

## DESIGN AND MONITORING FRAMEWORK<sup>a</sup>

| <b>Design Summary</b>   | <b>Performance Targets/Indicators</b>   | <b>Data Sources/Reporting Mechanisms</b>   | <b>Assumptions and Risks</b>   |
|---|---|--|--|
| <p><b>Impact</b><br/>Improved profitability and transparency of equitized and restructured SOEs, including large general corporations and their subsidiaries</p>              | <p>Number of general corporations and large SOEs undergoing operational and financial restructuring during 2009–2015 increases by at least 50% over that in previous 4 years</p> <p>Profitability of restructured general corporations and SOEs increases by 15% over average of 4 years preceding restructuring</p>  | <p>MOF</p> <p>Externally audited annual financial reports of general corporations</p>  | <p><b>Assumptions</b><br/>Continued commitment to transitioning to an increasingly market-driven economy</p> <p>Macroeconomic stability</p> <p>Economic growth is adequate to absorb growing labor force</p> <p>Sustained successful economic performance of equitized SOEs</p> <p><b>Risks</b><br/>Increased resistance from vested interests to SOE reform</p> <p>Government uses transformed general corporations for achieving noneconomic objectives, including using inappropriate pricing policies.</p> |
| <p><b>Outcome</b><br/>Participating general corporations are transformed into focused, efficient businesses with strong balance sheets and improved corporate governance.</p> | <p>Debt–equity ratios reduced by at least 15% during first 5 years after general corporation restructuring</p> <p>Cash flows from operations are enhanced by at least 20% during first 5 years after general corporation restructuring.</p> <p>At least four general corporations converted into pure holding companies</p> <p>Lines of business of general corporations reduced</p> <p>Number of principles of</p> | <p>NSCERD</p> <p>Externally audited annual financial reports of general corporations</p> <p>Externally audited annual financial reports of general corporations</p> <p>Externally audited annual financial reports of general corporations</p> <p>Externally audited</p> | <p><b>Assumptions</b><br/>The effect of global economic downturn on general corporations is short term.</p> <p>Adequate financial resources to support continued SOE restructuring and transformation</p> <p>Continued strengthening of debt-resolution mechanisms and improvements in state management of capital</p> <p><b>Risk</b><br/>Line ministries' control of general corporations may be prolonged due to institutional inadequacy in effective management of state capital.</p>                      |

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|  | good corporate governance adopted by general corporations  | annual financial reports of general corporations   |   |
| <p><b>Outputs</b></p> <p>1. Debt restructuring implemented, combining financial and corporate restructuring</p> <p>2. Increased operational efficiency and improved corporate governance of general corporations and other SOEs</p> <p>3. Institutions supporting key aspects of SOE reform strengthened and governance improved</p> | <p>Current ratio improves by at least 10% during the 5 years after restructuring</p> <p>Debt-service coverage ratio improved by at least 20% during first 5 years after general corporation restructuring</p> <p>Number of subsidiaries directly below general corporation reduced</p> <p>At least five general corporations create sub-holding companies and bring remaining subsidiaries under them</p> <p>At least five general corporations refocus operations in core business lines</p> <p>Management practices and business processes are rationalized in at least five general corporations.</p> <p>Budgetary controls and financial planning processes are improved.</p> <p>Directors, managers and staff follow a code of ethics.</p> <p>Surplus employees provided appropriate training for redeployment</p> <p>Improved management systems and processes at DATC</p> | <p>General corporation financial reports</p> <p>General corporation financial reports</p> <p>General corporation annual reports</p> <p>General corporation annual reports</p> <p>General corporation annual reports and externally audited financial reports</p> <p>General corporation annual reports and consultant reports</p> <p>General corporation annual reports and consultant reports</p> <p>General corporation annual reports and consultant reports</p> <p>General corporation annual reports and consultant reports</p> <p>DATC annual reports and consultant reports</p> | <p><b>Assumptions</b></p> <p>Continued commitment by general corporation management to restructuring</p> <p>No unexpected legal or regulatory impediments to restructuring</p> <p><b>Risks</b></p> <p>Operational restructuring of general corporations may be too complex for the senior management to implement properly.</p> <p>Capacity of the restructuring institutions to assimilate and absorb the changes may be low, particularly below senior management.</p> <p>Middle management and workers oppose operational restructuring.</p> <p>Capacity limitations constrain implementation of operational restructuring and improved corporate governance.</p> <p>Implementation delays in corporate restructuring requiring share swaps and buybacks</p> |

