State-Owned Enterprises in Asia: National Practices for Performance Evaluation and Management

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Foreword

This report provides an overview of national practices towards performance evaluation and management of state-owned enterprises (SOEs) in 11 Asian economies (Bhutan, People's Republic of China, India, Indonesia, Kazakhstan, Korea, Myanmar, Pakistan, Philippines, Singapore and Viet Nam). It notably examines the degree of formalisation of performance evaluation systems, the types of financial and non-financial indicators used to measure SOE performance and the extent to which results inform executive remuneration and sanctions.

The report is the result of the ongoing work of the OECD-Asia Network on Corporate Governance of State-Owned Enterprises, which provides a forum for policy makers in Asia to share good practices for improving the performance of SOEs through strengthened corporate governance. The findings draw primarily on national responses to a questionnaire developed jointly by the Korea Institute of Public Finance and the OECD Secretariat. The report was prepared by Hans Christiansen, Korin Kane and Yunhee Kim of the Corporate Affairs Division of the OECD Directorate for Financial and Enterprise Affairs.

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Acronyms

CPCS	Compensation and position classification system (Philippines)
CPSE	Central Public Sector Enterprise (India)
DPE	Department of Public Enterprises (India)
GCG	Governance Commission for GOCCs (Philippines)
GLC	Government-linked company (Malaysia)
GOCC	Government-owned or –controlled corporations (Philippines)
HRM	Human resources management
ICRS	Integrated corporate reporting system (Philippines)
KPI	Key performance indicator
MOF	Ministry of Finance
MoU	Memorandum of understanding
MoWP	Ministry of Water and Power (Pakistan)
PBB	Performance-based bonus (Philippines)
PBI	Performance-based incentive (Philippines)
PBVA	Performance based variable allowance (Bhutan)
PCG	Putrajaya Committee on Government-Linked Companies High Performance (Malaysia)
PED	Performance evaluation of directors (Philippines)
PES	Performance evaluation system (Philippines)
PLC	Performance-linked compensation
PRP	Performance-related pay
PSC	Public sector company (Pakistan)
ROE	Return on equity
SASAC	State-Owned Assets Supervision Commission (China)
SCIC	State Capital Investment Corporation (Viet Nam)
SECP	Securities and Exchange Commission of Pakistan

1. Introduction

This report takes stock of national practices towards performance evaluation and monitoring within the state-owned enterprise (SOE) sectors of the following economies (in alphabetical order): Bhutan, People's Republic of China (hereafter China), India, Indonesia, Kazakhstan, Korea, Myanmar, Pakistan, Philippines, Singapore and Viet Nam.

It is based on responses to a questionnaire that was developed by the Korea Institute of Public Finance (KIPF) in co-operation with the OECD Secretariat. (A copy of the questionnaire is provided in Annex A.)

Questionnaire responses were received and discussed in "peer review" mode in the context of the 8th meeting of the OECD-Asia Network on Corporate Governance of State-Owned Enterprises (SOEs) held in Hanoi, Viet Nam in November 2015 (Box 1).

Box 1. **The OECD-Asia Network on Corporate Governance of State-Owned Enterprises**

The OECD-Asia Network on Corporate Governance of State-Owned Enterprises (Asia SOE Network) provides a forum for the governments of Asian countries and corporate governance practitioners to share good practices and identify common priorities for strengthening the corporate governance of SOEs. Its objectives are to:

- Raise awareness of all concerned constituencies on the importance and challenges related to the better corporate governance of SOEs;
- Evaluate current SOE corporate governance policy frameworks and practices, and benchmark these against international good practice as described in the OECD Guidelines on Corporate Governance of State-Owned Enterprises;
- Influence policy making by providing a forum in which policy makers, practitioners and experts can share knowledge and experience among themselves and with their OECD peers;
- Support viable and effective reforms in the area of SOE corporate governance, by discussing and analysing policy options, developing relevant recommendations and agreeing on priorities for reforms adapted to the conditions in Asian economies.

The Asia SOE Network was first established in 2006 and, after a two-year hiatus, was re-launched in 2015 with the support of the government of Korea. As before, the new phase of the Network seeks to identify common challenges related to SOE ownership and governance, to share good practices and to develop recommendations for effective reform and performance management.

Source: www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprisesinasia.htm.

The report is organised as follows. Section 2 provides an overview of key internationally recommended good practices in the area of performance evaluation and management. Section 3 describes the main characteristics of SOE sectors and the institutional arrangements for exercising the state ownership function in the surveyed Asian countries. Section 4 describes the main characteristics of SOE performance evaluation and management systems in Asia, examining in particular: the presence and scope of performance evaluation systems; the indicators employed to assess SOEs' financial and non-financial performance; and the extent to which performance evaluation results are used to incentivise or sanction SOE executives.

2. Overview of SOE performance evaluation and management in Asia

Improving the performance of SOEs can be a complex undertaking given the many actors involved in their oversight and management. Among the frequently cited causes for SOEs' under-performance are conflicting or imprecise objectives, insufficient oversight and poorly attributed accountability. To encourage better performance, many governments over the past few decades have ramped up their efforts to clarify SOEs' financial and non-financial objectives, measure performance against quantifiable targets and make this information public. A number of governments – including in Asia, as will be shown in the following sections – go one step further and integrate the results of performance evaluations into personnel management decisions within individual SOEs, for example through performance-based pay systems for top executives, thus entering the domain of performance management.

The discipline of performance management has a long tradition in the private corporate sector. Historically, the term "performance management" referred primarily to the management and incentivising of individual personnel, thus falling squarely in the domain of human resources. However, today it is generally understood to refer to organisational-wide systems to measure, monitor and improve overall enterprise performance – with personnel management being but one component (Cokins, 2009)[1]. Performance management is also employed in the field of public sector governance, with perhaps the main difference being that the performance of public agencies is necessarily measured against a different set of metrics than those typically used by private corporations (e.g. the affordability, availability and quality of public services provided). But in both cases, performance management is about improving organisational efficiency to achieve better outcomes.

Performance management of SOEs can be seen as a discipline which adopts a bit of both the public and private sector approaches, depending to some extent on whether the SOEs remain under the direct control of the public administration (i.e. are essentially operated out of sector ministries), or have adopted corporate governance arrangements similar to private companies, with oversight by a board and operational decisions taken at arms-length from the public administration. In the former case, the state might be integrated at all corporate levels in the SOE, being directly involved in matters ranging from performance monitoring to personnel management (e.g. if SOE employees are also civil servants). In the latter case, the function of performance management will likely be carried out by a board of directors, mirroring practices in the private corporate sector, with the state providing guidance and monitoring performance in a structured manner from a distance. In practice, the respective roles of state actors and SOEs' corporate organs in carrying out the functions of performance monitoring, evaluation and management vary across countries, depending in large part on the institutional arrangements for state ownership.

2.1. Internationally recommended practices

The world's only multilaterally-endorsed guidance for SOE governance and ownership practices is provided by the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (the "SOE Guidelines"). This instrument was revised in 2014-15 in an inclusive process that involved all the OECD's member countries as well as a number of non-OECD Asian economies as participants (OECD, 2015a). Within the Asian region only the OECD member countries Korea and Japan have formally associated themselves with the Guidelines. However, a number of other participants in the Asia SOE Network have cited the SOE Guidelines as a point of inspiration for recent reforms of their national SOE sectors.

The SOE Guidelines further served as a point of departure for the Asia SOE Network's 2010 "Policy Brief on Corporate Governance of State-Owned Enterprises in Asia" which identified reform priorities for the region (OECD, 2010b – discussed in more detail below). Moreover, the previous edition of the SOE Guidelines served as a point of departure of the OECD guidebook entitled *Accountability and Transparency: A Guide for State Ownership* (2010a), which provides implementation advice relative to the Guidelines and which, in spite of the revision of the instrument, remains a valuable source of relevant and applicable advice to policy makers. This report is also briefly reviewed below.

a) OECD Guidelines on Corporate Governance of State-Owned Enterprises

The SOE Guidelines provide extensive recommendations that are of direct relevance to performance monitoring and management. In particular, Chapter II posits that *"the state should act as an informed an active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness"*. When the state is the sole owner of an enterprise this implies that the whole range of performance monitoring functions are internal to the state, whereas in majority-owned SOEs the oversight functions naturally befalls the state in unison with other (minority) shareholders. Chapter II goes on to propose further details, namely *"[the state's] prime responsibilities include:*

[…]

3. *Setting and monitoring the implementation of broad mandates and objectives for SOEs, including financial targets, capital structure objectives and risk tolerance levels;*

4. *Setting up reporting systems that allow the ownership entity to regularly monitor, audit and assess SOE performance, and oversee and monitor their compliance with applicable corporate governance standards;*

[…]

7. *Establishing a clear remuneration policy for SOE boards that fosters the long- and medium-term interest of the enterprise and can attract and motivate qualified professionals."*

Points 3 and 4 are of course integral to the issue of performance management, in that they concern the setting and monitoring of operational (financial and non-financial)

objectives. Point 7 relates specifically to the incentivisation of boards of directors, including with respect to the fulfilment of performance criteria[2].

The implementation of the SOE Guidelines is further informed by the so-called "annotations" that provide practical guidance for public officials charged with exercising the ownership function of enterprises. Point 3 and its annotations (Box 2) recommend that the ownership entity (which in the vernacular of the Guidelines could mean either the responsible government ministry, the state holding company or the ownership agency) set objectives that include, but go beyond, financial performance. Importantly, if an SOE is charged with non-commercial objectives, such as the delivery of certain public services, it is important to ensure a high degree of transparency regarding these objectives as well. Put bluntly, unless there is clarity about all objectives of each SOE, any subsequent attempt to measure and manage their performance may well be futile.

Box 2. **SOE Guidelines, annotations to Chapter II.F.3**

The state as an active owner should, as mentioned above, define and communicate broad mandates and objectives for fully state-owned SOEs. Where the state is not the sole owner of an SOE, it is generally not in a position to formally "mandate" the fulfilment of specific objectives, but should rather communicate its expectations via the standard channels as a significant shareholder.

SOE mandates are concise documents that give a brief overview of an SOE's high-level long-term objectives, in line with the established rationale for state ownership in the enterprise. A mandate will usually define the predominant activities of an SOE and give some indications regarding its main economic and, where relevant, public policy objectives. For example, the state might define the mandate of its state-owned postal services operator as follows: "To operate the national postal service on a self-sustaining basis and to maintain universal service at affordable prices to meet the needs of the national population". Clearly defined mandates help ensure appropriate levels of accountability at the enterprise level, and can help limit unpredictable changes to an SOE's operations, such as non-recurring special obligations imposed by the state that might threaten an SOE's commercial viability. They also provide a framework to help the state define and subsequently monitor the fulfilment of an SOE's more immediate-term objectives and targets.

In addition to defining the broad mandates of SOEs, the ownership entity should also communicate more specific financial, operational and non-financial performance objectives to SOEs, and regularly monitor their implementation. This will help in avoiding the situation where SOEs are given excessive autonomy in setting their own objectives or in defining the nature and extent of their public service obligations. The objectives may include avoiding market distortion and pursuing profitability, expressed in the form of specific targets, such as rate-of-return targets, dividend policy and guidelines for assessing capital structure appropriateness. Setting objectives may include trade-offs, for example between shareholder value, long term investment capacity, public service obligations and even job security. The state should therefore go further than defining its main objectives as an owner; it should also indicate its priorities and clarify how inherent trade-offs shall be handled. In doing so, the state should avoid interfering in operational matters, and thereby respect the independence of the board.

Source: OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, OECD, Paris.

Point 4 and its annotations (Box 3) recommend establishing reporting systems that allow the ownership entity to regularly monitor, audit and assess SOE performance. This is key to the Guidelines' more general recommendation that the state should act as an "active and informed owner". Good governance (and ownership) practices imply that the state should not intervene in SOEs' decisions on an *ad-hoc* basis. Nor should it try to control individual board members or monitor their voting. It should communicate practicable objectives to each SOE board and monitor their implementation. For this to happen in practice the state needs to ensure that it receives all necessary and relevant information in a timely matter. This includes regular quarterly and annual reporting by the SOEs, but it may also be necessary to establish mechanisms (and ensure the necessary competence within the ownership entity) to monitor SOEs' activity and performance on a continuous basis.

b) The Policy Brief on Corporate Governance of State-Owned Enterprises in Asia

During the years leading up to 2010, the Asia SOE Network developed a Policy Brief on Corporate Governance of State-Owned Enterprises, providing a set of recommendations for policy reform to improve the corporate governance of SOEs in the economies of Asia (OECD, 2010b). This Policy Brief is the product of the Network's deliberations and thus reflects discussions held during its first several meetings. It is a consensus document, whose purpose is to identify reform areas, support national reform efforts and establish a benchmark against which progress can be monitored.

Box 3. **SOE Guidelines, annotations to Chapter II.F.4**

In order for the ownership entity to make informed decisions on key corporate matters, it should ensure that it receives all necessary and relevant information in a timely manner. The ownership entity should also establish means that make it possible to monitor SOEs' activity and performance on a continuous basis. The ownership entity should ensure that adequate external reporting systems are in place for all SOEs. The reporting systems should give the ownership entity a true picture of the SOE's performance or financial situation, enabling it to react on time and to be selective in its intervention.

The ownership entity should develop the appropriate devices and select proper valuation methods to monitor SOEs' performance based on their established objectives. It could be helped in this regard by developing systematic benchmarking of SOE performance, with private or public sector entities, both domestically and abroad. For SOEs with no comparable entity against which to benchmark overall performance, comparisons can be made concerning certain elements of their operations and performance. This benchmarking should cover productivity and the efficient use of labour, assets and capital. This benchmarking is particularly important for SOEs operating in sectors where they do not face competition. It allows the SOEs, the ownership entity and the general public to better assess SOE performance and reflect on their development.

Effective monitoring of SOE performance can be facilitated by having adequate accounting and audit competencies within the ownership entity to ensure appropriate communication with relevant counterparts, both with SOEs' financial services, its internal audit function and specific state controllers. The ownership entity should also require that SOE boards establish adequate internal controls, ethics and compliance measures for detecting and preventing violations of the law.

Source: OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, OECD, Paris.

The Policy Brief, unlike the SOE Guidelines, does not deal at any length with elements of performance evaluation and management *per se* in its treatment of state ownership. This reflects, mostly, the fact that at the time when the Policy Brief was developed the Asian economies had other pressing reform priorities in this field, including professionalising the ownership function and ensuring a proper separation of the state's ownership and regulatory functions. However, elements of the Policy Brief's recommendations for transparency and disclosure in the SOE sector are relevant in the context of performance evaluation and management. They are summarised below.

Recommendation V.5: Ensure that SOEs are subject to a robust audit system. The Policy Brief notes that SOEs in Asia are often subject to different audits, including external audits and state audits, of which respective roles are not always clearly defined and which in some cases duplicate each other. It could also happen that state audits focus on minor issues, are excessively intrusive and even impair the ability of SOE boards and management to fulfil their missions. The Asia SOE Network further agreed that these processes are often too long, with their findings being neither timely nor always acted upon. State ownership entities should ensure that the audit system for SOEs is robust and grants sufficient credibility to SOEs' financial statements. This might require a reconsideration of the respective roles and focus of internal, state and external audits. It is critical for SOEs to have appropriate procedures for internal audits.

The ownership entities should encourage internal auditors to focus not only on compliance audits but also on risk management. They could require, for example, that SOEs' annual reports comprise a report on internal audit describing procedures for financial reporting and the internal control structure. SOEs' financial statements should be subject to an annual external audit by an independent and qualified auditor, using the usual criteria for independence and taking into account agreed standards such as the International Standards on Auditing, regardless of whether state audits are also performed. The scope of state audits could often be more defined. State auditors could focus on performance, leaving financial audits under the exclusive purview of external auditors. SOEs' audit committees should be given a primary role in supporting, overseeing and co-ordinating the different types of audits. SOE boards could also discuss audit results with the ownership entities and even disclose main findings to the public, with proper consideration for the protection of commercially sensitive information.

Recommendation V.6: Actively monitor and benchmark SOE performance. It is a prime responsibility of the ownership entities to actively monitor SOE performance. To be an active and informed owner, ownership entities need to have a clear, correct and up-to-date vision on the evolution of SOE performance. They should be able to identify underperformance early and react promptly on it. To do so, ownership entities must ensure that they have access to relevant, accurate and timely information from SOEs and set up appropriate processes to monitor performance on an ongoing basis. These processes might include various mechanisms, both formal and informal, including reporting *per se*, representatives on SOE boards, meetings with SOE boards to discuss performance, etc.

