness of the management of SOEs in Viet Nam. Mr. Dang elaborated on the Vietnamese economic development plan whose goal is to improve the economic efficiency and competitiveness, with a focus on restructuring public investment, SOEs and the banking system. He emphasised the role of the Asia SOE Network in raising awareness of the challenges related to the governance of SOEs in Viet Nam.

In his opening remarks, the president of the Korea Institute of Public Finance (KIPF), **Mr. Hyung-Soo Park**, noted that SOEs play a critical role in economic development and consequently in the quality of life of people, as they continue to provide essential public goods and services, including electricity, roads, airports and the like. However, SOEs by their nature often face conflicting objectives in their dual pursuit of serving the public interest and achieving economic efficiency. He put forward that striking the right balance between these dual objectives, amid dramatic changes in the business environment, is what the Network can contribute to achieving. He highlighted Korea's experience, since the 1997 Asian financial crisis, in implementing reforms to promote greater efficiency in the public sector. The Korean government carried out a large-scale privatisation and encouraged SOEs to institute autonomous and accountable management practices by introducing an effective performance evaluation system to reduce SOEs' inefficiency. These efforts have resulted in tangible outcomes with decreased debt levels for Korean SOEs and increased sovereign credit ratings. Mr. Park offered to share lessons from Korea's experience, particularly in implementing performance evaluation systems and other SOE-related reforms, with other Asian economies via the Network. He put forward that the Network can serve as an important foundation for establishing sound SOE policies in many Asian countries.

In his opening remarks, the Chair of the OECD Working Party on State Ownership and Privatisation Practices (WP SOPP), **Mr. Lars Erik Fredriksson**, thanked the Korean authorities for their consistent support of OECD work on SOEs, including in the Asian region. He discussed the role of the Network in seeking to identify common challenges related to SOE ownership and governance, in sharing best practices and in developing recommendations for effective reform and performance management. The Network will also issue topical studies on SOE governance and reform, comparing the practices of participating countries based on discussions at Network meetings. Mr. Fredriksson provided an overview of the SOE landscape worldwide and underlined key recommendations of the new *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (SOE Guidelines) developed to help governments ensure that SOEs operate efficiently, transparently and in an accountable manner. He concluded by reiterating the OECD's willingness to co-operate with Asian economies in sharing best practices in SOE governance via the WP SOPP and the Asia SOE Network.

In the first keynote address, a representative from the Vietnam Institute for Development Strategies (VIDS) (which co-organised the meeting), **Mr. Bui Tat Thang**, welcomed all participants and shared his thoughts on the road ahead for reforming SOEs in Viet Nam. The recent five-year plan builds on reforms commenced in 1980 and focusses on restructuring public investment, SOEs and the commercial banking system. The next five-year plan (2016-2020) will seek to strengthen these reform efforts. In Viet Nam, the SOE sector still accounts for a considerable share of GDP. Thus, improving the efficiency of SOE management could help bolster economic growth in Viet Nam. Mr. Tang shared Viet Nam's experience with on-going SOE and corporate governance reforms and suggested priorities for the work of the Network going forward. He expressed hope that the Network would provide an excellent opportunity for Viet Nam to learn more about the experiences of other countries, in order to promote SOE reform in the near future.

The second keynote address, by a representative of the Ministry of Strategy and Finance (MOSF) of Korea, **Mr. Bong-Hwan Cho**, discussed the implications of the revised standards of the SOE Guidelines on SOE policies in Korea. He mentioned that the revised SOE Guidelines would help to address current issues related to SOEs in Korea, such as excessive debts, reckless management, low productivity and the weak accountability of SOEs as public entities. The Korean government has prepared a proactive normalisation plan for debt reduction and business realignment. Phase one requires all public institutions to improve management practices. Phase two focuses on improving productivity and competitiveness. Mr. Cho mentioned several initiatives for phases one and two, such as the online system ALIO for disclosing SOE management information to the public and a peak salary system introduced as a performance-based approach to managing public institutions. Finally, he emphasised the important role of economic players who can lead reforms in each economy and the contribution of the Asia SOE Network to knowledge sharing. Lastly, he indicated that Korea is ready to provide full support to the Network, to actively take part in its discussions and to help develop a structured dialogue for exchanging experiences among participating economies.