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|--|--|---|-----------------------|
|  | <p>Improved internal audit system at DATC</p> <p>Strengthened human resource processes at DATC</p> <p>Improved information management at DATC</p> <p>Improved legal framework for DATC</p> | <p>DATC annual reports and consultant reports</p> <p>DATC annual reports and consultant reports</p> <p>DATC annual reports and consultant reports</p> <p>Regulations issued by the Government</p>   |                       |
| <p><b>Activities with Milestones</b></p> <ol style="list-style-type: none"> <li>1.1 Strategic business plan and restructuring plan for each participating general corporation approved before each tranche approval</li> <li>1.2 Financial plan prepared and approved by tranche approval</li> <li>1.3 Financial restructuring initiated within 6 months of tranche loan becoming effective</li> <li>1.4 Corporate restructuring completed within 3 years of tranche loan becoming effective</li> <li>2.1 Management restructuring of general corporation initiated within 3 months of tranche loan becoming effective</li> <li>2.2 Sub-holding company identified or established by general corporation within 6 months of tranche loan becoming effective</li> <li>2.3 Business activities transferred from the mother company to subsidiaries within 1 year of tranche loan becoming effective</li> <li>2.4 Management of companies engaged in the same industry centralized at sub-holding company within 1 year of their establishment</li> <li>2.5 Associate enterprises in non-core areas divested within 3 years of tranche approval</li> <li>2.6 Standard procedures and processes established for each business segment within eighteen months of tranche loan becoming effective</li> <li>2.7 Standardized management and financial reporting package devised within eighteen months of tranche loan becoming effective</li> <li>2.8 Improved cash flow projections prepared within 1 year of tranche loan becoming effective to identify the expected cash inflows and the funding requirements for loan repayment and investment in ongoing and new projects</li> <li>2.9 Charter of sub-holding companies aligned with the provision of model charter for listed companies issued by the Ministry of Finance within eighteen months of tranche loan becoming effective</li> <li>3.1 Development of an appropriate organization structure with a job description for each management position by June 2011</li> <li>3.2 DATC restructured by December 2010; new departments created, if necessary, for internal audit, investment committee, corporate restructuring, and information technology</li> </ol> |  | <p><b>Inputs</b></p> <p>ADB \$630 million (\$600 million OCR and \$30 million ADF)</p> <p>Government (through transfer of owned shares) \$550 million</p> <p>General corporations \$100 million</p> <p>Strategic investors and others \$490 million</p> |                       |

| <b>Activities with Milestones</b>   | <b>Inputs</b> |
|---|---------------|
| <p>3.3 Training program developed for DATC personnel and enterprises under DATC by December 2010</p> <p>3.4 Training organized on debt resolution and corporate restructuring, corporate governance, and investment analysis and management between Q1 2010 and Q4 2012</p> <p>3.5 Legal framework for DATC reviewed and revised by June 2011; MOF to review legal right of DATC to restructure and rehabilitate poorly performing SOEs in preparation for eventual equitization; preferential tax treatment for creditors transferring nonperforming assets to DATC; role of strategic and special investors to participate in DATC restructuring of debts</p> |               |

ADB = Asian Development Bank, ADF = Asian Development Fund, DATC = Debt and Asset Trading Corporation, MOF = Ministry of Finance, NSCERD = National Steering Committee for Enterprise Reform and Development, OCR = ordinary capital resources, Q = quarter, SOE = state-owned enterprise.

<sup>a</sup> Subprojects and tranches under the proposed multitranche financing facility are sequential only temporally, not in content of activities. The general corporations participating in subsequent tranches are expected to undertake similar inputs and activities for the same outputs. The facility thus provides for a parallel set of activities undertaken by participating general corporations but at different times. As a result, the design and monitoring framework for the facility and for each tranche will be the same except for inputs and base values for quantitative indicators. It is for this reason that the performance targets, indicators, activities, and milestones have been specified in terms of number of months or years from tranche approval. A design and monitoring framework in terms of inputs and base values will be provided in each periodic financing request.

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