Another important element of performance monitoring is benchmarking, which allows the identification of gaps and areas for improvement. The Policy Brief posits that this is still a quite under-developed practice in many Asian economies and remains a difficult exercise (an example of early progress in Malaysia is provided in Box 4). But ownership entities should strive to benchmark SOE performance with appropriate peers, domestic or foreign. Ownership entities should also carry out in-depth annual

performance reviews, assessing results against key performance indicators (KPIs). This performance review would include an in-depth discussion between the SOE board and the ownership entities. Specific mechanisms could be developed to support the ownership entity in this demanding exercise, but special care should be given to avoid burdening SOEs with excessive information requirements in this regard. The result of annual reviews could be disclosed in a summarised form by the ownership entity.

Box 4. **Case example: The Malaysian "Blue Book"**

In Malaysia, performance management, involving KPIs and performance linked compensation (PLC) and performance contracts were among the key GLC measures launched by the Transformation Programme.

The Putrajaya Committee on Government-Linked Companies' High Performance (PCG) conducted an audit on the implementation of the KPIs. On the basis of that audit, PCG recommended that personal performance reviews be on a semi-annual basis where each manager's performance is reviewed against targets, resulting in differentiated evaluations with meaningful personal feedback, rewards and consequences. It also recommends that the base pay be comparable to industry peers and that GLCs offer meaningful performance bonuses that vary significantly with individual performance. Promotion, recognition and other non-financial rewards should be based on merit and highly correlated with performance.

The PCG launched the "Blue Book: Guidelines on Announcement of Headlines KPIs and Economic Profit" in 2006. They provide a comprehensive reference to GLCs to ensure uniformity and consistency in their reporting. Headline KPIs align expectations at all levels and promote a results driven culture, while progress reporting provides an opportunity to take stock. The announcement of headline KPIs also provides stakeholders with better insight into the performance of the company.

Each GLC should have 5 to 8 KPIs with targets along financial, customer, operational and organisational dimensions that are tightly linked to its specific strategy. The targets of each KPI should be benchmarked against comparable international peers. The CEO should be responsible for the implementation of quality KPIs and for reporting them to the market. Business performance reviews should be conducted every quarter to identify any major shortcomings and to chalk out action plans to further improve performance.

The Blue Book also provides guidance on Economic Profit reporting, on how to deliver Headline KPI results. It also provides a communication checklist for GLCs and gives advice on how to manage poor or missed results.

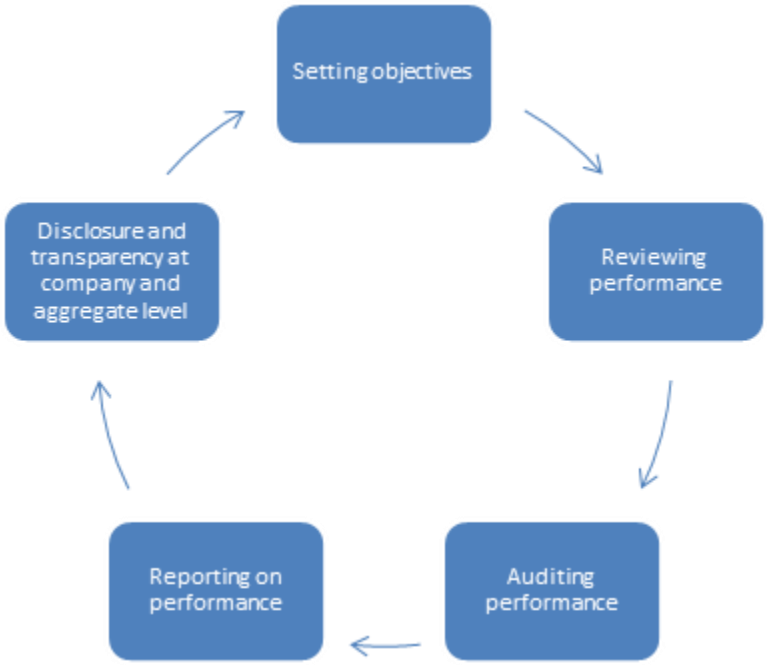
The Blue Book Implementation Assessment shows that, for the majority of GLCs, corporate scorecards are in place, KPIs have been formally set for CEOs and senior management and Headline KPIs are being monitored. To enhance performance and to promote results-orientation, GLCs have been announcing their Headline Key Performance Indicators ("HL KPIs") annually and have been showing overall improvements. The number of HL KPIs met increased from 72% in FY2006 to 76% in FY2007.

Source: OECD (2010b).

2.2. An OECD toolkit: The Accountability and Transparency Guide

The OECD publication with the strongest direct bearing on performance monitoring, evaluation and reporting is, as mentioned above, the so-called Accountability and Transparency Guide (*Accountability and Transparency: A Guide for State Ownership*, OECD, 2010a). Unlike the reports reviewed in the previous sections it is not a recommendation. Rather, it provides a stock-taking of commonly used national practices – basically in a step-by-step order – of the process by which ownership entities set objectives for their SOEs, review the performance of these enterprises, conduct auditing and other fact verification, and report about performance at the aggregate and company level. The process may be described as a continuous improvement cycle since, at the end of the process, the ownership entities are expected to use the information thus obtained to "return to square one" and set new objectives on a more informed basis (Figure 1).

Figure 1. **A "continuous improvement cycle": The accountability and transparency guide**



Source: OECD (2010b).

As will be seen in the following sections, OECD countries differ just as significantly in the approaches toward SOE performance evaluation and management as the Asian economies surveyed in this report. Three different approaches to performance monitoring are provided in Box 5. As can be seen, one is closely linked to the national fiscal budgeting procedures (Italy); one relies on an automated system of information exchange (Greece); and one is more "light touch" (United Kingdom), relying on professional portfolio managers to monitor "their" respective SOEs based on indicators of potential problems.

Box 5. **Monitoring of SOE performance in selected OECD countries**

SOE reporting to the Ministry of Economy and Finance in Italy

The Ministry of Economy and Finance, which is the ownership entity, carries out regular monitoring of SOEs' performance and management. Each SOE is thus required to provide the ministry with the following detailed information and documents:

- the annual budget for the coming year;
- half-yearly reports on performance and financial results, with details on the differences with the budget and the previous year's figures;
- the estimated year-end figures. SOEs are also required to point out potential critical areas and give all relevant information, including the business plans approved by the board.

In addition, the shareholder can receive information on each SOE by its representatives appointed in both the Board of Directors and the Board of Auditors. (The Italian Civil Code [Art. 2449] allows the state as an owner to appoint one or more members of the Board of Directors and of the Board of Statutory Auditors with the same rights and duties of board members chosen by the general shareholders meeting.)

B. Integrated "Management Information System" in Greece

In the framework of ongoing reforms to SOE governance, the Greek authorities are establishing a Management Information System to collect directly from the SOEs' own information systems the relevant data to allow for regular performance monitoring. Monthly data will be automatically compared to budget data. The whole system of business plans, budget and performance monitoring will be based on the same data, allowing a closer monitoring and thus greater transparency and accountability.

C. Traffic Lights in the UK

In the UK, a quarterly "Traffic Light" review is done for each SOE. This review evaluates the quality of the shareholder relationship, the implementation of the shareholder model, the quality of the board and management team, the strategy and financial performance. For each of these categories, a series of questions are to be answered by "yes" or "no" by the portfolio manager with a possibility also to comment. All, or nearly all, "yes" answers give an overall green light, some specific "no" answers may trigger a red light, while the rest result in an amber light. (This type of "traffic light" review is sometimes criticized for lacking nuance). For each category, in addition to the general appraisal, the portfolio manager must indicate the action taken to improve the situation. An aggregate monitoring table is then built up, indicating for each SOE the colour of the light for each of the categories mentioned above. This is a type of control board for the work of the shareholder executive (the state ownership entity).

Source: OECD (2010a).

One of the recurrent themes of the Accountability and Transparency Guide is the complications that arise from SOEs with "mixed objectives" – i.e. companies that are expected to mix fully-commercial objectives with the pursuit of certain public policy objectives in the general national interest. Unless performance monitoring is carefully designed, "non-commercial objectives" may effectively shield SOE management from accountability for the company's result, acting as a pretext for almost any lacklustre financial performance. The way countries go about addressing this differs. Generally, when non-commercial objectives are mandated by laws or regulations or established by corporate bylaws, the ownership entity tends to prefer a sequential approach where the fulfilment of the non-commercial objectives is reviewed first, and the financial (and other) results are subsequently evaluated against the background of the estimated costs of the non-commercial objectives. Conversely, when the ownership unit jointly establishes commercial and non-commercial objectives for an SOE, various models exist for a simultaneous assessment of the different performance parameters. Among the most popular methods is the so-called "balanced scorecard" (Box 6), which as discussed in the following sections is also used by several Asian countries.

Box 6. **Balanced scorecards**

The balanced scorecard is a strategic planning and management system that is used extensively by businesses, governments and non-profit organisations worldwide to align business activities to the vision and strategy of the organisation, improve internal and external communications and monitor organisation performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that adds strategic non-financial performance measures to traditional financial metrics to give managers and executives a more "balanced" view of organisational performance. While the phrase "balanced scorecard" was coined in the early 1990s, the roots of this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950s and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century.

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organisation's strategic plan from an attractive but passive document into the "marching orders" for the organisation on a daily basis. It provides a framework that not only provides performance measurements, but also helps planners identify what should be done and measured. It enables executives to truly execute their strategies. The balanced scorecard is a management system (not only a measurement system) that enables organisations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes.

Source: Balanced Scorecard Institute website and OECD (2010a).

3. Overview of national Asian SOE landscapes

SOEs are key economic players in many Asian economies, making their performance important for economic growth and competitiveness. Given differences in national definitions and valuation methods for SOEs, no truly comparative data on the size and sectoral distribution of SOEs in Asia exists. However, recent OECD analysis has shed some light on the importance of Asian state-owned or -invested enterprises among the world's largest companies. Table 1 shows that among the world's 2000 largest companies, 649 are located in Asia, of which about one third have at least 10% state ownership. Among those enterprises, over one third is domiciled in mainland **China**, with an additional 13 domiciled in **Hong Kong, China**. The remainder is accounted for largely by Southeast Asian economies including **India** (34 state-invested enterprises appear in the ranking), **Singapore** (6) and **Indonesia** (5).

Table 1. **Asian state-invested enterprises among the world's largest companies**

	Companies with at least 10% state ownership	Private companies	Total
China	128	52	180
India	34	22	56
Hong Kong, China	13	39	52
Singapore	6	14	20
Indonesia	5	2	7
Thailand	4	12	16
Malaysia	4	12	16
Korea	3	63	66
Viet Nam	3	0	3
Japan	2	217	219
Pakistan	1	0	1
Philippines	0	8	8
Total	**204**	**445**	**649**

Source: Forbes Global 2000 and OECD analysis.

The sections that follow attempt to shed more light on the characteristics of national SOE sectors and state ownership arrangements in the 11 countries surveyed in the present report. They notably provide an overview of (1) how the national authorities define and classify state-owned enterprises in individual countries; (2) the number of SOEs per country and, where available, details on their value and sectoral distribution; and (3) the institutional arrangements for exercising the state ownership function (including, as relevant, details on the portfolio of SOEs under the purview of the state ownership entity).

3.1. National classifications of SOEs

As underlined in the SOE Guidelines, national practices differ with respect to which entities the authorities consider "SOEs", and Asia is no exception. The SOE Guidelines offer detailed guidance in this respect, putting forward that an SOE is *"any corporate entity recognised by national law as an enterprise and in which the state exercises ownership. This includes joint stock companies, limited liability companies and partnerships limited by shares. Moreover, statutory corporations with their legal personality established through specific legislation should be considered as SOEs if their purpose and activities, or parts of their activities, are of a largely economic nature"*. Activities of a "largely economic nature" are defined as those which involve *"offering goods or services on a given market and which could, at least in principle, be carried out by a private operator in order to make profits"*.

As shown in Table 2, the Asian countries surveyed adopt a variety of methods for defining SOEs, including elements on their legal form, percentage of state ownership and degree of commercial orientation. As an example of an SOE definition based on legal form, SOEs in **Myanmar** are defined to include only entities that are incorporated under either the State-Owned Economic Enterprise Law or the Special Companies Act. Many countries define or classify SOEs according to their commercial orientation. In **Korea** for example, entities are designated as SOEs based on their respective levels of self-generating revenue and government subsidies. In **Indonesia**, SOEs are classified as either public utility enterprises or limited liability SOEs. Concerning degree of ownership and control, in most countries the definition of SOE explicitly encompasses enterprises in which the state holds a majority stake, in line with guidance proposed in the SOE Guidelines[3]. In at least one country, there is no single nationally-agreed definition for SOEs and approaches vary across public agencies. For example in **Viet Nam**, the national government restricts the definition of SOEs to enterprises that are 100% state-owned, while the national statistical office includes in its definition enterprises in which the state maintains a majority stake.

3.2. Distribution of SOEs by classification and sector

In the absence of comprehensive, comparative data on national SOE sectors in the countries surveyed, the sub-sections that follow attempt to provide basic snapshots of the SOE portfolios under the purview of the state ownership entities or state holding companies. They offer, as available, information on: the number of SOEs; their distribution according to legal form, sector of operation and degree of state ownership; and their economic importance.

Bhutan

In Bhutan the portfolio of the state holding company includes 14 wholly-or majority owned SOEs and six minority-owned entities, while 8 other SOEs owned by the Royal Government of Bhutan are overseen by relevant line ministries within the government. Under the Druk Holding and Investments Limited holding structure all SOEs are labelled DHI Portfolio Companies (DPCs). Within the DPCs they are categorised based on the ownership percentage held by DHI, as follows. DHI Owned Companies are SOEs in which DHI has a 100% shareholding; DHI Controlled Companies are those in which DHI holds more than 50% of shares; and DHI Linked Companies are those in which DHI owns 50% or less.

Table 2. **National definitions of SOEs in Asia**

Country	National definition of SOE	Legal or published basis	Classification standards
Bhutan	SOEs are legal entities created by the Royal Government of Bhutan to undertake commercial activities on behalf of the government. SOEs include both enterprises that are wholly- owned and those with minority state ownership.	Legal entities created by the Royal Government of Bhutan	Legal form, other standards
China	Solely state-owned enterprises, wholly state-owned companies, state-owned capital controlling companies and state-owned capital holding companies.	The Law of the People's Republic of China on the State-Owned Assets of Enterprises, 2009	Commerciality
India	Any enterprise in which the central or state government (or both taken together) has a shareholding of 51% or more in the paid up capital.	The Companies Act 2013	Legal form
Indonesia	State-owned enterprises (Badan Usaha Milik Negara or "BUMN" in national nomenclature) are generally governed by law. BUMN are companies which are wholly or partly, directly or indirectly, owned by or form part of the Government of the Republic of Indonesia. SOEs are further classified into public utility enterprises/special purpose entities ("Perum") and limited liability SOEs ("Persero"). A persero is a BUMN in the form of a limited liability company whose capital is divided into shares in which all or at least 51% of its shares are owned by the state with the main purpose of making a profit.	Law No. 19 of 2003 on State-Owned Enterprises dated June 19, 2003 ("Law No. 19/2003")	
Kazakhstan	In compliance with the Law On State Property, the state takes part in: (i) state legal entities (Including state-owned enterprises and public institutions); (ii) joint-stock companies; and (iii) limited partnerships.	Law "On State Property"	Commerciality
Korea	Korea uses the term "public institutions" to refer to SOEs, which are thus designated based on the ratio of their self-generating revenue and the amount of government grants. Public institutions are further divided into three categories: (i) public corporations; (ii) quasi-governmental institutions; and (iii) non-classified public institutions.	Act on the Management of Public Institutions	Commerciality
Myanmar	State-owned enterprises are enterprises incorporated either under the State-owned Economic Enterprise Law (SOEEL 1989) or the Special Companies Act (1950).	State-owned Economic Enterprise Law or Special Companies Act (1950).	Legal form
Pakistan	"Public Sector Companies" are joint stock or limited liability companies in which the Government or a government instrumentality or agency directly or indirectly controls, beneficially owns, or holds not less than fifty percent of the voting securities or voting power.	Public Sector Companies (Corporate Governance) Rules, 2013	Legal form and Commerciality
Philippines	SOEs are referred to as "Government-Owned or -Controlled Corporations" or "GOCCs", with subsets such as "Government Financial Institutions" or "GFIs". They are organised under specific charters which expressly grants them operational autonomy in exercising corporate powers, usually vested in a board of directors.	GOCC Governance Act of 2011 – Republic Act No. 10149	Legal form, commerciality and other standards
Singapore	SOEs are commonly referred to as Government Linked Corporations (GLCs) or Temasek-Linked Corporations (TLCs). They incorporated under the companies act as legal entities and are either wholly or partly owned by Temasek Holdings, which has a significant control or influence. Many of these companies are listed.	Companies act	Legal form
Viet Nam	SOEs are defined as enterprises with 100 percent state ownership. The General Statistical Office (GSO), however, uses a broader definition to include any enterprise in which the government owns 51 percent or more of the share capital. As of end-2013, the government reported 796 SOEs while the GSO provides statistics on 3 135 SOEs.	Law on Enterprises and Law on Management and Use of State Capital Invested in Production and Business 2014	Commerciality

Source: Questionnaire responses provided by national authorities.