2. Good practice and best practice: An evolving consensus in OECD and Asia

The session Chair, **Mr. Selim Yesilbas**, a representative of the Turkish Treasury, explained the objectives of the session and introduced the two speakers and two discussants.

The first presentation dealt with the SOE Guidelines, which give concrete advice to governments on how to manage more effectively their ownership responsibilities, thus helping to make SOEs competitive, efficient and transparent. **Mr. Hans Christiansen**, Senior Economist at the OECD, explained the usefulness of the SOE Guidelines to policy makers and gave an overview of their 2014-2015 revision. The SOE Guidelines are an OECD instrument outlining policy recommendations with which all OECD members associate themselves. They are primarily addressed to policy makers and public officials responsible for exercising the ownership of enterprises. Non-member countries can engage in a review of their SOE governance practices in order to adhere to the SOE Guidelines. There are six main priorities in the Guidelines: i) ensuring a rules-based environment; ii) reinforcing the ownership function; iii) treating shareholders equitably; iv) maintaining high standards of transparency and disclosure; v) promoting sound stakeholder relationships; and vi) establishing effective boards of directors. The separation of the state’s ownership and regulatory functions is a key tenet of the SOE Guidelines. The OECD consensus holds that each decision affecting SOEs should take place at the appropriate level following a “hierarchy of responsibilities” (whole-of-government, ownership entity, board and management). The revised SOE Guidelines, among other things, include a new introductory section on “Applicability and Definitions”, a new chapter on defining and communicating the rationales for state ownership and a revamped chapter on maintaining a level playing field when SOEs undertake economic activities in the marketplace.

Mr. Madhukar Gupta, representing the Department of Public Enterprises (DPE) of the Ministry of Public Enterprises and Heavy Industries of India, gave an overview of the SOE landscape in India and discussed good standards of SOE governance. According to the 2013 Companies Act, a government company is any company in which not less than 51% of the paid-up share capital is held by the State. There are 290 Central Public Sector Enterprises (CPSEs), of which 234 are operational. These are divided into four categories (A, B, C and D) on the basis of quantitative, qualitative and other parameters. The Public Enterprise Survey is a consolidated report on the performance of all CPSEs presented to the Parliament annually since 1960. As the ownership entity, DPE formulates policies concerning the functioning of all CPSEs. It lays down policy guidelines on performance improvement and evaluation, autonomy, financial delegation and personnel management. Its main task is to collect, evaluate and maintain information on CPSEs. The DPE has implemented a programme of research, development and consultancy services on challenges faced by CPSEs since 2007-2008. The activities include: organising conferences, seminars and workshops on issues affecting CPSEs; undertaking thematic studies; providing consultancy services; and undertaking other activities aimed at encouraging best practices and promoting knowledge exchange. A skills development training programme for executives and employees of CPSEs became operational in 2012-2013. The objective is to impart training to the personnel of CPSEs to improve their knowledge and skills and to increase the efficiency, profitability and overall performance of CPSEs.

Mr. Changyong Choi, a representative of the Korea Development Institute (KDI), put forward three areas to consider when discussing good practices for SOE governance, namely (i) the role of SOEs; (ii) how to manage them competitively and (iii) risk management. He noted that sound SOE governance requires: organising the ownership function with a view to achieving the right balance between centralised and decentralised oversight; ensuring independence from political interference; maintaining a balance between SOEs' commercial and non-commercial objectives; and improving the efficiency of SOEs through performance management. He asked the speakers for opinions about these key considerations.