China

The State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) in China performs investor's responsibilities (ownership functions) on behalf of the state. Chinese state-invested enterprises are classified into four categories: solely state-owned enterprises; wholly state-owned companies; state-owned capital controlling companies; and state-owned capital holding companies. SASAC directly conducts investor's responsibilities in 110 non-financial central SOEs. As of end 2014, there are 38 000 legal entities affiliated to the 110 central SOEs with total assets, sales revenues and profits before tax accounting for 38.7 trillion RMB (6 trillion USD), 25.1 trillion RMB (4 trillion USD) and 1.4 trillion RMB (210 billion USD) respectively. The sector distribution covers petroleum and petrochemical, metallurgical, machinery, mining, electronics, military, electricity, chemical, building materials, construction, geological exploration, communications and transportation, warehousing, telecommunications, trade and etc.

India

Out of 290 central SOEs in India, 243 are wholly state-owned and 47 are majority (over 51%) state-owned and listed on the Bombay Stock Exchange[4]. SOEs (Central Public Sector Enterprises, or CPSEs in Indian vernacular) are accountable to a number of public entities, including: the Parliament; the Government via the relevant ministry; the Comptroller and Auditor General; the Planning Commission; the Central Vigilance Commission; the Performance Management Division of the state Cabinet; and the High Power Committee (HPC) overseeing the MoU system for SOEs.

Indonesia

SOEs in Indonesia (Badan Usaha Milik Negara, or BUMN, in Indonesian vernacular) are divided into two categories: (i) Persero, which are joint stock companies whose shares are at least 51% owned by the government of Indonesia and which operate with the primary purpose of making a profit; and ii) Perum, whose capital is not divided into shares and which operate primarily for the purpose of public benefit (in the form of offering goods and/or services of high quality), while concurrently making a profit. The Ministry of State-Owned Enterprises is appointed and/or authorised to represent the government of Indonesia as state shareholder in Persero, taking account the prevailing laws and regulations, as governed by Law No. 19 of 2003 on State-Owned Enterprises dated June 19, 2003.

Kazakhstan

Among 6,441 enterprises in Kazakhstan, 594 are state-owned joint stock companies and limited liability partnerships (JSC and LLP) (8%) and 27 are national holding companies including 3 managing holdings (5%)[5]. As a sovereign wealth fund, Samruk-Kazyna manages major strategic assets operating in several sectors including oil and gas, transport and communication, atomic industry, mining, electricity production and chemical industry. Those companies account for 14.9 % of GDP (21 billion USD) and 4% of national employment (357 000 people), as of September 2014.

Korea

SOEs in Korea are called "public institutions" in national nomenclature. According to the Act on the Management of Public Institutions, the Minister of Strategy and Finance

designates entities as public institutions based on the ratio of revenue that is self-generated and the amount of government grants (including revenues from commissioned affairs or monopoly, if the government has commissioned public services to an institution, or a monopoly is granted to an institution under Acts and subordinate statues). According to the Act on the Management of Public Institutions, SOEs are classified into 3 types: (i) public corporations; (ii) quasi-governmental institutions; and (iii) and non-classified public institutions, depending on their asset size, ratio of revenue that is self-generated, and the number of employees.

As of 2015, the Minister of Strategy and Finance designated 316 institutions as public institutions, as follows: 30 public corporations; 86 quasi-governmental institutions; and 200 non-classified public institutions. In fiscal year 2014, public institutions' total assets were valued at approximately 750 trillion won (620 billion USD) and their total sales around 280 trillion won (230 billion USD). The major strategies and targets of each public institution's businesses and operations are established by the Prime Minister's office (The exact full name is the Office for Government Policy Co-ordination, Prime Minister's Secretariat), 21 ministries and 13 agencies.

Myanmar

In Myanmar, there are currently 44 SOEs, including state-owned banks, under 17 ministries. The State-Owned Economic Enterprise Law (SOEEL) governs economic activity in a range of specified sectors which are reserved for SOEs. The Special Companies Act governs the formation of companies that have both government and private sector shareholders. Most SOEs operate under the directives of each ministry and are responsible for the management of operations agreed via contracts, which require the approval of the Cabinet. Some examples of major SOEs include Myanmar Oil and Gas Enterprise (MOGE), Myanmar Petrochemical Enterprise (MPE) and Myanmar Petroleum Products Enterprise (MPPE), No. 1 Mining Enterprise, No. 2 Mining Enterprise, No. 3 Mining Enterprise, Myanmar Gems Enterprise, Myanmar Salt and Marine Chemical Enterprise and Myanmar Pearl Enterprise.

Pakistan

In Pakistan, line ministries are responsible for the oversight of 170 SOEs (Public Sector Companies, or PSCs in national nomenclature), including performance monitoring and overseeing information disclosure practices. Regulatory bodies set standards for operations at sector level. The Securities and Exchange Commission of Pakistan (SECP) is responsible for ensuring timely information disclosure (as per internationally set reporting standards) by listed companies.

Philippines

In the Philippines, there are 107 SOEs (GOCCs in national nomenclature) currently under the jurisdiction of the Governance Commission. 4 of those SOEs have minority shareholdings owned by the private sector, operating in the non-banking institutions, energy and utilities sector: i) Credit Information Corporation (CIC); ii) PNOC Exploration Corporation; iii) PEA Tollway Corporation; and iv) Philippine National Construction Corporation. The other GOCCs are 100% owned by the Philippine National Government directly or through its instrumentalities.

Singapore

In Singapore, SOEs are companies incorporated as legal entities under the companies act that are either wholly or partly owned by Temasek Holdings and over which it has significant control or influence. Many of these companies are listed. Temasek Holdings itself is wholly owned by the Ministry of Finance. The net portfolio value of Temasek was 266 billion SGD as of 31 March 2015. 28% of this portfolio is invested in Singapore, 42% in Asia (excluding Singapore) and 30% in the rest of the world. Group net profit for the fiscal ended 31 March 2015 was 11 billion SGD. The top 10 holdings account for 48% of total net portfolio value. Key sectors invested in the portfolio include: i) financial services (28%); ii) telecommunications, media and technology (24%); iii) transportation and industrials (17%); iv) consumer and real estate (15%); v) energy and resources (5%); and vi) Others (11%).

Viet Nam

The Vietnamese government defines SOEs as enterprises with 100% state ownership. The General Statistical Office (GSO), however, uses a broader definition to include any enterprises in which the government owns 51% or more of the charter capital. As of end-2013, the government reported 796 SOEs while the GSO provides statistics of 3 135 companies that by commonly applied definitions would be SOEs. However, closed to half of these are not economically active. They contributed to 32.2% of GDP, 16.3% of industrial output and 33.3% non-oil domestic budget revenue. These SOEs' total assets reached 2,8 trillion VND (127.5 billion USD) or 74% of GDP while total debts reached 1.5 trillion VND equivalent (67 billion USD) or 39% of GDP.

3.3. National ownership functions and their portfolios

Overview of the five state ownership "models"

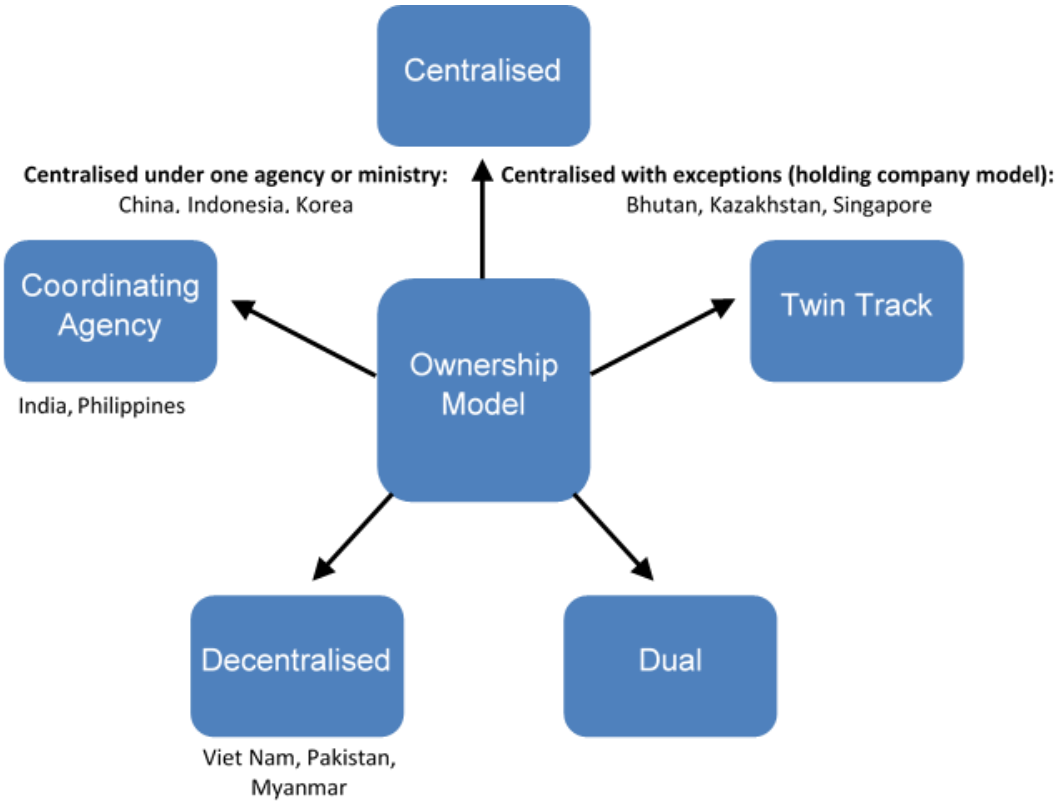
Recent OECD analysis has identified five state ownership "models": the centralised model; the dual model; the twin track model; the decentralised model; and the co-ordinating agency model (OECD, 2015a). The main characteristics of the ownership models can be described as follows.

- **Centralised model**: One government institution carries out the state ownership function in all SOEs. This institution can be either a specialised ownership agency or a designated government ministry. Financial targets, technical and operational issues and the process of monitoring SOE performance are all conducted by the central body. Board members are appointed in different ways but instrumental input comes from the central unit.
- Dual model: Two government institutions – in practice often one line ministry per SOE plus the ministry of finance - share in exercising the state ownership function. Typically, one ministry sets financial objectives and the other ministry formulates operational strategy.
- Twin track: This is functionally equivalent to the centralised model, but with two different government institutions each overseeing a separate portfolio of SOEs. This model differs materially from the dual model in that for each SOE only one government body exercises ownership.

- Decentralised: No one single institution or state actor exercises the ownership function. Usually individual ministries responsible for sectoral regulatory functions exercise the ownership function of SOEs in that same sector. Line ministries are perceived to be *de facto* running SOEs as an extension of their ministerial powers.
- **Co-ordinating agency**: A specialised government unit acts in an advisory capacity to shareholding ministries on technical and operational issues, with SOE performance monitoring frequently being its most important mandate. The more limited role of these co-ordinating agencies, coupled with the autonomy that line ministries thus maintain, leads to considerable overlap with the decentralised model. The co-ordinating agency model could be considered a sub-set of the decentralised model.

As shown in Figure 2 and Table 4, most of the surveyed countries in Asia have either adopted a centralised model for state ownership, have established a central holding company for an important portfolio of SOEs, or have established a central co-ordinating agency, often tasked with monitoring performance or harmonising governance practices across the SOE sector. Three countries have a highly decentralised system, with the ownership of SOEs being exercised by sectoral line ministries and no co-ordinating agency in place.

Figure 2. **An overview of the five state ownership models**



Ownership models in Asia

Centralised model

- *Centralised under one agency or ministry*. In 3 countries, the state ownership function is exercised by a central state agency or ministry (**China**, **Indonesia** and **Korea**). In **China**, the state ownership agency SASAC directly represents the state as shareholder in 110 of the central SOEs, which are essentially corporate groups with an extensive network of subsidiaries. In **Indonesia**, a dedicated Ministry of State-Owned Enterprises exercises the state ownership function, while in **Korea** the Ministry of Strategy and Finance exercises the state ownership function in addition to its primary responsibilities that go beyond state ownership.

- *Centralised with exceptions (holding company model)*. In 3 countries the authorities have established a central holding company to act as the principle shareholder in state majority- or wholly-owned enterprises (Druk Holding and Investments in **Bhutan**, Samruk-Kazyna in **Kazakhstan** and Temasek in **Singapore**), but the holding companies' portfolios do not necessarily include all SOEs operating in the country. For example, in Bhutan, 8 SOEs are not under the purview of the state holding company but are overseen by their respective line ministries. In reality, the state ownership arrangements in these three countries have elements of both the centralised and the decentralised models.

Co-ordinating agency

Two countries have established a co-ordinating agency to monitor SOE performance and act in an advisory capacity to line ministries who maintain *de facto* control over SOEs (**India** and the **Philippines**). India's co-ordinating agency the Department of Public Enterprises is located in the Ministry of Heavy Industries and Public Enterprises, while the Philippines' co-ordinating agency the Governance Commission for GOCCs is under the Office of the President. Table 3 provides an illustrative example of the legal, governance and reporting arrangements for different parts of the public sector in India, including public corporations and government companies.

Table 3. **Legal and ownership arrangements for public sector entities in India**

	Departmental undertakings	Public corporation	Government companies
Establishment	By a ministry	By the parliament under the special act	By a ministry with or without private participation
Legal status	No separate entity distinct from the government	Separate entity to sue and be sued	Separate corporate existence
Capital	Provided out of budgetary Appropriation	Provided wholly by the government	Part of it may be provided by private entrepreneurs
Management	Government official from the ministry concerned	Board of directors	Board of directors may include private individuals
Control and accountability	Control vested with the ministry concerned	Parliament	Government (ministry concerned)
Autonomy	No autonomy. Works as part and parcel of the general government	No governmental interference in day to day Affairs	Some freedom from governmental interference
Suitability	Defense public utilities	Heavy industries and service providing enterprises with long gestation period	All types of industrial and commercial enterprises

Decentralised model

Three countries have a completely decentralised ownership model (with no co-ordinating agency), where the state ownership function is exercised by a multitude of line ministries (**Viet Nam**, **Pakistan** and **Myanmar**).

Table 4. **An overview of state ownership models in Asia**

Ownership model		Countries	Details on the state ownership body(ies)
Centralised model	Agency or ministry	**China**	**State-Owned Assets Supervision and Administration Commission (SASAC).** SASAC is authorised by the State Council to perform investor responsibilities on behalf of the state in 110 non-financial central SOEs (which are essentially corporate groups, many with their own extensive network of subsidiary companies). Its other responsibilities include: monitoring SOE performance; appointing and dismissing top SOE executives; and drafting policies, laws and regulations bearing on SOEs.
		Indonesia	**Ministry of State-Owned Enterprises.** The Ministry of SOEs is appointed and/or authorised to represent the government of Republic of Indonesia as state shareholder in all limited liability SOEs, as per the 2003 Law No. 19 on State-Owned Enterprises.
		Korea	**Ministry of Strategy and Finance.** The Ministry of Strategy and Finance has the authority to exercise state ownership rights and co-ordinate policy on SOEs, as per the Act on the Management of Public Institutions. Its responsibilities are broad and include: designating institutions as public institutions (essentially the national nomenclature for SOEs); overseeing their information disclosure practices; reviewing mid- and long-term financial management plans of SOEs; and carrying out performance evaluations.
	Holding company	**Bhutan**	**Druk Holding and Investments Limited (DHI).** DHI is a holding company established by a Royal Charter issued by His Majesty the King of Bhutan in 2007. DHI has autonomy regarding investment, divestment and business decisions under the guidance of its board. It is responsible for meeting dividend obligations to the Ministry of Finance. DHI's portfolio SOEs are required to inform DHI on key business strategies, financial matters, restructurings or other major decisions. They also interface directly with the government or agencies regarding government policy or statutory requirements, while keeping DHI informed. All portfolio companies are subject to the Companies Act and guided by the DHI Ownership Policy and Corporate Governance Code. 8 SOEs outside of DHI are overseen by their respective line ministries.
		Kazakhstan[6]	**Samruk-Kazyna.** Kazakhstan has a hybrid ownership model with the government authority acting as a shareholder in the sovereign wealth fund Samruk-Kazyna JSC (the Fund). Samruk-Kazyna is a shareholder of several large SOEs. The Fund is under the purview of the Committee of State Property and Privatisation under the Ministry of Finance.
		Singapore	**Temasek Holdings.** Temasek is a holding company under the purview of the Ministry of Finance with a portfolio of investments in Singapore (30% of its portfolio value), other parts of Asia (42%) and the rest of the world (30%). Its portfolio includes majority or full share ownership of SOEs operating in the financial, telecoms, transportation and energy sectors, among others. Portfolio companies are overseen by their respective boards and management while Temasek's investment, divestment and other business decisions are directed by its board and management, without government involvement.

Ownership model	Countries	Details on the state ownership body(ies)
Co-ordinating agency	India	**Department of Public Enterprises (DPE).** The DPE (under the Ministry of Heavy Industries and Public Enterprises) is responsible for monitoring the performance of all SOEs (Central Public Sector Enterprises) and for formulating policies pertaining to SOEs. The ownership of SOEs in India is decentralised, with a large number of government ministries or other high-level public institutions exercising ownership rights. In addition to reporting to the DPE, SOEs are accountable to other institutions, including: the Parliament; the Government via the relevant ministry; the Comptroller and Auditor General; the Planning Commission; the Central Vigilance Commission; the Performance Management Division of the state Cabinet; and the High Power Committee (HPC) overseeing the MoU system.
	Philippines	**Governance Commission for Government-Owned or-Controlled Corporations (GCG).** The GCG is an entity established under the 2011 GOCC Governance Act, according to which it serves as the "central advisory, monitoring, and oversight body, with authority to formulate, implement and co-ordinate policies" over the SOE sector. The law mandates that some of the GCG's more critical powers be exercised in consultation with the Department (line ministry) to which an SOE is attached. The GCG is composed of five members. These are the Chairman (who holds a Cabinet rank) and two Commissioners (all appointed by the President of the Philippines) and the Secretary of Finance and the Secretary of Budget and Management, who serve as ex-officio members. The GCG is under the supervision of the Office of the President.
Decentralised	Viet Nam	**Line ministries, State Economic Groups and the State Capital Investment Corporation.** There are several institutions involved in SOE governance and ownership in Viet Nam. The Ministry of Finance (MoF) reviews SOEs' financial statements and may decide on dividend distribution. The Ministry of Planning and Investment may approve SOEs' investment projects. Line ministries and provincial governments may approve SOEs' business lines, business plans and development strategies. The Ministry of Interior and the Ministry of Labour, Invalids and Social Affairs (MOLISA) are involved in executive hiring/firing, human resource management and remuneration within SOEs. **State economic groups (SEGs)** act as holding companies for a host of SOE subsidiaries or affiliates, and an SEG chairman has a governmental rank that is equivalent to vice-minister. SEGs are said to report to "the Government," but no specific individual (e.g., Prime Minister or a Deputy Prime Minister) has been assigned to act as the responsible state shareholder. Viet Nam's **State Capital Investment Corporation (SCIC)** under the MoF is assigned to manage state capital in many SOEs for the purposes of restructuring and sale.
	Myanmar	**Line ministries.** In Myanmar, several line ministries exercise the ownership of SOEs in their respective sectors. They include, but are not limited to: the Ministry of Mines; the Ministry of Energy; the Ministry of Electric Power; the Ministry of Communication and Information Technology; the Ministry of Industry; the Ministry of Transportation; the Ministry of Rail Transportation; the Ministry of Environmental Conservation and Forestry; the Ministry of Finance; and the Ministry of Construction.
	Pakistan	**Line ministries.** In Pakistan, several line ministries exercise the ownership of SOEs in their respective sectors. They include, but are not limited to: the Ministry of Petroleum and Natural Resources; the Ministry of Water and Power; the Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatisation; the Ministry of Ports and Shipping; the Ministry of Railways; the Ministry of Information Technology and Telecommunications; and the Cabinet Secretariat.

Source: Questionnaire responses submitted by national authorities. The questionnaire used a somewhat different classification system for state ownership models, therefore country placements along the five models are based on OECD Secretariat judgment.

4. A Synthesis of SOE performance evaluation and management in Asia

4.1 Overview of the Asian region

Nearly all Asian countries examined have some form of performance evaluation system for SOEs in place. The extent to which they are formalised varies across the region. In many countries, explicit performance evaluation guidelines are developed by the state ownership entity (or explicit financial targets are developed by the state holding company) and serve as a basis for evaluations conducted either by the state or, less commonly, by corporate organs within the SOE.

Whether performance *evaluation* then enters the domain of performance *management* depends on the extent to which the results influence executive incentives and sanctions (i.e. the reappointment, dismissal and remuneration of the CEO and other top executives). In most countries, evaluation results do inform executive remuneration, creating what could be termed a "continuous improvement cycle". In a small group of countries, the system is reinforced through performance contracts signed between SOE managers and responsible ministries.

It bears mentioning that the respective roles of the state ownership entity, corporate boards (if in place) and executive management are not always clearly delineated in the Asian countries surveyed. OECD good practice would generally call for an SOE's corporate board to supervise and incentivise management. However, this is not always applicable to national contexts in Asia, where corporate boards are often strongly linked to state ministries, or are bypassed by the government on key board functions such as CEO appointment. It could be said that in many cases the responsible ministry or central ownership entity essentially takes on many of the supervisory functions that would normally be the purview of a corporate board in a private company.

4.1.1 Performance evaluation systems

As mentioned, nearly all Asian countries examined for this stocktaking (9 out of 11) have established some form of performance evaluation and monitoring system for SOEs. The exceptions are **Myanmar** and **Pakistan**, which both have a decentralised ownership model and have not established a formal performance evaluation system for SOEs (although line ministries in Pakistan do, in practice, reportedly evaluate SOE performance on an *ad-hoc basis*). Importantly, the performance evaluation systems in place in **Bhutan**, **Kazakhstan** and **Singapore** extend only to the performance of a defined portfolio of SOEs under the purview of those countries' state holding companies. In **Singapore**, performance evaluations of individual companies are conducted by their respective boards, whereas in the rest of the countries examined the evaluation is conducted, or at least overseen, by the state ownership entity. In **Indonesia**, the Ministry of State-Owned Enterprises develops an evaluation manual with clear quantitative indicators against which to conduct SOE performance evaluations, which are then undertaken in large part

by assessors from SOE boards of directors before being ultimately submitted to the Ministry of State-Owned Enterprises. In all countries, performance evaluations are conducted at least yearly, with four countries also conducting them on a quarterly basis.

A few Asian countries have further formalised the performance evaluation system through the use of performance contracts or their functional equivalent, such as agreements or memorandums (**Bhutan**, **India**, **Korea** and the **Philippines**). This approach has reportedly been useful in clarifying SOEs' objectives, granting SOE managers greater autonomy to oversee daily operations and increasing their accountability for enterprise performance. Performance contracts are generally signed by both SOE managers and responsible ministers, outlining targets that individual SOE managers are expected to achieve during the coming year. In **India**, the performance document takes the form of a memorandum of understanding signed by both SOE managers and responsible ministers. In the **Philippines**, a performance agreement is signed between the state ownership co-ordinating entity and SOE boards, rather than managers. Finally, in countries with state holding companies, performance documents are generally agreed between the holding company board (rather than a responsible minister) and representatives of individual enterprises. For example in **Bhutan**, the board of the holding company signs an Annual Compact, outlining yearly financial and non-financial targets, with each of the SOEs under its purview.

Among the countries that have established performance evaluation systems, all of them evaluate financial performance through quantitative indicators (e.g. SOEs' yearly net income, economic value added or labour productivity), while a smaller group of countries also uses qualitative indicators to measure financial performance (e.g. information on the quality of SOEs' risk management systems). While financial performance clearly takes precedence, the majority of countries also include a range of indicators to measure SOEs' non-financial performance, particularly in countries where SOEs are expected to deliver on public policy objectives or champion strong corporate social responsibility practices. These include both quantitative indicators (e.g. indices to measure customer satisfaction or figures on public service delivery) and qualitative indicators (e.g. assessments of SOEs' compliance with laws and regulations or the quality of their corporate social responsibility practices). Table 5 provides some illustrative examples of types of indicators used along with their country attributions. Not surprisingly, very few countries have established non-quantitative indicators to measure financial performance.

4.1.2 Reporting and auditing

Aggregate reports on the activities and performance of the SOE sector can be a useful component of an effective performance evaluation system. They can notably reinforce accountability of the state as an owner – particularly if they are made available to the general public or its representatives – and can also encourage improvements in corporate disclosure at the company level. The majority of Asian countries surveyed for this stocktaking do produce aggregate reports on the SOE sector, albeit with varying degrees of coverage and quality[7]..

Table 5. **Examples of performance evaluation indicators used in Asia**

	Quantitative	Qualitative
Financial	• Net interest margin (Bhutan) • Economic value added (China) • Net profit (India) • Financial ratios (Indonesia) • Labour productivity (Korea) • Return on investment (Philippines)	• "Policy directed activities" (Bhutan) • Quality of risk management (Indonesia) • Transparency of budgetary practices (Korea)
Non-financial	• Customer satisfaction index (Bhutan) • Number of new products (China) • Project cost overrun (India) • Number of corporate events (India) • Achievement of "core business targets" (Korea) • Percentage of beneficiaries served (Philippines)	• Quality of corporate governance (Bhutan) • Commitment to corporate social responsibility (India) • Timely submission of reports to regulators (Indonesia) • Development of a gender equality policy (Korea) • Certifications indicating compliance with international standards (Philippines)

Source: Questionnaire responses from contributing countries. Note: Singapore reportedly uses performance evaluation indicators in all of the above areas but did not provide specific examples to include in the table.

For those countries that produce annual reports on the SOE sector as a whole, the reports generally consolidate: (i) financial information, disclosure of which is often required of certain categories of SOEs. e.g. as per company law, listing requirements or sector regulations; and (ii) non-financial performance information that SOEs are required to submit to the state ownership entity, often as part of the performance evaluation process. In some cases, aggregate reports include the results of performance evaluations, but detailed company-specific evaluations are usually not communicated to the general public. For example, in **India**, the state ownership/co-ordinating agency produces an aggregate report that, in addition to providing consolidated financial information, also reports on the performance evaluation process itself. For those countries with state holding companies – **Bhutan**, **Khazakhstan** and **Singapore** – annual reports are limited in scope, examining primarily the activities and financial performance of the holding companies themselves, rather than of the SOE sector as a whole.

An important aspect of performance reporting is the reliability of information provided by SOEs and the state ownership entity. In this respect, internal auditors, external auditors and state auditors all have a role to play in assessing and verifying the credibility of information. Based on this current stocktaking, it would be difficult to offer any conclusions regarding the quality of SOE reporting in Asian countries, since it varies depending many factors, such as: SOEs' corporate form(s) and the resultant disclosure requirements; national accounting standards; the level of development of the external audit profession; and the strength of the ownership or co-ordinating entity *vis-à-vis* the line ministries that share responsibilities for overseeing SOEs. This could be an interesting area for further investigation.

4.1.3 Incentives and sanctions

In almost all of the countries with a performance evaluation system in place, the results have some degree of influence on the level of executive remuneration within

individual SOEs (7 countries). The only apparent exceptions to this are **Viet Nam** and **Singapore**, where performance evaluations of SOEs do not inform subsequent remuneration decisions. In the case of the **Philippines**, performance evaluations influence incentive setting for the board members of SOEs, rather than CEOs or other executives as is the case in other countries. In a few of these countries, performance-based pay for executives is calculated as an explicit percentage range of their basic salary, according to the SOEs' ranking in the performance evaluation process. For example, in **India** the executives of SOEs that receive an "excellent performance" rating are eligible to receive up to 100% of their basic salary in the form of a variable performance-based pay. Similarly, in **China**, SOEs are ranked along five levels of performance. The CEOs of the highest ranking SOEs receive a performance salary equivalent to 2-3 times their basic salary. In **Korea**, CEOs of public corporations (one of three categories of SOEs) can receive bonuses of between 0 and 120% for high performance.

In a smaller group of countries, performance evaluations also feed into executive reappointment or dismissal decisions (**Bhutan**, **China**, **Kazakhstan** and **Korea**). In **Bhutan**, CEO reappointment is explicitly contingent upon receiving a minimum individual and company performance rating in the preceding term. In **China**, for SOEs that receive a low performance rating two years in a row, the CEO is dismissed and a replacement is designated by the state ownership entity SASAC. In **Kazakhstan**, the non-achievement of key performance indicators can lead to a CEOs early dismissal. In **Korea**, the CEOs of SOEs that receive a "poor performance" evaluation two years in a row can be dismissed upon proposal of the Ministry of Strategy and Finance.

Table 6. **SOE performance evaluation and management in Asia**

	Bhutan	China	India	Indonesia	Kazakhstan[8]	Korea	Myanmar	Pakistan	Philippines	Singapore	Viet Nam
Performance evaluation system	Yes	Yes	Yes	Yes	Yes	Yes	No	No, but line ministries may analyse and evaluate performance at any time.	Yes	Yes	Yes
Authorised agency	Planning and Monitoring Division under DHI	Bureau of General Affairs in SASAC	High Powered Committee, Performance Management Division in the Cabinet Secretariat	Ministry for State-Owned Enterprises	Board of Directors of the Fund	The Public Institutions Policy Bureau under the Ministry of Strategy & Finance	Each management committee or executive management team from each line ministry	Securities & Exchange Commission of Pakistan / Line ministries, ex) ministry of Water & Power	Governance Commission for GOCCs	Temasek	Agency for Corporate Finance under the Ministry of Finance
Reference for performance evaluation	Compact Guideline document	Two basic indicators and two classification indicators	General assessment of financial and organisational performance. Specific assessment of SOE spending by the Comptroller and Auditor General.	Balanced scorecard performance assessment.	Strategic key performance indicators (KPI) of the Fund and their planned and actual values over the past year	Every year the Bureau organises an Evaluation Team of civil experts.	Each SOE has its internal monitoring system by management committee or Executive Management Team under the guidance of each ministry.	SECP issues guidelines and rules to improve Corporate Governance practices in PSCs.	Ownership and Operations Manual for the GOCC Sector	Capital and liquidity management	(1) A self-evaluation; (2) An evaluation by a line ministry or others, and (3) An evaluation by the Agency for Corporate Finance, Ministry of Finance

	Bhutan	China	India	Indonesia	Kazakhstan[8]	Korea	Myanmar	Pakistan	Philippines	Singapore	Viet Nam
Frequency	Quarterly	Annual	Annual	Quarterly	Quarterly	Annual		In some cases quarterly	Quarterly	Annual	Annual
Fiscal year	One year	One year	One year	One year	One year	One year		Three years	One year	One year	One year
Evaluation criteria/ methodology	4 indicators (Financial and non-financial & Quantitative and non-quantitative)	Five categories, namely A, B, C, D and E.	Performance overview; investment & pricing; productivity; · international operations; financial delegation and HRM issues; MoU system; R&D project implementation; restructuring of ailing SOEs; divestment & listing on stock exchanges	Leadership; strategic plans; focus on customers; management competence; labour focus; process focus; business performance.	Provisions of the Corporate Governance Code of the Fund and best disclosure practice, strategic key performance indicators (KPI) of the Fund	4 indicators (Financial and non-Financial & Quantitative and non-quantitative)		Operational, commercial & financial performance; customer relationship management; HRM performance; risk management performance	PES: Learning and Growth; internal processes; finance; stakeholders and social impact. PED: GOCC Performance based on application of the PES (60%); director performance review (20%): director attendance score (20%)	The performance evaluation indicators vary from company to company. A key measure is total shareholder return (TSR) measured against a risk-adjusted hurdle rate.	Evaluation on CEOs put emphasis on their management efficiency: (1) Accomplishment of ROE assigned by the State; (2) Result of evaluation on the SOE; (3) Other indicators to evaluate performance of a civil servant guided by the Ministry of Interior.
Publication of annual aggregate report	Yes	Yes	Yes	Yes	Yes. Report on the implementation of the Development Plan of the	Yes		No, however, the sector regulator publishes an annual report on the overall performance of the sector.	Yes	Yes	Yes. Financial Supervision Report

	Bhutan	China	India	Indonesia	Kazakhstan[8]	Korea	Myanmar	Pakistan	Philippines	Singapore	Viet Nam
Performance incentives for CEOs	The performance rating indicators affect the reappointment of CEOs and all senior management executives.	Assessment affects the remuneration, promotion and demotion of SOE principals. It determines the executives' performance salary.	Financial incentives and increments are provided to the managers and important positions.	The settlement of annual remuneration of the next fiscal year for CEOs or executives is influenced by the performance evaluation.	Yes. Annual bonus and re-election take into account the results of all three years.	Since the tenure of CEO is 3 years, CEOs are subject to the evaluation just once during his term of office.			Incentives for directors of GOCC governing boards	No. The performance evaluation results do not have impact the settlement of annual remuneration of the next fiscal year for CEOs or executives.	Yes. CEO's promotion or dismissal
Performance incentives for other managers/ staff	Performance based variable allowance (PBVA)	Tenure incentive system	Performance Related Pay (PRP)	Criteria for Performance Excellence (KPKU) BUMN	Yes. Talent pool can be considered following the results of performance evaluation	The SOEs evaluated "excellent in performance" receive a ministerial citation from the MOSF.			Grant of Performance-Based Bonus (PBB)	Yes. Incentives by performance evaluation	Yes

4.2. Individual national approaches

4.2.1 Bhutan

The state holding company Druk Holding and Investments Limited holding (DHI) reports that it owns and manages its assets with full commercial discretion and flexibility, including with regards to investment, divestment and business decisions under the guidance of its board. All DHI-owned and -controlled companies are required to inform DHI as the principal shareholder on key business strategies, financial matters, restructurings as well as on major decisions or matters that may have a significant impact on the shareholder. With regard to statutory requirements and government policy related matters, portfolio companies interface directly with the government or statutory agencies but keep DHI informed. DHI ultimately has the responsibility to meet dividend obligations to the Ministry of Finance.

a. Reviewing performance: performance evaluation system of SOEs

DHI has developed a corporate performance management system aimed at providing DHI portfolio companies a framework for periodic target setting, reviewing and linking performance to corporate incentives. DHI introduced a system of signing an Annual Compact between its board and the companies. The compact is a mutual agreement between the companies and the state shareholder. It details activities with clearly measurable targets to be accomplished during the year. It is a corporate level performance management system that covers target setting, monitoring and performance evaluation in the areas of financial performance, customer service, corporate governance and "policy directed targets", which in the national vernacular appears to refer to public policy objectives. Key performance indicators (KPIs) are identified within the compact process for each company to focus on enhancing performance.