Ms. Tricia Yeoh, a representative of the Institute for Democracy and Economic Affairs (IDEAS) in Malaysia, discussed SOE governance challenges in Malaysia as compared to the recommendations of the SOE Guidelines. SOEs, or Government Linked Companies (GLCs) in national nomenclature, can be owned by the federal government through various investment vehicles, and also through ministries. GLCs play an important role in the development of the national economy and invest at a higher rate than private companies. She introduced the reform process and challenges related to SOEs and governance in Malaysia. GLCs have done relatively well overall, especially with the GLC Transformation Programme initiated by the government. However, there are exceptions: very poorly-governed GLCs, particularly those entities set up to carry out off-budget expenditure. Because of these exceptions, it is necessary to have an independent judicial system, an anti-corruption commission, better rules of law, robust enforcement and regulatory agencies such as the central bank, securities commission, companies' commission and Bursa Malaysia. The SOE Guidelines have been welcomed, as they benefit the Malaysian reform process and set a high standard for the corporate governance of SOEs.

In the open discussion, participants raised several questions concerning the implementation of the SOE Guidelines and follow-up activities of the WP SOPP, and discussed effective ways to implement them in Asian economies. The speakers mentioned the different roles of SOEs as well as, in some countries, the process of privatising many of them. Participants stressed that privatisation is not the only solution to address poorly functioning SOEs. Timely reform of SOE ownership and corporate governance would be an adequate alternative and SOEs' role in the national economy and in furthering development also need to be considered. The participants discussed the SOE Guidelines, highlighting the recommendations regarding the autonomy of boards of directors and clarifying the state's role as an owner. The discussion also focused on difficulties in providing standardised advice when SOEs have different corporate forms and pursue different types of objectives. This also poses a challenge for establishing criteria against which to measure performance.

3. SOE governance reform in Asian countries: Recent experiences and prospects

This session was chaired by **Mr. Bong-Hwan Cho** and focused on recent experiences and prospects for SOE reform in Asian economies. Each speaker discussed progress made in implementing reforms and in assessing national priorities. After five national presentations, there was an open session on reform priorities.

Mr. U.D. Choubey, a representative of the Standing Conference of Public Enterprises (SCOPE) in India, first explained the main objectives and roles of SCOPE. To improve the effectiveness of SOEs, there are several reform initiatives. These include the MoU system, categorising SOEs and listing SOEs in the stock market. However, a number of challenges remain. These include a rapidly changing corporate environment, the need to enhance SOEs' global competitiveness, the need to promote board autonomy and a demand for training and capacity building. To overcome these challenges, the government needs to better separate SOEs' ownership and management and to strengthen SOEs' autonomy by reinforcing the independence and professionalism of boards. Other priority reforms include improving performance management through better talent management and reviving financially stressed PSEs.

Mr. Aung Naing Oo, a representative of the Investment Promotion Division of the Ministry of National Planning and Economic Development of Myanmar, outlined the general SOE situation in Myanmar. Under Section 3 of the SOE Law in 1989, the Myanmar Government has the sole right of ownership in 34 SOEs in various industries, including: telecoms, airlines, banking and finance, television, electricity, defence, gas and petroleum, mining and fishery and forest plantation. Although SOEs represented only 3% of national GDP in 2014-2015, they accounted for 57% of total exports, reflecting their high concentration in the natural resources sector. Currently, the government is considering three avenues for reform in co-operation with 14 ministries: (i) joint operations with the private sector; (ii) leasing to the private sector; and (iii) joint ventures with the private sector. The main objectives of SOE reform in Myanmar are to improve SOEs' efficiency and commercial orientation, strengthen their legal framework and strengthen the government administration in its relationship to SOEs. To implement efficient reforms, the government plans to upgrade the SOE law, enact a law on corporatisation and privatisation and strengthen the corporate governance of SOEs.