The system is designed in such a way that the Annual Compact defines the overall corporate level targets which are then cascaded down to different levels within each company (departments, divisions and units) and ultimately define individual performance ratings and individual target achievements which are tied to the annual bonus and other HR linkages such as meritorious promotion, etc. As the authorised agency, the Planning and Monitoring Division under DHI manages the performance evaluation system for its portfolio SOEs. The Planning and Monitoring Division is guided by the DHI Corporate Performance Department in practicing and maintaining the evaluation system within the holding structure, however certified public accountants and certified external auditors also play a role in verifying the final financial information submitted by companies.

The performance evaluation and monitoring system is based on a Compact Guideline document developed by DHI for its portfolio companies in accordance with the Ownership Policy, which gives DHI responsibility for undertaking the performance monitoring and evaluation of its portfolio SOEs.

b. Reporting and auditing performance

Performance evaluations are carried out on a quarterly basis by requiring the companies to submit and present quarterly, half yearly, third-quarter, and final performance reports to DHI. The evaluation based on the Annual Compact targets signed with each company looks at four areas/indicators: i) policy directed objectives; ii) performance measurement; iii) customer service; and iv) corporate governance. The evaluation along each category can be financial, non-financial or both. In addition to the

overall evaluation, company boards evaluate CEOs annually, resulting in a leadership performance rating which impacts executive incentives and is taken into consideration during reappointment and incentives decisions.

The assessment and evaluation of the previous year's performance for each company is done in January every year. The final performance evaluation is conducted on an annual basis, but quarterly evaluations are also carried out throughout the year between DHI and its subsidiaries. Evaluation indicators along the four categories mentioned above are published within the DHI Annual Report. The Annual Report is published for the latest fiscal year – i.e. the 2014 annual report is published in 2015.

Table 7. **Performance evaluation indicators in Bhutan**

	Quantitative indicators	**Non-quantitative indicators**
Financial performance	*(Type I)* Financial Compact (Revenue; PAT; Net Interest Margin, etc.)	*(Type II)* Policy Directed Activities
Non-financial performance	*(Type III)* Customer Service (Customer Satisfaction Index; Industry specific indicators; Employee Attrition Rate)	*(Type IV)* Organizational Capacity/Management Corporate Governance Policy Directed Activities

At the company level, individual annual reports contain specific financial and non-financial reporting that is required by the Companies Act of the Kingdom of Bhutan. Additionally, the DHI Ownership Policy and Corporate Governance Code specify that other information such as a corporate governance report be included in companies' annual reports. SOEs provide the information which is then audited by an independent accounting firm. Companies also maintain an independent internal audit function that monitors the activities and procedures within the organisation and reports directly to the chairman of the board or the board audit committee. The annual report is the primary report published by SOEs, however some companies also publish quarterly and semi-annual reports and magazines.

c. Incentives and sanctions

In Bhutan, the performance rating indicators affect the reappointment of CEOs and all senior management executives who are hired on a contract basis. Each contract term is for 3 years within the DHI structure. The selection, appointment and reappointment of CEOs of DHI companies are guided by the Guidelines for Selection and Appointment of CEOs in DHI companies issued by DHI. The document stipulates that to be considered for reappointment, an incumbent CEO must have maintained an average performance rating of 85% or above during his/her tenure. Additionally, at least 75% of the company board (excluding the CEO) must agree to the reappointment.

The remuneration package of the CEO and senior executives is discussed by the Nomination and Governance Committee of the particular company board during the selection and appointment process. The performance results of the company impact the Performance Based Variable Allowance (PBVA) provided to all employees including the CEO and senior executives within management. Based on the Annual Compact achievement, Performance Based Variable Allowances (PBVA) are approved for

companies and distributed to each employee as a percentage of their basic pay as outlined in Table 8.

Table 8. Performance based variable allowance in Bhutan

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

In order to create particularly stringent performance monitoring and evaluation processes for the CEO, the CEOs of the DHI companies receive their PBVA based on both individual leadership performance rating carried out by the board (which constitutes 20%) and the company's Annual Compact achievement (80%).

4.2.2 China

a. Reviewing performance: performance evaluation system of SOEs

The State-Owned Assets and Supervision Commission (SASAC), the agency responsible for carrying out the state ownership function, assesses the performance of SOE principals (i.e. CEOs and their deputies). Assessment results affect their remuneration, promotion and demotion.

Article 27 of Law of the People's Republic of China on the State-Owned Assets of Enterprises gives the state responsibility for establishing a performance evaluation system for executives of enterprises invested by the state. SASAC is given responsibility for conducting the annual and tenure performance evaluations of executives and determining their incentives and sanctions[9]. The Bureau of General Affairs in SASAC is the main unit responsible for overseeing the performance evaluation system of executives in enterprises under its supervision (those held at the central level of government) and for conducting annual and tenure evaluations. The targets and results of evaluations are jointly determined with other relevant bureaus and agencies in SASAC.

b. Reporting and auditing performance

The annual performance evaluation focuses on both profitability and quality of business development. SASAC has two basic indicators and two classification indicators. The basic indicators evaluate profitability and capital performance efficiency, namely the profit and economic value added. The classification indicators are established based on the specific functions, industrial features and managerial structure of the enterprises. The tenure performance evaluation focuses on strategy and sustainable development. The basic indicators evaluate the increase in value and the preservation of state-owned assets and the asset turnover ratio. The classification indicators are set according to the enterprise development strategies and long-term business development capacity. The results of the performance evaluation fall into five categories, namely A, B, C, D and E. Enterprises receiving scores of A, B or C are regarded as "qualified".

Table 9. **Performance evaluation indicators in China**

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)* Total profit Economic value added Asset increment and preservation ratio Asset turnover ratio Portion of cost in revenue Asset-liability ratio	*(Type II)*
Non-financial performance	*(Type III)* Technical input ratio Number of new products Oil and gas output	*(Type IV)*

c. Incentives and sanctions

Enterprise executives with annual performance evaluation results of D or E for two consecutive years or tenure performance evaluation results of D are replaced with new executives designated by SASAC. The annual performance evaluation result determines the executives' performance salary. The performance salary of deputy executives is 0.6-0.9 times that of the performance salary of executives according to their performance. Table 10 provides an overview of the different levels of performance salary based on the scores received during the performance evaluation. China is reportedly in the process of launching a tenure incentive system, according to which executives receiving a high performance evaluation can gain as much as 30% of their total salary as a tenure incentive. (What is meant by "tenure incentive" is not entirely clear, but it could refer to incentives to encourage top performing executives to remain in the SASAC system of enterprises).

Table 10. Incentives for SOE executives in China

E Enterprise	zero performance salary
D Enterprise	performance salary = 0-1 time of basic salary
C Enterprise	performance salary = 1-1.5 times of basic salary
B Enterprise	performance salary = 1.5-2 times of basic salary
A Enterprise	performance salary = 2-3 times of basic salary

4.2.3 India

a. Reviewing performance: performance evaluation system of SOEs

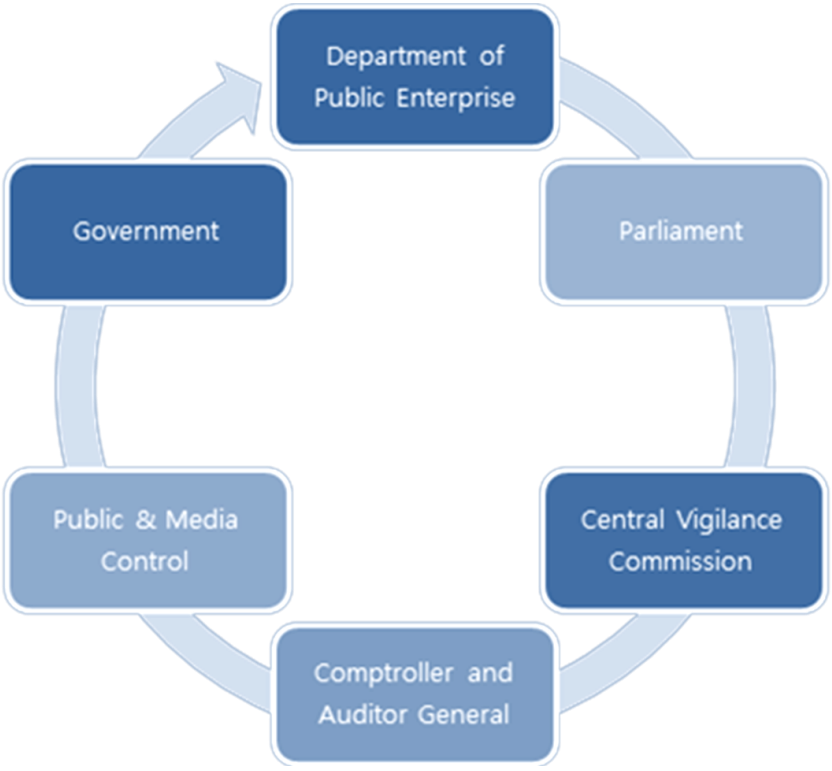
The SOE performance evaluation and monitoring system has been institutionalised in India. The current system of performance management in SOEs was initiated during the mid-eighties based on what the Indian authorities characterise as "global best practices". The Indian Government adopted the system of performance contracting – since then rechristened the Memorandum of Understanding (MoU) system – to monitor and measure the performance of SOEs. All SOEs are evaluated under the system. There is a transparent methodology for evaluating the SOEs and the results are made public.

The MoU system in India was initiated following the 1984 publication of the Arjun Sengupta Committee report, which suggested the need to introduce MoUs between administrative (line) ministries and SOE managers. In 1985, in a meeting of the Group of Ministers it was decided to introduce the MoU system in Central Public Sector Enterprises (CPSEs). The MoU was expected to serve as a critical interface in the as yet ambiguous relationship between line ministries and SOEs. It was first introduced in its test phase in 1987-88 based on the French system of performance contracting and a year later it switched to the signalling system and has now been refined to the "balanced score card" approach. The system has its foundation in the concept of Management by Objectives (MBO) and seeks to give greater autonomy to managers in the public sector while simultaneously making them more accountable for the performance of the enterprises. The government continues to exercise control over the enterprises through "priori" supervision by target setting at the beginning of every year and through the performance evaluation. The MoU system has been fine-tuned at regular intervals to ensure it keeps up with the evolution of the public sector itself.

The MoU system in India is not backed by a legal framework. However, the system is reinforced by high-level political commitment, with a "High Power Committee" – chaired by the Cabinet Secretary and comprised of the Group of Secretaries – giving direction and guidance to the MoU system.

The 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 (CEO) of the SOE as well as the head of its administrative (line) ministry.

Figure 3. Accountability of SOEs to public institutions in India



As shown in Figure 3, SOEs are accountable to and/or monitored by a number of institutions, including Parliament, the administrative (line) ministry, the Department of Public Enterprises (DPE), the Comptroller and Auditor General, the Planning Commission, the Finance Commission, the Central Vigilance Commission, as well as the media, the public at large and others.

SOEs are mandated to fulfill the social objective for which they were set up, e.g. providing employment opportunities or promoting growth and development in under-developed regions. With the opening up of Indian economy, SOEs are also mandated to be financially profitable like any other private enterprises and achieve their performance targets set by the government.

SOEs' financial and operational performance is closely monitored by their administrative (line) ministries as well by the Government. SOEs' spending is monitored by other public institutions such as the Comptroller and Auditor General and the Central Vigilance Commission. In a context of market liberalisation, SOEs have generally been accorded greater financial autonomy and power of spending so that they can take quicker decisions and compete with other leading enterprises in both public and private sector.

The Government of India implemented the Right to Information Act 2005, making SOEs responsible for sharing organisational information with the general public from time to time and introducing a culture of greater transparency and accountability.

b. Reporting and auditing performance

The performance evaluation system for SOEs involves the following process. The High Powered Committee (HPC) 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 CPSEs against the targets set in their MoUs. Along with this, the HPC is also charged with assessing how well the administrative ministries/departments have succeeded in keeping their end of the commitments as promised in the MoU. A separate task force – comprised of ex-civil servants, ex-CEOs of SOEs, professionals and academics from relevant disciplines – is charged with target setting and assigning weightings to the parameters included in the performance evaluation. The task force has sub-groups called syndicates, each of which is charged with monitoring a group of CPSEs in a specific sector. The syndicates are generally composed of 5-6 members with different areas of expertise, e.g. financial, corporate social responsibility, research and development and human resources.

The annual process of target setting through MoUs is initiated by DPE and proceeds as follows: (i) MoU guidelines are released in October/November; (ii) draft MoUs are prepared by CPSEs on the basis of the guidelines and submitted to the administrative ministries; (iii) the MoU division of DPE examines the draft MoUs and circulates its critiques which are handed over to the members of the task force; (iv) MoU negotiation meetings are scheduled; (v) negotiation meetings are held in January through March to finalise the MoUs with the task force; (vi) minutes of those meetings are prepared and circulated; (vii) draft MoUs are prepared by CPSEs on the basis of the minutes; (viii) the task force evaluates the MoUs, which are then vetted by DPE; and (ix) all MoUs are signed by end March.

All Indian SOEs are included in the MoU system, with the exception of struggling or loss-making enterprises, which are referred to the Bureau of Industrial Finance and Restructuring. DPE publishes an annual Public Enterprise Survey reporting on the

following aspects of SOE operations and performance: i) performance overview (yearly highlights); ii) investment and pricing in SOEs; iii) productivity of SOEs; iv) international operations; iv) financial delegation and HRM issues; v) MoU system; vi) research and development, project implementation; vii) revival & restructuring of struggling or loss making SOEs; and viii) disinvestment & listing on stock exchanges.

Table 11. Performance evaluation indicators in India

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)* Profits, gross margin, gross profit, gross sales, net profit, resource mobilisation, loan sanctions, recoveries, cash generation from operations	*(Type II)* Project implementation, project cost (cost overrun), strategic planning/corporate, planning/vision
Non-financial performance	*(Type III)* Productivity related, PBDIT/total employment, net profit/net worth, added value/sales, working capital/turnover	*(Type IV)* HRM, customer satisfaction, corporate social responsibility, corporate governance

c. Incentives and sanctions

Based on SOEs' performance against the targets outlined in the MoU, executives receive financial incentives and rewards. Executives of high performing SOEs can be promoted, but there have been no cases of dismissal or employment termination in cases of under-performance. The Indian authorities report that SOE executives are selected based on their performance track record, educational qualifications and ability to work in team as well as their communication skills, which are crucial for senior executives to lead SOEs in India.

A system of performance related pay is in place for the executives of Indian SOEs, involving both monetary and non-monetary incentives. The present system was conceptualised in the Second Pay Revision Committee report, which recommended that a variable performance related pay be accorded to the executives of profit-making CPSEs in accordance with their MoU rating. 100% of the basic salary would be accorded to CPSEs achieving "excellent" rating; 80% to those with a rating of "very good", 60% for "good" and 40% for "fair". The CPSEs with "poor" rating for the MoU year are not eligible for performance related pay.

The Second Pay Revision Committee notably recommended that all CPSEs face a mandatory requirement to sign MoUs with their administrative ministries and that those without signed MoUs be ineligible for performance related pay. Prior to the introduction of the performance related pay system, CPSE employees were paid full compensation irrespective of enterprise or individual performance. The earlier system was reportedly at odds with compensation in the private sector, where a large portion of the compensation paid to individual employees has a variable component reflecting contributions to company performance. The Second Pay Revision Committee recommended that a similar system be introduced in public sector enterprises, with pay variability being higher for top executives and lower for low-level executives.

2.4 Indonesia

a. Reviewing performance: performance evaluation system of SOEs

SOEs in Indonesia ("BUMN" in national nomenclature) can take two main forms: public utility enterprises/special purpose entities (Perusahaan Umum or "Perum"); and state-owned limited liability enterprises (Perusahaan Perseroan or "Persero"). The Ministry of State-Owned Enterprises is appointed and/or authorised to represent the government of Republic of Indonesia as state shareholder in the Persero (limited liability) enterprises, in accordance with the 2003 Law No. 19 on State-Owned Enterprises.

Pursuant to Law No. 19/2003, the highest operational body in an SOE is its board of directors. The board of directors is the company organ responsible for managing the company and is bound by a duty of loyalty toward the company. The board of directors represents the company, both in and out of court, in accordance with the provisions of the articles of association. A board of commissioners, the equivalent of a supervisory board in a two-tiered board system, is charged with supervising and advising the board of directors.

In Indonesia, the institutional basis for performance evaluation of SOEs is found in a statement entitled KPKU-BUMN (Assessment Criteria for Performance Excellence in SOEs) developed by the Ministry of State-Owned Enterprises. KPKU-BUMN provides a framework and assessment method to understand SOEs' strengths and opportunities for performance improvement, as well as to guide the development and effective implementation of corporate plans. The final performance evaluation concerns the fiscal year, but SOEs' performance is also evaluated on a quarterly basis.

The performance evaluation is carried out by the board of directors, guided by the KPKU-BUMN framework. In conducting the evaluation, assessors visit the SOEs directly to interview management and examine documents. The performance of SOEs is evaluated along seven areas: (1) leadership; (2) strategic plans; (3) focus on customers; (4) measurement, analysis and management's knowledge; (5) focus on labour; (6) focus on process; and (7) business performance.

The KPKU-BUMN applies a "balanced scorecard performance measurement" approach (for further details see OECD, 2010). Essentially, KPKU-BUMN can be used to monitor and strengthen performance at the level of individual staff, units and the organisation as a whole. The findings of the assessment can also serve as a starting point for a "continuous improvement cycle" within each SOE.

After the assessment is carried out by the board of directors by means of the quantitative indicators mentioned above, SOEs are also evaluated by the board of commissioners, which subsequently makes a report to the Ministry of State-Owned Enterprises. After the process of evaluation is finished, the assessor assigns a score and develops a feedback report, including recommendations. The feedback report gives an overview of the perceived strengths, weaknesses, opportunities and threats for each of the SOEs assessed. The Indonesia authorities report that it is expected that through these assessments, SOEs can improve their performance and provide benefits to stakeholders.

b. Reporting and auditing performance

Table 12. Performance evaluation indicators in Indonesia

	Quantitative indicators	Non-quantitative indicators
Financial performance	Financial ratios, net profit, growth	Risk management, share performance
Non-financial performance	Corporate events, corporate social responsibility programs, corporate soundness level	Timely submission of reports to regulators, public service obligations, implementation of good corporate governance practices, awards

The Indonesia Ministry of SOEs publishes an annual report entitled "Ikhtisar Laporan Keuangan Perusahaan Negara (BUMN)/The Summary of SOEs Financial Report." The annual report includes complete financial information on SOEs such as value of assets, net profit, financial ratios, etc. It also includes non-financial reporting, among others information on boards of directors and on the implementation of good corporate governance practices.

Concerning company-level reporting, the laws and regulations applicable to banks and listed companies in Indonesia – including those that are state-owned – subject those companies to specific disclosure requirements. For example, all listed companies are required to publish an annual report, while all Indonesian banks are required to publish monthly, quarterly and annual reports.

c. Incentives and sanctions

SOEs' performance results from the latest fiscal year impact the following year's remuneration levels and incentives for CEOs as well as the salaries, honorarium or other facilities given to members of the board of directors, as laid out in the Ministry of SOEs Regulation No. PER-04/MBU/2014 on the Guidelines for the Remuneration of Boards of Directors and Boards of Commissioners in State-Owned Enterprises.

The process of appointment and dismissal of executives is clearly outlined in the Ministry of SOEs Regulation No. PER-03/MBU/02/2015 on Requirements and Guidelines of Appointments and Dismissals of Members of Board of Directors of State-Owned Enterprises. No information was provided on whether low performance evaluations can result in dismissals or other sanctions for the CEOs or other executives of SOEs.

4.2.5 Kazakhstan

a. Reviewing performance: performance evaluation system of SOEs

The information that follows concerns the performance evaluation of Kazahkstan's sovereign wealth fund Samruk-Kazyna ("the Fund"), the state holding company with shares in an important portfolio of SOEs. The Fund has a two-tiered board system. The Ministry of National Economy exercises the role of shareholder in the fund, on behalf of the state. The Prime Minister chairs the Fund's board of directors (hereafter referred to as "supervisory board" to maintain consistency with other sections in this report) and both the Minister of National Economy and the Minister of Finance are ex-officio members. As part of the work of the supervisory board, the Ministry of Economy as state shareholder undertakes the function of performance evaluation and regular monitoring in compliance with the Law of the Republic of Kazakhstan "On Sovereign Wealth Fund" and the internal regulations of the Fund. The supervisory board is the body that manages the performance evaluation system. The jurisdiction of the supervisory board is regulated by the Law "On Sovereign Wealth Fund".

b. Reporting and auditing performance

The supervisory board of the Fund carries out its performance evaluation annually by considering the report on implementation of the Development Plan of the Fund over the past year, which includes the strategic key performance indicators (KPI) of the Fund and their planned and actual values. The report on the implementation of the Development Plan of the Fund over the past year is based on the consolidated audited financial statements for the past year, prepared by independent international auditors in accordance with International Financial Reporting Standards. The consolidated audited financial statements of the Fund for the latest year are approved by the state as shareholder, i.e. through Decree of the Government of Kazakhstan.

The performance evaluation is carried out at the end of the year, while interim results of the Fund's activities are submitted on a quarterly basis to the members of the supervisory board in accordance with the internal documents of the Fund approved by its supervisory board. The implementation of the Development Plan is monitored on a quarterly basis by the management board of the Fund. The management board informs the supervisory board of the results of its monitoring no later than the first day of the third month following the reporting period. No later than 20 June following the annual reporting period, the management board submits to the supervisory board an Annual Report on the Implementation of the Development Plan, taking into account the audited consolidated financial statements of the Fund.

The Fund and the Fund's companies prepare and publish an annual report in accordance with the provisions of the Corporate Governance Code of the Fund and best disclosure practices. The Annual Report on the Implementation of the Development Plan of the Fund includes the planned and actual values of the strategic key performance indicators (KPIs) of the Fund for the fiscal year. The details of the performance evaluation, monitoring and reporting system related to the implementation of the Fund's Development Plan are laid out in a set of rules approved via decision of the supervisory board on 7 September 2012.

Table 13. Performance evaluation indicators in Kazakhstan

	Quantitative indicators	Non-quantitative indicators
Financial performance	*Value growth* *Net income* *Extended dividends*	*(Type II)*
Non-financial performance	*(Type III)*	*(Type IV)*

The Annual Report on the Implementation of the Development Plan is made available on the website of the Fund. It takes into account the consolidated audited financial statements of the Fund and includes the following:

1. Report on the implementation of the Development Plan for the reporting period, using the audited consolidated financial statements of the Fund for the reporting year;
2. Executive summary to the report on the implementation of the Development Plan for the reporting period, with a report on the implementation of strategic KPIs and investment projects of companies.

In addition the Corporate Governance Code of the Fund has a separate section on "Transparency". This section describes the principles of disclosure of financial and nonfinancial information on the activities of the Fund and its organisations.

c. Incentives and sanctions

According to the new Corporate Governance Code of the Fund, an evaluation of the KPI achievement by the Fund and its companies as compared with the approved Development Plan is carried out on an annual basis. This evaluation has an impact on the remuneration of the CEO and members of the executive bodies; it is taken into account in their re-election and can also lead to their early dismissal from office. In addition to annual bonuses, longer term motivational KPIs are established, taking into account company results over a three-year period[10].

The main factor in the appointment of a CEO is reportedly a candidate's compliance with established qualification requirements. A CEO's dismissal is carried out in the manner prescribed by the legislation taking into account the submitted materials of relevant committees of the supervisory board. An annual bonus is paid to the CEO and managers following the performance evaluation for the fiscal year. The results of the performance evaluation of the last fiscal year do not affect the determination of the annual remuneration for the next financial year.

In order to increase accountability for results and create objective justification for incentives, the supervisory board assesses the activities of the CEO and members of the executive body through the use of motivational key performance indicators (KPIs). Executive compensation is then linked to both overall corporate performance and individual functional efficiency. Executives receiving a strong performance evaluation can then be placed in a "talent pool" for future transfers or promotions.

4.2.6 Korea

As per the Act on the Management of Public Institutions in Korea, the Ministry of Finance and Strategy designates which public institutions are classified as SOEs, according to their relative levels of self-generating revenue and government grants. SOEs are then classified into three categories according to their asset value, level of self-generating revenue and number of employees: (i) public corporations; (ii) quasi-governmental institutions; and (iii) and non-classified public institutions.

a. Reviewing performance: performance evaluation system of SOEs

The performance evaluation system for SOEs in Korea is overseen by the Ministry of Strategy and Finance. Each year, the Ministry establishes an evaluation team responsible for conducting assessments of individual SOEs, based on a set of performance indicators defined in an evaluation manual developed by the Ministry. Performance evaluation results are then used by the Ministry to inform subsequent executive remuneration and appointment decisions.

Performance evaluations of public institutions have their legal basis in the Act on the Management of Public Institutions. In accordance with Article 48 of the Act, the Ministry of Strategy and Finance is responsible for conducting "Management Performance Evaluations" in public institutions. The Act also designates the Ministry of Strategy and Finance as the authority responsible for managing the evaluation system, establishing and overseeing the operations of the evaluation team and reporting on the evaluation results.

The Public Institutions Policy Bureau under the Ministry of Strategy and Finance manages the performance evaluation system. The Bureau takes charge of the overall management of the evaluation system. Every year the Bureau publishes the evaluation manual, organises the evaluation team, announces evaluation results, dispenses rewards and implements sanctions. The evaluation team that is established by the Bureau is composed of civil experts such as professors, certified public accountants, lawyers and certified public labour attorneys.

Performance evaluations assess performance on three levels: SOEs, CEOs and auditors, detailed below.

1. **The evaluation of SOEs** consists of evaluation indicators in two areas: (i) internal management and (ii) core businesses.
2. **The evaluation of CEOs** is based on the performance agreement concluded between CEOs and competent ministers. The evaluation focuses on the performance of CEOs who have been in their position for at least one and a half years. Evaluation indicators assess two areas: (i) common tasks (leadership and management accountability) and (ii) performance tasks (accomplishments in: financial budget management; the management of employee remuneration and employee benefits; (iii) medium-term strategic tasks; and (iv) long-term strategic tasks.
3. **The evaluation of auditors** is performed based on Article 36 of the Act on the Management of Public Institutions, according to which the Minister of Strategy and Finance may evaluate the performance of non-standing directors, auditors, or auditors of the audit committee. The criteria and method for the evaluation are laid out in the evaluation manual published every year. In 2015, the evaluation of auditors was undertaken using indicators in three areas: (i) adequacy of audit activities and job performance, (ii) the results of external evaluations undertaken by the Board of Audit

and Inspection of Korea and by the Anti-Corruption and Civil Rights Commission and (iii) the results of the performance evaluation of SOEs.

b. Reporting and auditing performance

Performance evaluations of SOEs are conducted annually for the preceding fiscal year. For example, the performance of SOEs between January 2014 and December 2014 was subject to a performance evaluation in 2015. CEOs that have been in office for at least one and a half years are not subject to an evaluation. Therefore CEOs that are in their post for the full three-year term are subject to only one performance evaluation.

Table 14. Performance evaluation indicators in Korea

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)* Debt ratio, interest coverage rate, labour productivity, equity productivity, rate of value-added, return on assets	*(Type II)* Risk management, budget transparency practices
Non-financial performance	*(Type III)* Customer satisfaction survey result, degree of government policy achievement, degree of core business target achievement	*(Type IV)* Corporate social responsibility practices, gender equality policy, improvements in labour conditions, public disclosure of business information, management policy on contract workers

c. Incentives and sanctions

Following the annual performance evaluation, SOEs that receive an evaluation of "excellent in performance" receive a ministerial citation from the Minister of Strategy and Finance. The CEOs of the SOEs that receive an evaluation of "poor" more than once can be dismissed by proposal of the Minister of Strategy and Finance.

The annual remuneration system of CEOs and executives has little to do with performance evaluation results. However, extra incentives are accorded to CEOs, executives and employees depending on their evaluation results. The incentive rates are laid out in the Guidelines on the Budget Compilation of Public Corporations and Quasi-governmental Institutions. In public corporations, CEOs can receive bonuses of between 0% and 120% of their annual salaries from the previous year, while employees can receive between 0 and 250% of their monthly salary. In quasi-governmental institutions, the percentage ranges are 0-60% for CEOs and 0-100% for employees.

4.2.7 Myanmar

In Myanmar, SOEs are either incorporated under Section 8 of the State-Owned Economic Enterprise Law (SOEEL 1989) or the Special Companies Act (1950). Enterprises incorporated under the SOEEL can be incorporated by the government or by line ministries. They have separate legal personality, perpetual succession and the right to sue and be sued. However, they are not companies and are not governed by the Myanmar

Companies Act. Paragraph 10 of the procedures relating to the SOEEL accords the line ministry creating an SOE the right to determine the duties, powers, governance and financial arrangements of an SOE. These must be notified to the government.

A SOEEL drafting working group committee under the supervision of the Ministry of National Planning and Economic Development, as a focal ministry, is in the process of developing a definition of SOEs in line with international standards. The Special Companies Act currently governs the formation of companies that have both government and private sector shareholders. The Special Companies Act may be repealed when the revised Companies Act (of which a draft is currently available) is adopted.

Reflecting the current legal situation, an overall performance evaluation or monitoring system for SOEs has not been established. There is no single monitoring system for either commercial SOEs or non-commercial SOEs. The distinction between commercial and non-commercial SOEs is not recognised in Myanmar's laws. There is no single entity responsible for monitoring and assessing the performance of SOEs.

In practice, performance monitoring and evaluation are reportedly undertaken on a decentralised basis by the relevant management committee or executive management team from the relevant line ministry. In addition, each SOE has its own internal monitoring system, operating under the guidance of the responsible line ministry.

4.2.8 Pakistan

SOEs in Pakistan (Public Sector Companies, or PSCs, in national nomenclature) are defined as any company in which the state is the beneficial owner, directly or indirectly controls a majority of voting shares or can nominate or appoint a majority of its board of directors. Regarding their legal form, SOEs are either incorporated under the 1984 Companies Ordinance or through company-specific statutory legislation ("Special Act" in national nomenclature). The latter applies, for example, to the Pakistan National Shipping Corporation and the Pakistan International Airlines Corporation. Where there is ambiguity in the statutory legislation, the Companies Ordinance is reportedly applied.

a. Reviewing performance: performance evaluation system of SOEs

There is no centralised performance monitoring and evaluation system for SOEs in Pakistan. In practice, evaluations are reportedly undertaken by line ministries on an *ad-hoc* basis. As an example, the Ministry of Water and Power (MoWP) has undertaken a pilot evaluation system in the power sector, involving performance contracts signed between the MoWP and state-owned electricity distribution companies to set performance targets for the next financial year and then evaluate their performance at year-end.

The companies are required to submit a report to the MoWP on the actual performance against the set targets on a monthly, quarterly and annual basis. The MoWP then reviews and analyses performance against the set targets in consultation with SOE management and in the following areas: i) operational and commercial performance; ii) financial performance; iii) customer relationship management; iv) human resources performance; and v) safety management performance.

b. Reporting and auditing performance

Performance contracts for SOEs under the purview of the MoWP are signed for a period of three years. SOEs are required to submit their quarterly progress reports to the MoWP. The MoWP does not publish an annual consolidated report on the performance of

the SOEs under its purview. However, the sector regulatory authority, the National Electric Power Regulatory Authority, publishes an annual report on the overall performance of the power sector, entitled "State of the Industry Report".

Table 15. Performance evaluation indicators in Pakistan

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)* Submission of financial statements	*(Type II)*
Non-financial performance	*(Type III)* Load Shedding Bill adjustments AT&C losses	*(Type IV)* Billing cycle Customer relationship management Human resource performance Safety management performance

The authorities of Pakistan do not publish an annual report on the activities and performance of the SOE sector. According to the legislative framework in place, the majority of SOEs are only required to report on performance to their respective line ministries, as requested. However, in practice, SOEs are reportedly called upon to report to several other public institutions, notably: i) the Ministry of Finance (MoF); ii) the the Securities and Exchange Commission of Pakistan (SECP); and iii) the relevant sectoral regulatory bodies (set standards for operations).