Mr. Yuan Liu, a representative of the State-owned Assets Supervision and Administration Commission (SASAC) of China gave an overview of SOE reform plans in China. To prompt in-depth SOE reform, the government published guidelines on deepening SOE reform in September 2015. The main goals, by 2020, are to establish a sound state-owned assets management system, a modern corporate system and market-oriented mechanisms for enterprise operation, in line with the development requirements for the "socialist market economy". China also plans to further develop a number of economically important SOEs that have high innovation capacity and international competitiveness. Five major priorities under the planned reforms are: (i) defining each SOE as either a commercial entity or a public welfare entity; (ii) modernising the ownership system of SOEs; (iii) focusing on capital management (and improving its quality); (iv) strengthening market mechanisms by means of equitisation and listing of SOEs; and (v) enhancing the supervision of SOEs' asset management.

Mr. Fuad Hashimi, a representative of the Pakistan Institute of Corporate Governance (PICG), described the SOE landscape in Pakistan. There are 237 SOEs in Pakistan, including 18 listed Public Sector Companies (PSCs). They operate in many sectors, including notably: infrastructure; development and tourism; chemical, engineering and other manufacturing industries; finance; electricity; and telecommunications. The contribution of PSCs to GDP was roughly 10% in 2014-2015. The Pakistan government developed a corporate governance code for PSCs in 2007. It 2013, it elaborated guidelines for reporting on compliance with the code and ensuring the independence of PSCs' management through external audits. Progress has been achieved in a number of areas. Of note, the directors and CEOs of PSCs undergo annual evaluations; 40% of board members must be independent; recurring related party transactions require approval by shareholders; and PSCs must establish an internal audit system. Remaining priorities include: communicating the rationales for state ownership; improving the transparency of board nominations; and strengthening disclosure practices.

Ms. Angela E. Ignacio, a representative of the Governance Commission for Government-Owned and Controlled Corporations (GOCCs) in the Philippines, described the national SOE landscape. There are 102 GOCCs active in a number of sectors, estimated to have contributed around 7.2% to GDP in 2014. To implement SOE governance reforms, the 2011 Republic Act established the Governance Commission as a central advisory, monitoring and oversight body. It has the authority to formulate, implement and co-ordinate policies on corporate governance of SOEs, including in the areas of stakeholder relations and transparency and disclosure. The Governance Commission developed a code of corporate governance for

GOCCs in 2012, which notably required boards to identify major shareholders and report on their ownership share in the GOCCs. Reforms were geared towards expanding disclosures on performance and operations, as well as increasing the depth and usefulness of information provided to the public. There will be an Integrated Corporate Reporting System in 2016 that will serve as a central online repository of information on GOCCs for the government and the public.

In the open discussion, participants exchanged recommendations for SOE policy reform, notably underlining the need to better distinguish between the ownership and management roles and to promote SOEs' autonomy through more independent and professional boards.

4. SOE governance reform in Viet Nam: Experiences and prospects

This session was chaired by **Mr. John Lim**, a representative of Boustead Projects Ltd. and Immediate Past Chairman of the Singapore Institute of Directors (SID). The objective was to discuss the current status of ongoing SOE reforms in Viet Nam.

Mr. Nguyen Duy Long, a representative of the Ministry of Finance (MOF) of Viet Nam, presented the 2011-2015 SOE restructuring process, which focused on improving their corporate governance and profitability. The goals of the restructuring process were to improve SOEs' market-orientation, enhance transparency and address stakeholder interests. Since 2001, 527 enterprises have either been equitised or are expected to be equitised. As a result, the amount of state capital divested from non-core sectors, as well as the performance of SOEs, has considerably improved. The Vietnamese government also seeks to facilitate SOE divestment between 2016 and 2020. To accelerate the restructuring of SOEs, the government aims to strengthen transparency, both concerning the activities of individual SOEs and concerning how the state exercises its ownership rights as stipulated in the law. There is also a need to enhance performance monitoring and evaluation of SOEs. In addition, the government plans to establish an agency with sufficient competences and authority to effectively perform the state ownership function. The government plans to take measures to professionalise and enhance the capacity of SOE boards. It also plans to improve recruitment practices for SOE managers and introduce strict sanctions for their poor performance.