At the company level, listed SOEs are subject to the disclosure requirements put in place by the SECP, which is responsible for ensuring compliance of listed companies' quarterly and annual reports with international reporting standards. SOEs are required to submit quarterly financial statements and a detailed annual report to the SECP. SECP also issues guidelines and rules to improve corporate governance practices in listed companies, including listed SOEs. In the case of holding companies with subsidiaries, holding companies in practice publish annual and semi-annual performance reports (including consolidated and unconsolidated performance reporting).

4.2.9 Philippines

Under the 2011 GOCC Governance Act, SOEs in the Philippines (Government-owned or controlled-corporations, or GOCCs, in national nomenclature) are either organised either under a special legislative charter or under the terms of the Corporation Code of the Philippines, as joint stock companies or non-stock corporations vested with functions relating to public needs, and in which the Government of the Philippines is a majority or full owner, either directly or through its agencies. Government Financial Institutions, a sub-category of GOCCs, are financial institutions or corporations in which the government directly or indirectly owns a majority of the capital stock.

Two other types of SOEs receiving specific definition/classification under the Act are the Government Instrumentalities with Corporate Powers and Government Corporate Entities, which are expressly defined as sub-categories of GOCCs but are differentiated in that they are not organised with capital stock or with express separate juridical personality, but are not integrated within the government's departmental framework, and

therefore operate autonomously under grant of express corporate powers exercised through a board of directors.

The Compensation and Position Classification System (CPCS) for the GOCC sector, which is mandated under the Act, provides for a system of compensation and benefits for GOCC officers and employees that is competitive with the private sector doing comparable work, in order to attract and retain the best and the brightest and thereby improve service delivery that is affordable and sustainable, and is performance-based. The Governance Commission for GOCCs (GCG) is a statutory ownership entity created under the 2011 GOCC Governance Act (Rep. Act No. 10149), as the "central advisory, monitoring, and oversight body, with authority to formulate, implement and co-ordinate policies" over the GOCC sector. The GCG has been granted authorisations under its charter which include:

i). Evaluate the performance and determine the relevance of GOCCs, to determine whether they should be reorganised, merged, streamlined, abolished or privatised, in consultation with the department to which the GOCC is attached;

ii). Classify GOCCs based on parameters that the GCG may find relevant or materials which shall guide the GCG in exercising its powers and functions;

iii). Promulgate, on the approval of the President of the Philippines, the organic documents of "Ownership and Operations Manual for GOCCs," the "Code of Corporate Governance for GOCCs", and the "Fit and Proper Rule" for Appointed Members of GOCC Governing Boards;

iv). Recommend to the Governing Boards of GOCCs the suspension of any of their members who participated by commission or omission non-compliance with the Ownership Manual;

v). Establish the Performance Evaluation System (PES) for the GOCC Sector;

vi). Promulgate, with the approval of the President of the Philippines, the CPCS for the GOCC Sector, and conduct compensation studies to further develop the CPCS; and

vii). Review the functions of GOCCs, and upon determination that there is a conflict between their regulatory and commercial functions, recommend to the President in consultation with the supervising Department to which such GOCC is attached, the privatisation of the commercial operations, or the transfer of its regulatory functions to the appropriate government agency.

In addition, all appointments of directors to the GOCC boards can only be made by the President of the Philippines from a shortlist prepared and submitted by the GCG. As per the 2011 GOCC Governance Act (Republic Act No. 10149), the GCC is the main body responsible for exercising the state's ownership rights in most of the GOCCs; although the law mandates that some of the more critical powers be exercised in consultation with the Department (i.e. line ministry) to which a GOCC is attached. The GCG is composed of five members: the Chairman (who holds a Cabinet rank) and two Commissioners, all appointed by the President of the Philippines, with two ex-officio members: the Secretary of Finance and the Secretary of Budget and Management. The GCG falls under the Office of the President as its supervising agency.

a. Reviewing performance: performance evaluation system of SOEs

The Act defines the term "Performance Evaluation System" as the "process of appraising the accomplishments of GOCCs in a given fiscal year based on set of performance criteria, targets and weights." In turn, it defines the term "Performance Scorecard" as the "governance and management tool forming part of the performance evaluation system which consists of a set of measures, targets and initiatives that facilitate the achievement of breakthrough results and performance through the effective and efficient monitoring and co-ordination of the strategic objectives of the GOCC." Finally, the term "Breakthrough Results" is defined under the Act as "the achievement of corporate goals and other performance indicators as determined by the GOCC or its supervising department.

The following organic documents were promulgated to provide for a system of management and control over the GOCC Sector:

- The Ownership and Operations Manual for the GOCC Sector (GCG Memorandum Circular No. 2012-06), which embodies the Objective and Underlying Policies for State Ownership in GOCCs, defines the roles of the various stakeholders within the GOCC Sector, sets out the respective responsibilities of the national government and the GCG in the operations and governance of GOCCs, lays out the roles and responsibilities of GOCCs and their governing boards and management, etc.;
- The Code of Corporate Governance for GOCCs (GCG Memorandum Circular No. 2012-07), which establishes the corporate governance standards applicable to GOCCs which the Act mandates "shall be no less rigorous than those required by the Philippine Stock Exchange Commission or the Securities and Exchange Commission of listed companies, or those required by the Central Bank of the Philippines (Bangko Sentral ng Pilipinas) or the Insurance Commission for banking institutions and insurance companies;"
- The Fit and Proper Rule (GCG Memorandum Circular No. 2012-05), which establishes the standards for determining whether a member of the board of directors/trustees or CEO is fit and proper to hold a position in a GOCC, which includes standards on integrity, experience, education, training and competence.

Pursuant to its mandate under the law, the GCG has put in place a performance evaluation system (PES) for GOCCs (GCG Memorandum Circular No. 2013-02). The PES provides the framework for setting the organisation targets of a GOCC. On an annual basis, performance agreements are entered into between a GOCC, as represented by its governing board, and the state, as represented by the GCG. The achievement of the targets serves as basis for the granting of performance-based bonuses for officers and employees of the GOCC. The results of the PES are also used as basis to ascertain whether a GOCC should be reorganised, merged, streamlined, abolished or privatised.

b. Reporting and auditing performance

In the Philippines, it is the GCG that develops and implements the PES and the Performance Evaluation of Directors (PED). During the second and third quarters of each calendar year, the GCG undertakes negotiations with the management and governing boards of each of the GOCCs, resulting in the formal execution of a performance agreement with a performance scorecard system for the following calendar year.

The PES uses a balanced scorecard approach to evaluate the performance of GOCCs in five areas: i) learning and growth; ii) internal processes; iii) finance; iv) stakeholders; and (vi) social impact. The weights for each category vary depending the nature and mandate of the GOCC. The PED Score for each member of the governing board is based on the following components: i) GOCC performance as evaluated through the PES (60%); ii) director performance review (20%); and iii) director attendance score (20%).

Since under the ownership and operations manual for GOCCs, the governing boards of GOCCs are given the autonomy to manage the affairs of the GOCC and are thus responsible for pursuing good governance practice within their companies, the measures, targets and initiatives that end up in the performance scorecards of GOCCs are primarily determined by the governing boards and management. The role of the GCG during the performance agreement negotiations is merely to promote the state's interest of ensuring that the operations of the GOCCs are consistent with national development policies and programs.

GOCCs submit quarterly reports of their achievements/performance, which are vetted by the GCG. At the close of the fiscal year covered, GCG undertakes a review and validation of the target achievements, and determines the final score of GOCCs, based on which eligibility for performance based bonuses and incentives is determined.

GCG undertakes the performance evaluation system by itself, but the performance agreements are always concluded based on separate negotiations with the governing boards and management of each of the GOCCs. Prior to the start of negotiations, the GCG sends out invitations for supervising agencies of the GOCCs, representatives of the Commission of Audit and the Department of Budget and Management, as well as private resource persons who are experts in the field of operations of the particular GOCC, to join the process.

Both the PES and the PED are based on the performance of a calendar year. Negotiation and conclusion of the Performance Agreement/Performance Scorecard for the covered year are held and concluded the previous year. The results of the PES for a GOCC in a year determine the entitlement to the grant of a Performance-Based Bonus (PBB) for that year to its officers and employees. On the other hand, the results of the PED determine not only the entitlement of each Appointed Director to the Performance-Based Incentive, they also determine whether they have achieved an "above-average" score (at least 85%) to determine whether they are eligible for re-appointment to the board of the GOCC.

Table 16. Performance evaluation indicators in the Philippines

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)* EBITDA (Earnings before Interest, Taxes, Disbursement Amortization) Margin Return on Investments (ROI)	*(Type II)*
Non-financial performance	*(Type III)* Customer satisfaction rating Percentage of beneficiaries served Percent increase in passengers	*(Type IV)* Establishment of competency framework/model ISO Certification

The GOCC Governance Act of 2011 mandates that "Within 120 days from the close of the year, the GCG shall prepare an annual report on the performance of the GOCCs and submit it to the President and the Congress." The annual report always a theme that best describes the achievements of the GOCC sector for the year covered.

The Act requires only that GCG provide in the report "its assessments of the GOCCs and recommend clear and specific actions." In practice, the particular evaluation and study conducted by GCG of each GOCC, as well as the recommended action, are always contained in a specific Memorandum addressed to the President of the Philippines. The annual results of a GOCC's PES and PED are always reported directly to the Chairman and the CEO of each GOCC as soon as they are out, with the Department to which the GOCC is attached being given a copy of the report.

The results of GOCC operations and their financial standings are consolidated in the Annual Report, which is usually composed of the following sections: (i) Highlight of the achievements in the GOCC sector found in the message from the Chairman; (ii) an executive summary of GOCC operations; (iii) report on the assets, liabilities, net worth, net income, dividends and other GOCC remittances; (iv) financial support from the national government (subsidies, equities, net lending), and (v) consolidated public sector financial position and contributions of the GOCCs. GOCCs would also include a consolidated report on the results of the PED and PED.

The contents of the Annual Report are based on submitted financial statements of GOCCs as audited by the Commission of Audit whenever available. The reports on the PES and PED are always verified and vetted on-sight by governance officers of the GCG. There is also a cross-checking with the Department of Finance, the Bureau of Treasury and the Department of Budget and Management on the figures and data pertaining to GOCCs.

Starting the last quarter of 2015, the GCG will be formally launching the Integrated Corporate Reporting System (ICRS), which is a web portal serving as the central repository of all data related to GOCCs, and capable of generating reports as needed by GCG and other national government agencies through the use of a business intelligence/analytics tool programmed into the system. The ICRS will be composed of two modules:

- GOCC Monitory System (GMS), a web-based module that allows GOCCs to directly encode and submit financial and other performance reports. It is the facility within the ICRS that collects data for effective evaluation and assessment of the performance of GOCCs.
- GOCC Leadership Management System (GLMS), which deploys a database that allows the GCG and the public to effectively assess the GOCC directors, including nominees to the GOCC governing boards, to ensure they meet the Fit and Proper Rule.

As each GOCC enters the required data, users from the GCG and other agencies can interact with the business intelligence tool to either generate standard reports or to customise reports, depending on the analysis required. The efficient and seamless flow of information is expected to enhance participatory governance from the private sector, empowering the media and civil society to engage in policy discussions regarding each GOCC and the GOCC sector as a whole.

The formal launching of the ICRS is expected by the Philippine authorities to promote implementation of the state policy outlined in Rep. Act No. 10149: "The governance of GOCCs is carried out in a transparent, responsible and accountable manner and with the utmost degree of professionalism and effectiveness."

c. Incentives and sanctions

The "carrot and stick" mechanism for the PED is the implementation by GCG within the GOCC sector of the "Performance-Based Incentive (PBI)" for Appointed Directors, which authorises the distribution of a PBI based on a multiple of the total per diems they received in the fiscal year covered, but only when: (a) the officers and employees are entitled to the PBB; (b) they have an attendance record of not lower than 90% for the fiscal year covered; and (c) they have a passing peer appraisal from their fellow members in the board. In particular, the GCG is empowered by the Act to offer incentives for directors of GOCC governing boards, as follows: "The charters of each of the GOCCs to the contrary notwithstanding, the compensation, per diems, allowances and incentives of the members of the board of directors/trustees of the GOCCs shall be determined by the GCG."

Once the threshold PES Score is achieved by a GOCC (at least 90% Score), there is a forced ranking of officers and employees within four groupings, to determine the amount of individual PBBs to which they are entitled. In order to arrive at such as forced-ranking, the management employs a "Service Performance Monitoring System" which determines the entitlement of officers and employees to merit increases also. The PED Score of each director not only determines the amount of individual PBI the director is entitled to, but also whether the director has achieved at least an "above average" grade for the year in review to warrant re-appointment to the governing board.

The officers and employees of GOCCs are entitled to Performance-Based Bonuses based on the GOCC's overall score under the PES for GOCCs. In turn, the Appointed Directors in the GOCC are entitled to individual PBIs only if the performance of the GOCC has achieved a PES score (at least 90%) that would entitle the officers and employees to PBB grants, and if the directors have achieved a passing grade under the PED system.

4.2.10 Singapore

Temasek is a state holding company responsible for managing a large portfolio of investments, including many SOEs. Its portfolio companies are managed by their respective boards and management while Temasek's investment, divestments and other business decisions are directed by its board and management, without the involvement of the government. Temasek's sole shareholder is the Ministry of Finance.

Temasek is governed by a set of stringent financial policies and expects its portfolio companies to do the same. Capital and liquidity management, liability management and forex management are key cornerstones of these policies. Both Temasek and its portfolio companies are evaluated based on commercial and financial goals.

a. Reviewing performance: performance evaluation system of SOEs

To ensure its portfolio companies are managed on sound commercial and corporate governance principals, Temasek ensures that its portfolio companies are overseen by effective boards whose actions are guided by a set of commercial principals to create and

maximise risk adjusted returns over the long term. The authorised agency practices the performance evaluation system by itself.

b. Reporting and auditing performance

The annual evaluation is based on overall performance with remuneration geared to short, medium and long term incentives. The evaluation of the management (including CEO) of each portfolio company is carried out by their respective boards. The performance evaluation indicators vary from company to company and for Temasek itself. A key measure is its total shareholder return (TSR) measured against its risk adjusted hurdle rate. Individual portfolio companies publish their own individual reports based on whether they are listed or non-listed and in accordance with appropriate legislation and listing rules.

c. Incentives and sanctions

The performance evaluation results from the last fiscal year do not have impacts on the settlement of annual remuneration of the next fiscal year for CEOs or executives in Singapore. But there are incentives by performance evaluation. Short term remuneration awarded is given on an annual basis on a company-wide, team and individual basis. Medium term incentives are based on an individual's contribution and performance over a period. Long term incentives are usually based on longer term performance with time-based vesting conditions.

4.2.11 Viet Nam

The Vietnamese government defines an SOE as an enterprise with 100% state ownership. SOEs are subject to a number of laws, decrees, decisions and circulars. The major relevant legal documents include:

- The Law on Enterprises, amended in 2014, which defines the requirements for being designated as SOEs (Article 4), outlines the types of SOEs and provides information related to the management body, the appointment and composition of boards of directors and disclosure requirements (Chapter IV).
- The Law on the Management and Use of State Capital Invested in Production and Business 2014 specifies the powers and responsibilities of state representatives in enterprises with state ownership below 100% and regulates the management and investment of state capital.

a. Reviewing performance: performance evaluation system of SOEs

Although Viet Nam has a long history of running a state-led economy with SOEs playing a dominant role, the establishment of a legal framework for performance evaluation of SOEs was only initiated in the early 2000s (Table 17).