Ms. Lan Nguyen, a representative of the Ministry of Planning and Investment (MPI) in Viet Nam, explained the significant decrease in the number of SOEs over the last 25 years. Currently, there are roughly 550 wholly state-owned enterprises, accounting for 1% of total enterprises and 20% of GDP. The current 5-year plan contains an SOE chapter and a development strategy regarding the restructuring of SOEs, the nomination of their board chair and members and major investment projects. Ms. Nguyen underlined that SOE boards should act as representatives of the state as owner and make decisions on SOEs' operations, the nomination and remuneration of directors, annual business plans and investment projects. Boards are responsible for the management, preservation and use of state capital invested in SOEs. She further underlined that SOEs are responsible for disclosing key corporate information both via their websites and to line ministries. This information includes the development strategy, the annual business results, the governance structure and any organisational restructuring, bi-annual and annual financial statements and remuneration polices. Remaining SOE reform priorities in Viet Nam include ensuring a proper separation between the state's ownership and regulatory functions, balancing SOEs' commercial and non-commercial objectives and strengthening disclosure and transparency.

Mr. Sang-Woo Nam, a representative of the Korea Development Institute (KDI), spoke about general capital market developments and the Korean experience. The overarching objective of SOEs in Korea is to contribute to economic growth and development. SOEs are often subject to conflicting objectives, making it difficult to assess their performance against private sector benchmarks. As solutions he recommended restructuring and equitising SOEs, strengthening the state ownership function and improving the internal governance of SOEs. To be successful, the equitisation of SOEs must take place against a backdrop of well-functioning capital markets, high standards of transparency and shareholder rights and limited political inference in the decision-making process. Mr. Nam also discussed the performance evaluation system for SOEs in Korea, which is undertaken on the basis of a management contract and results in a performance report elaborated by an independent evaluation team. The results of the performance evaluation inform executive incentives and sanctions and impact the following year's budget plan and salary ceiling. The results are disclosed in both an annual report and an open online information system with 37 items. Some potential issues with the current system remain, notably that the performance evaluation is arguably too standardised, involves too many goals for management and is subject to excessive supervision by line ministries.

Mr. Takashi Sakakibara, a representative of the Japanese International Cooperation Agency (JICA) in Viet Nam, provided an overview of projects that JICA is currently undertaking regarding SOEs and state-owned banks. The main purpose of the SOE project in JICA is to support equitisation through accelerating the sale of shares to strategic investors. Currently shares in only 3 enterprises among 247 equitised SOEs have been transferred to foreign investors, including one through a joint venture. To strengthen the functions of the State-Capital Investment Corporation (SCIC), it could be useful to establish voting and corporate governance guidelines that cover operational issues, remuneration, the process for amending articles of association and making a share issuance request and miscellaneous items related to the annual general meeting. Mr. Sakakibara argued that the equitisation process of SOEs in Viet Nam is not going well. To attract strategic investors, it is essential to correct an apparent imbalance between the rights and duties of shareholders. The SCIC should become the leader of corporate governance for equitised SOEs, and enhance their competitiveness in the marketplace.

In the open discussion, participants discussed the need to deepen the SOE reform process in Viet Nam. Among the reform priorities identified were to strengthen transparency and information disclosure and to establish strong and independent boards to avoid political interference in SOEs' operational decisions. Participants also noted the need to build the capacity of managers (CEOs) and underlined the usefulness of executive incentives and sanctions in promoting improved performance.

5. Good practices for performance management in Asia

This session, which was divided into two parts, was moderated by **Mr. Wonhee Lee**, a representative of the Korea Institute of Public Finance (KIPF) and **Mr. Lars Erik Fredriksson**, the Chair of the OECD Working Party on State Ownership and Privatisation Practices. The objective was to discuss key elements necessary to improve the performance of SOEs in Asia.

Mr. Damber Kharka, a representative of Druk Holding and Investments (DHI) in Bhutan, spoke about the SOE landscape in his country, where there are both wholly state-owned and partly state-owned enterprises. As an ownership entity, DHI has been managing a portfolio of SOEs since 2007. There are currently 20 SOEs controlled and linked with DHI, including 8 SOEs under the ownership of line ministries. The main purpose of the performance system of SOEs is to improve enterprise efficiency and performance, based on a compensation model. The performance evaluation system features an annual compact process that sets targets, monitors their achievement and evaluates performance in four areas: financial performance; customer service; corporate governance; and public policy-related performance. A performance-based incentive system (PBIS) is in place for CEOs and an employee-appraisal system (EAS) for other staff. Performance results impact annual bonus levels, promotion decisions and other HR-related actions. As a result, there has been high growth (22%) in SOEs' net worth since 2009. A number of initiatives have been undertaken in Bhutan to share practices in this domain, including a "chairmen's forum", a "CEO roundtable meeting", as well as, at the level of individual SOEs, board meetings and professional training programmes for directors.

Mr. Yuan Liu gave described the general status of Chinese SOEs—their framework and development—and the results of their performance assessment system. In 2014, SOEs' total assets were valued at 102 trillion RMB and they employed 27 million people. There are 379 listed central SOEs. SASAC is responsible for managing, monitoring and evaluating SOEs' performance according to a sliding scale that is linked to incentives. In 2010, SASAC introduced an EVA (economic value added) element into the process, allowing for a more accurate performance assessment based on long-term value creation. The results of the performance evaluations point to remarkable improvements in the economic benefits of SOEs since 2010 when SASAC was first established. Other improvements include more structured decision-making processes, better functioning management and increased research and development.

Mr. Ram Kumar Mishra, a representative of the Institute of Public Enterprise (IPE) in India, gave an overview of the SOE landscape, ownership model and performance evaluation system in India. There are 290 central SOEs, of which 46 are listed enterprises, altogether accounting for 11.5% of GDP in 2013-2014. India has a decentralised ownership model, including a large number of ministries, public institutions and a central coordinating agency in the Department of Public Enterprises. SOEs in India undergo a performance evaluation based on an annual Memorandum of Understanding (MoU), a signed document identifying targets to be achieved during the financial year. In 1985, the MoU system was introduced by the Group of Ministers (GOM) with the aim of according SOEs greater autonomy from government control, while increasing the accountability of SOE managers by introducing explicit performance targets. A High Powered Committee (HPC) was charged with assessing implementation of the MoUs by both SOEs and the responsible administrative ministries/departments. A dedicated Task Force for MoUs is charged with setting targets, assigning weightages to parameters and undertaking evaluations. The task force has sub-groups called "syndicates", each of which is charged with monitoring SOEs in a specific sector.

Mr. Madhukar Gupta from the Department of Public Enterprises (DPE) in India provided supplementary information on India's performance evaluation system. The DPE has elaborated policy guidelines on performance evaluation and also collects, evaluates and maintains information on PSEs. Mr. Gupta noted that the Task Force for MoUs was established as a neutral and independent body of experts that assists the HPC and the DPE in setting annual MoU targets of CPSEs and undertaking the performance evaluation. Performance is evaluated based on both financial and non-financial parameters. Recent improvements to the performance evaluation system have notably taken place through the establishment of an online system for disclosing MoUs and related benchmarking studies. The MoU system features performance-related pay, which can reach up to 200% of the basic salary. It also includes MoU excellence awards and certificates.

Mr. Antonius Alijoyo, a representative of the National Committee on Governance in Indonesia, presented the performance evaluation and monitoring system of SOEs (in Indonesian vernacular, Badan Usaha Milik Negara, BUMN). There are two categories of SOEs in Indonesia: public utility enterprises and limited liability SOEs. As of 2014, the SOE sector included 119 SOEs, including 20 listed SOEs, 85 non-listed SOEs and 14 special purpose entities. SOEs are managed by a board of directors and overseen by the Ministry of SOEs (MOS), which is responsible for evaluating SOEs' overall performance. The method and criteria for performance evaluations are outlined in the KPKU-BUMN (Kriteria Penilaian Kinerja Unggul-Badan Usaha Milik Negara), which seeks to identify corporate strengths and opportunities for improvement, as well as to guide the development and implementation of corporate plans. Based on interviews and the examination of documents according to seven financial and non-financial indicators (leadership, strategic plan, focus on customers, knowledge of management, focus on labour, focus on process and business performance), the MOS publishes an annual report on the performance of SOEs. Evaluation results can impact the CEO's annual remuneration levels for the following fiscal year as well as the salary or honorarium accorded to board members and commissioners.