Table 17. Legal framework for performance evaluation of SOEs in Viet Nam

No	Document	Abstract	Publish date	State
1	Decree 61/2013/NĐ-CP	Regulations of Financial Supervision and Performance Evaluation and Financial Information Disclosure of SOEs	25/6/2013	Effective date 15/8/2013
2	Decree 51/2013/NĐ-CP	Regulations of Remuneration of boards and executives in SOEs	14/5/2013	Effective date 01/7/2013
3	Circular No. 158/2013/TT-BTC	Guidelines on financial supervision and performance evaluation of SOEs	13/11/2013	Effective date 28/12/2013
4	Circular No. 19/2013/TT-BLĐTBXH	Guidelines on remuneration of boards and executives in SOEs	09/9/2013	25/10/2013
5	Decision No.115/2007/TT-BTC	Guidelines on Supervision And Assessment Of The Operating Efficiency of SOEs	25/09/2007	Expired
6	Decision No.224/2006/QĐ-TTg	Regulations of Supervision and evaluation of SOEs	06/10/2006	Expired
7	Circular No. 49/2004/TT-BTC	Guidelines on criteria for assessing the efficiency of financial activities of state-owned credit institutions	03/06/2004	Expired
8	Circular No. 42/2004/TT-BTC	Guidelines on Supervision And Assessment Of Operation Efficiency Of SOEs	20/05/2004	Expired
9	Decision No. 271/2003/QD-TTg	Regulations of Supervision and Evaluation of Operational Efficiency of SOEs	31/12/2003	Expired

By law, the Ministry of Finance is in charge of monitoring and supervising the performance evaluation of SOEs, while its Agency for Corporate Finance manages the performance evaluation system. Performance evaluations are administered on an annual basis, following a three-step-procedure: (1) a self-evaluation by the SOE; (2) an evaluation by a line ministry or provincial government, the State Capital Investment Corporation (SCIC), or the State Economic Group (SEG) which is in charge of state ownership in the SOE; and (3) an evaluation by the Agency for Corporate Finance, Ministry of Finance. Evaluation reports developed by the concerned ministries and provincial governments as well as the appraisal report prepared by the MoF rely heavily on self-evaluation by SOEs. No independent evaluation team conducts the assessments.

The performance evaluation system includes two components: (i) an evaluation of SOE performance and (ii) an evaluation of CEO performance. The evaluation of SOE performance uses several indicators to measure primarily financial efficiency, but also two indicators that seek to measure the contribution of SOEs to society.

b. Reporting and auditing performance

In Viet Nam, evaluations relate to the previous year's performance. The evaluation of CEOs emphasises their management efficiency using following criteria: (1) accomplishment of the return-on-equity target assigned by the state; (2) result of the evaluation of the SOE; and (3) other indicators to evaluate the performance of civil servants guided by the Ministry of Interior.

Table 18. Performance evaluation indicators in Viet Nam

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)* Revenue, profit and ROE, overdue liabilities and the capacity to pay due liabilities	*(Type II)*
Non-financial performance	*(Type III)* Supplying public goods and services	*(Type IV)* Legal compliances regarding taxes and budget remittances, credit, insurance, environmental protection, employment, wages, accounting and auditing, submitting financial and other reports when required

Line ministries and provincial governments as well as SEGs and the SCIC, having the ownership of SOEs in management, conduct semi-annual report and annual report named "Financial Supervision Report" for every SOE. However, all reports are not published publicly. Viet Nam does have guidelines with mandatory performance information for the annual report. ROE and ROA are two indicators included. However, semi-annual and annual reports are not publicly disclosed.

c. Incentives and sanctions

Performance evaluation results reportedly can impact CEO's promotion or dismissal, but it varies from case to case. They have little impact on the determination of annual remuneration of the next fiscal year for CEOs. CEOs can receive a performance evaluation ranging from "excellent performance" to "poor performance", which is measured using the following indicators, among others: i) implementation of criteria for civil servants managing CEOs guided by the Ministry of Interior; ii) return on equity; and iii) result of the evaluation of the SOE.

The MoF is currently evaluating the performance of CEOs by comparing financial performance (ROE) with the planned targets approved by line ministries/provincial governments. In some cases, the Ministry of Labour, Invalids and Social Affairs – which is in charge of the remuneration of SOEs' CEOs – compares financial performance with that of the previous year. The remuneration fund for the following fiscal year for CEOs, approved by the Ministry of Labour, Invalids and Social Affairs, varies from 0 to 150% depending on financial performance compared with that of the previous year.

5. Conclusions and way forward

5.1. Broader SOE reform priorities in Asia

As this stocktaking has shown, many governments in Asia have taken important steps towards improving performance monitoring systems for SOEs, in most cases bringing practices more in line with relevant recommendations of the SOE Guidelines. The SOE Guidelines notably call for the state as an owner to (i) set SOEs' financial and non-financial objectives; (ii) establish reporting systems to monitor performance against those objectives and (iii) report to the public on results. By establishing and formalising performance evaluation systems, most of the countries surveyed in this stocktaking have, to varying degrees, taken steps forward in all of these areas.

Perhaps the area where practices in Asia diverge somewhat from internationally agreed good practices concerns the respective roles of the ownership entity and SOE boards of directors in the relationship with executive management. Whereas the SOE Guidelines call for boards of directors to supervise and monitor management, in many Asian countries this role is undertaken directly or implicitly by the ownership entity. In a majority of cases, the ownership entity conducts a performance evaluation and then uses the results to inform executive incentives and sanctions, notably remuneration and (in a smaller number of countries) appointment and dismissal decisions.

This does not necessarily reflect an intentional divergence of policy approaches from "good practice", but rather the fact that in many countries in Asia SOEs are still run relatively closely to the public administration. As a result, the ownership entity fulfils many of the functions that international good practice would place under the responsibility of the board. As the legal and corporate governance arrangements of SOEs evolve in Asia, the respective responsibilities of the state, boards of directors and management can be expected to evolve as well.

In keeping with the standards of the SOE Guidelines, improvements to performance evaluation systems should take place alongside other equally important reforms, with a view to ensuring the most efficient and value creating ownership and governance arrangements for SOEs. The policy directions outlined in the OECD-Asia SOE Network's *Policy Brief on Corporate Governance of State-Owned Enterprises in Asia* remain highly relevant in this respect. Among the priority reforms identified therein are the need to: better separate the state's roles as owner and regulator; harmonise SOEs' legal forms; further clarify SOEs' objectives and fully corporatise those with largely commercial functions; clarify and strengthen the mandates of boards of directors; and improve the quality and credibility of corporate and aggregate disclosure. Steps in all of these areas would contribute to improving the performance of SOEs.

With this as a backdrop, the below proposes some "good practice" elements of the performance evaluation and management systems examined in this stocktaking. These do not constitute a definitive or exhaustive list of good practices, but are rather proposed for

consideration by policy makers in Asia seeking to learn from the experiences of their regional peers.

5.2. Elements of good practice for performance evaluation and management

Formalising performance evaluation systems

Nearly all countries examined in this stocktaking have established some form of performance evaluation system for SOEs. Only those countries with completely decentralised ownership arrangements have no formal evaluation system in place. In most cases, the performance evaluation is undertaken by the ownership or co-ordinating entity on a yearly basis. This stocktaking of national practices points to two main methods used to formalise the performance evaluation process and thus improve its effectiveness:

- *Performance contracts*. A few Asian countries have formalised performance evaluation systems through performance contracts or their functional equivalent, such as agreements or memorandums. These are generally documents outlining yearly performance targets, usually signed between the ownership entity and executive management. This approach has reportedly been useful in clarifying objectives, strengthening the accountability of SOE managers for enterprise performance and granting them greater autonomy to oversee daily operations. By helping to clarify objectives, the use of performance contracts has arguably facilitated the implementation of one fundamental recommendation of the SOE Guidelines, notably that the state should "allow SOEs full operational autonomy to achieve their defined objectives and refrain from intervening in SOE management" (Guideline II.B). However, it is essential that boards of directors play an adequate role in this process, thus fulfilling their essential functions of setting strategy and supervising management.
- *Performance indicators.* All countries undertake performance evaluations against quantitative indicators measuring both financial and non-financial performance. Examples include standard financial performance indicators as well as numerical indicators of customer satisfaction or number of beneficiaries served. A smaller group of countries also uses qualitative indicators to measure financial and non-financial performance, for example assessments of SOEs' risk management or corporate governance practices. Assessing the effectiveness of individual indicators is beyond the scope of the present stocktaking. However, it can be concluded that better defining the state's objectives through clear performance indicators – including those related to financial performance, but also non-financial performance such as the delivery of public service obligations – introduces greater transparency to the process and is in line with international good practice.

Auditing and reporting on performance

Reporting on SOE performance – at both the company level and through annual aggregate reports on the SOE sector as a whole – is an important means to strengthen the accountability of the state as an owner and ultimately promote improved performance. To ensure the accuracy and quality of reporting, SOEs should establish an internal audit function and subject SOEs' financial statements to an independent external audit. Based on the information gathered in this stocktaking the following general observations offer themselves.

- *Aggregate reporting*. Most of the countries examined herein produce some form of aggregate report on the activities and performance of the state-owned sector. Coverage and quality varies considerably. Aggregate reports generally include information on SOEs' financial accounts and performance and well as reporting on non-financial performance, where such is required of SOEs by the performance evaluation process. The countries with the most extensive aggregate reporting practices make all information available online on dedicated websites. Such practices are in accordance with the new annotated guidance of the SOE Guidelines, stating that online availability of state ownership and performance information is considered good practice. This promotes transparency and accountability towards the general public who are the ultimate "owners" of SOEs.
- *Internal, external and state audits*. For those countries that provided information on auditing practices, it appears that the recommended external audit of SOEs' financial statements is often replaced by a state audit. This reflects in part that SOEs are often run closely to the public administration, thus undergoing audits that are internal to the state. Compared to international good practice, there appears to be scope in Asia for further clarifying – and perhaps reconsidering – the respective roles and focus of internal, state and external audits bearing on SOEs. This is perhaps an area for future investigation and sharing of good practices.

Linking evaluation results to executive incentives

A majority of the Asian countries surveyed in this stocktaking use the results of performance evaluations to inform executive incentives and/or sanctions. In a plurality of cases, this takes the form of performance-based pay for senior management. This practice diverges somewhat from the standards of the SOE Guidelines, which would normally call for the SOE board of directors (and not the state ownership entity) to oversee and incentivise management. However, given the relatively weaker degree of corporatisation of SOEs in the region, and the more limited mandates of boards, it can reasonably be concluded that this reflects differences in corporate governance arrangements rather than fundamental policy divergences. Formalising performance-based pay systems through explicit, published pay scales has arguably introduced greater transparency to the state's policy on executive remuneration levels, bringing practices more in line with the SOE Guidelines.

Notes

1. In the private corporate sector, a number of other terms are frequently used in place of "performance management", but refer essentially to the same thing. These include "business performance management", "enterprise performance management" and "corporate performance management" (Cokins, 2009).

2. Notably, however, the SOE Guidelines deal only with board remuneration under the implicit assumption that executive remuneration is determined by the board without direct intervention by the state ownership entity. However, in practice executive remuneration is in a number of countries (including in Asia) subject to a significant degree of government control.

3. The SOE Guidelines explicitly apply to "enterprises that are under the control of the state, either by the state being the ultimate beneficiary owner of the majority of voting shares or otherwise exercising an equivalent degree of control" (OECD, 2015a).

4. Information on listed SOEs in India can be found here: http://www.bsepsu.com/PSUListed_bse.asp#.

5. Information on SOEs in Kazakhstan is as reported by http://www.stat.gov.kz/ and the Ministry of National Economy.

6. The authorities report that Kazakhstan actually has a hybrid model, with one portfolio of SOEs under the purview of a central holding company, while the ownership of other SOEs is exercised by other public institutions.

7. Some countries provided information on SOE-specific annual reports rather than aggregate annual reports with consolidated information on the entire SOE sector.

8. Information refers exclusively to the portfolio held via Samruk-Kazyna.

9. Presumably the "tenure evaluation" relates to some form of tenure system (conferring a long-term employment status) for the CEOs of entities under the purview of SASAC.

10. It is unclear from questionnaire responses whether the system of incentives and sanctions applies purely to the CEO and executives of the sovereign wealth fund, or whether this system also cascades down to the CEO and executives of the individual companies in the portfolio of the fund.

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Annex A

Questionnaire

Part 1: The following questions are about the general framework of the SOE sector.

1.1. How does your country define state-owned enterprises? What kinds of enterprises or institutions are defined as state-owned enterprises in your country? The definition standards may be stipulated or conventionally recognised ones.

1.2. How are state-owned enterprises classified in your country? If more than one may apply in the below box, please check all of them and explain.

Please Check as appropriate	Classification standards
	Legal form
	Commerciality
	Other standards
	(Please explain here in detail):

1.3. Please describe how the ownership function is placed within your state administration, and check below as appropriate. If more than one may apply, please check "hybrid model" and explain.

Please Check as appropriate	Ownership Model
	One centralised ownership agency, holding company or government ministry, exclusively performing the role of ownership
	A small number of ownership agencies, holding companies, privatisation agencies or similar bodies owning portfolios of SOEs separately
	A coordinating agency with non-trivial powers over SOEs formally held by other ministries[1]
	One designated government ministry (whose principal responsibilities go beyond the ownership function)

[1] For example a co-ordinating agency or specialised unit acting in an advisory capacity to shareholding ministries on technical and operational issues, in addition to being responsible for performance monitoring.

	"Dual ownership": two ministries or other high-level public institutions jointly exercise the ownership[2]
	"Dispersed ownership": a large number of government ministries or other high-level public institutions exercise ownership rights over SOEs (in the absence of a coordinating agency)
	"Hybrid model": combining some of the above features
	(Please explain here in detail):

1.3.1. Please provide the name of the institution (agency, ministry, specialised unit, etc.) that takes the responsibilities for the ownership function, its legal form, mandate and responsibilities vis-a-vis government and parliament. If more than one body is involved, provide information for all.

1.3.2. Please provide an overview of the portfolio of the ownership function (number of enterprises; approximate size). If more than one body is involved, provide information for all main ministries/institutions involved and their individual SOE portfolios.

1.4. Do you have any specific legislation or guideline that defines how state-owned enterprises should be managed or controlled?

Part 2: The following question is about the general framework of the performance evaluation system of SOEs.

2.1. Does the institution ownership function have performance evaluation or monitoring system for state-owned enterprises? If so, please explain it in detail. If your answer is no, proceed to Part 5 directly.

Part 3: The following questions are about the various aspects in practicing the evaluation system of SOEs.

3.1. Is the performance evaluation or monitoring system based on legal framework? For example, is it based on specific legislation, guideline or written agreement? If so, please explain in detail such as main contents of the legislation and the authorised agency (ministry, specialised unit, etc.) which manages the system.

3.2. Please provide more detailed information on the authorised agency (ministry, specialised unit, etc.) which manages the performance evaluation system mentioned above.

[2] This would be the case where different aspects of the ownership functions are allocated to different ministries – e.g. one ministry is responsible for financial performance and another for operations, or each ministry appoints a part of the board of directors.

3.2.1. What are the roles of the agency?

3.2.2. Does the authorised agency (ministry, specialised unit, etc.) practice the performance evaluation system by itself?

3.3. Does the evaluation system consist of more than one evaluation depending on the evaluation subject? If so, please explain briefly about each evaluation.

3.4. The following questions are about the evaluation period and the subject year(s).

3.4.1. Which fiscal year(s) are subject to the evaluation?

3.4.2. How often is the performance of SOEs evaluated?

3.5. Is the evaluation performed with evaluation indicators? What kind of evaluation indicators are used to analyse? Please classify the evaluation indicators into 4 categories according to the following criteria and fill out the box below as appropriate.

	Quantitative indicators	Non-quantitative indicators
Financial performance	*(Type I)*	*(Type II)*
Non-financial performance	*(Type III)*	*(Type IV)*

3.6. Does the institution (agency, ministry, specialised unit, etc.), having the ownership of SOEs in management, publish an annual report with consolidated performance information? If so, what is the title of the report?

3.6.1. Do you have any guidelines for an annual report? If so, what kinds of performance information are included in an annual report? Do you have any mandatory performance information that should be included in the report?

3.6.2. How is the accuracy of annual report contents obtained?

3.6.3. Do you only publish annual report, or also publish semi-annual or quarterly report (on SOEs)?

Part 4: The following questions are about the application and the use of performance evaluation.

4.1. Performance Evaluation and Reappointment or Dismissal of Executives

4.1.1. According to the performance evaluation, the contract of CEO (executives, etc.) can be automatically renewed or are they dismissed from its position? If the evaluation results affect reappointment or dismissal, who is targeted – CEO, executives, etc.?

4.1.2. If not, what other factors are critical for the appointment and dismissal of executives? Please provide as much information as possible.

4.2. Performance Evaluation and Monetary Compensation

4.2.1. Do performance evaluation results from the last fiscal year have impacts on the settlement of annual remuneration of the next fiscal year for CEOs or executives? If so, how does it affect? Please provide as much detail as possible.

4.2.2. Incentives are provided by performance evaluation?

4.3. In what other cases, performance evaluation is exploited?

Part 5: In the case that a performance evaluation system has not been established:

5.1. Does the state – or any entity designated by the state – evaluate or monitor aspects of the performance of state-owned enterprises? If so, please provide details. For example, who/which institutions are in charge of evaluation or monitoring?

5.2. If the exercise of ownership rights has been delegated to corporate bodies such as holding companies or asset managers, how are these entities expected to assess and report on the financial and non-financial performance of their portfolio companies?

5.3. Are commercial SOEs subject to the monitoring system different from that of non-commercial SOEs?

5.4. How often does state and/or relevant other entities monitor and assess performance?

5.5. Please describe provide, in your own words, as much supplementary information as possible about the procedures actually in place.

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