Mr. Hanjun Park, a representative from the Korea Institute of Public Finance (KIPF), discussed the performance evaluation system for SOEs in Korea. The state-owned sector is composed of 316 public institutions (30 public corporations, 86 quasi-governmental institutions and 200 non-classified public institutions). Korea has a centralised ownership model, with the Ministry of Finance serving as the state ownership entity. The Ministry has overseen performance management of SOEs since 1984. The performance evaluation system seeks to improve SOE efficiency and management incentives. Performance evaluations are undertaken annually for all public institutions by a temporary team of 160 experts. The assessment criteria include both qualitative and quantitative elements in the following areas: i) business strategy and social contribution; ii) operational efficiency; iii) management of organisation; human resources and performance; iv) financial budget management performance; v) management of remuneration and benefits; and vi) a comprehensive evaluation of the business plan, operations and output. Evaluations result in a score (S, A-E) linked to the amount of performance bonus accorded to each employee and the CEO. However, this is only a one-year performance-basis evaluation, and is too standardised a model to cover all important characteristics of public institutions.

Ms. Khine Khine Nwe, a representative of the Investment Promotion Division of the Ministry of National Planning and Economic Development in Myanmar, spoke about the general status of SOEs and their reform process since the 1990s. The Myanmar government recently reformed its currency exchange regime and is preparing to initiate operations to establish a capital market by the end of 2015. The country has undertaken various reforms relating to existing SOEs, to improve both the country’s economy and the efficiency and effectiveness of the government’s functions and budget. Myanmar notably liberalised the telecommunications sector in 2013 and improved the autonomy of commercial telecoms operators. The government plans to improve SOEs’ commercial orientation by defining clear objectives, strengthening accountability and improving human resources management.

Mr. Abdullah Yusuf, a representative of Public Sector Committee and Institute of Chartered Accountants (ICAP) in Pakistan, presented best practices for performance management in Pakistan. There are 170 SOEs (public sector companies, PSCs), including 122 commercial PSCs in a range of sectors including energy, trading, finance, services, transportation, industrial and engineering, and promotional activities and advocacy. PSCs altogether have 218,527 employees; total assets which account for 25.6% of GDP; and net profit representing 0.9% of GDP. Line ministries are responsible for monitoring and managing PSCs. They are undertaking a Project to Improve Financial Reporting and Auditing (PIFRA) that aims to build capacity in project management, financial accounting and budget oversight. Currently, there is no formalised monitoring and evaluation system of PSCs, although line ministries can monitor and assess SOEs’ performance at any time. The Securities and Exchange Commission of Pakistan (SECP) issues guidelines and rules to improve corporate governance practices in SOEs and support implementation of the 2013 Corporate Governance Rules. It is obligatory for SOEs to prepare quarterly and annual financial statements and submit these to the SECP. In the last part of his presentation, he presented best practices in New Zealand, India, Singapore and Malaysia, as well as providing ways to move forward to strengthen PSCs via restructuring and capacity building of corporate governance, in order to attract private investment.

Mr. Cesar L. Villanueva, a representative of the Governance Commission for GOCCs, discussed SOE performance management in the Philippines. There are 102 GOCCs in the Philippines, whose revenue accounted for 7.59% of GDP in 2014-2015. Based on performance agreements negotiated annually between the GCG and each GOCC board, the performance evaluation system uses a balanced scorecard approach, consisting of 8 to 25 indicators which inform the assessment of individual board members. The balanced scorecards for GOCCs include indicators such as social impact, finance, stakeholder relations, internal processes and learning and growth. 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 and to benefit from performance-based incentives. Currently, 85 GOCCs use performance agreements with GCG.

Mr. John Lim discussed elements of good practice for performance management in Singapore. SOEs with predominantly commercial activities are not subject to any special regulations. All commercial SOEs are corporatised and many of them are listed. Performance evaluation and management are key areas of focus for shareholders and board members. Temasek Holdings, overseen by the Ministry of Finance, has been responsible for managing investments in various sectors of the economy since 1974. All of its assets are managed on the basis of commercial principles. Performance evaluations undertaken by Temasek focus on the wealth added in dollar terms based on returns against risk-adjusted hurdles. They assess performance in four areas: Commercial, Operations, People and Stakeholders (COPS). The evaluations emphasise long-term over short-term, seek to align employee and shareholder interests and prioritise organisational performance. Economic value added (EVA) is used only for the evaluations of senior management. Evaluation ratings are on a five-point scale and there are bonus pools for employees.

Ms. Huong Nguyen, a representative of the Vietnam Institute for Development Strategies (VIDS), presented the performance evaluation system and key challenges in Viet Nam. Since 1992, SOE reform has changed SOE business practices and contributed to economic transformation. Currently, there are 3,135 companies with majority state ownership, including 796 that are wholly-owned. SOE performance evaluations are mainly regulated by a decision of the prime minister, who since 2006 has overall responsibility for supervising the operational efficiency of SOEs. Each line ministry is responsible for the formulation and execution of its own regulations in implementing the performance evaluation system. The evaluation examines several performance areas, including turnover and other incomes, profit and return on equity, overdue liabilities and the capability to pay due liabilities, legal compliance and supplying public goods and services. The evaluation process consists of the following three steps: i) the SOE submits a self-evaluation to the supervising entity for verification; ii) the supervising entity completes performance evaluation reports and sends them to the Ministry of Finance by June of the following year; and iii) the MOF synthesises all performance evaluation reports. Evaluation results impact board member remuneration levels. Among the potential issues with the current system are the fact that no independent evaluation committee is involved and that the criteria focus mainly on financial outcomes without considering CEO leadership, organisational management, ethical management and stakeholder relations.

Mr. Hans Christiansen, acting as the first discussant, explained the content of the background documents for the session. Participants had been asked to respond to questionnaires issued prior to the Network meeting about national practices towards SOE performance evaluation and management. He invited participants to provide feedback on the report within three weeks after the meeting, following which it would be enriched with additional information and finalised. He discussed the criteria used in performance evaluations, highlighting the risk that indicators become too complex and noting difficulties when SOEs are expected to undertake corporate social responsibility activities without clearly defined objectives. Participants discussed the need to manage SOEs' resources more efficiently and underlined difficulties with evaluating the performance of SOEs that have different types of objectives.

Mr. Seungju Baek, Senior Policy Analyst at the OECD, acted as the second discussant, giving an overview of the general characteristics of SOE performance management systems and describing practices in Pakistan, the Philippines and Viet Nam. He noted that to implement successful performance management systems, it is necessary to clearly define performance targets and indicators, in order to measure the different levels of achievement. It is also important to ensure the independence and objectivity of the evaluations. Performance evaluation systems should also be continually improved through in-depth research and policy reform efforts.

6. Concluding session

Concluding remarks were made by **Mr. Bui Tat Thang, Mr. Lars Erik Fredriksson** and **Mr. Wonhee Lee**. They underlined that the event had offered a valuable opportunity for Network participants to discuss common SOE reform challenges and priorities, to share updates on ongoing policy reforms in participating economies and to exchange practical experiences with implementing SOE performance evaluation and management systems. KIPF expressed their interest in supporting the 2016 meeting of the Asia SOE Network and encouraged participants to attend. They also proposed that a country participating in the Asia SOE Network (still to be identified) serve as the host country.