

TECHNICAL ASSISTANCE COMPLETION REPORT

Division : EARG

TA No., Country and Name: TA 3933-PRC: Improving Corporate Governance and Financial Performance of State-Owned Enterprises			Amount Approved: \$500,000.00		
			Revised Amount:		
Executing Agency: Ministry of Finance		Source of Funding: TASF	Amount Undisbursed: \$9,973.07	Amount Utilized: \$490,026.93	
TA Approval Date: 25 Sep 2002	TA Signing Date: 21 Oct 2002	Fielding of First Consultant: 15 Dec 2003	TA Completion Date Original: 31 Jul 2003	Actual: 15 Feb 2006	
			Account Closing Date Original: 31 Jul 2003	Actual: 28 Feb 2006	
Description					
<p>The Government of the People's Republic of China (PRC) has been implementing reform and restructuring of the state-owned enterprises (SOEs). A key component of the reform process is the need to improve the financial performance and corporate governance practices in SOEs.</p> <p>Ministry of Finance (MOF) utilized an enterprise performance evaluation system (EPES) to evaluate and monitor SOE performance. Applicability of the EPES was limited because (i) its financial index could not capture all the details that are necessary to assess enterprise performance; (ii) it did not include an assessment of financial or corporate governance structures in the SOEs despite serious problems in this area; (iii) the qualitative index was based on a random survey of employees in SOEs; and (iv) its outcomes were not linked to incentive schemes for SOE managers. As a result, the government could not rely on EPES to evaluate and monitor SOE performance properly or to use EPES to adjust policies and regulations for SOEs.</p> <p>The Government requested ADB to provide a TA to support, expand and refine the evaluation approach in line with international practice on SOE corporate governance and financial performance evaluation.</p>					
Expected Impact, Outcome and Outputs					
<p>The expected impact was to improve the financial performance and corporate governance practice in SOEs in the PRC. The expected outcome was strengthening the EPES methodology and formulating efficient methods to link evaluation outcomes with appropriate incentives to ensure SOE productivity. The expected outputs of the TA included (i) an improved EPES; (ii) a corporate governance rating system; and (iii) recommendations to design sound incentive structures.</p>					
Delivery of Inputs and Conduct of Activities					
<p>The TA's design was adequately formulated and the consultants' terms of reference (TORs) were generally consistent with its objectives and scope. The quality of a consulting firm's work was satisfactory. BearingPoint, the chosen consulting firm, designed a three-phased approach for executing and delivering the technical assistance. The first phase provided corporate governance advice and developed a Corporate Governance Rating Index (CGRI). The second phase focused on designing and delivering an enhanced EPES. The third phase included software design, international benchmarking assistance and corporate governance advice, pilot testing of the enhanced EPES, and other activities as outlined in the TA. There were several workshops conducted in PRC during the TA implementation, participated by government officials and researchers. Overall, the company effectively complied with the requirements of their TORs, thus, it did not result in any deviations from planned inputs and activities. Both ADB and the Executing Agency (EA) were satisfied with inputs provided.</p> <p>The TA was envisaged to be implemented and completed within 10 months after TA approval in September 2002. However, due to the outbreak of the Severe Acute Respiratory Syndrome (SARS) from March to July 2003, the services of BearingPoint could commence only on 15 December 2003 after the travel ban to Beijing was lifted. BearingPoint was expected to finish their work by October 2004 but two more activities before the submission of the Final Report delayed the completion. The first activity was a training program in Germany in January 2005 on "Enterprise Performance Measurement and Corporate Governance" for 13 State Asset Supervision and Administration Commission (SASAC) officials and 7 senior managers from SOEs. The second activity was the final conference to discuss the findings of the Final Report, which the EA and the PRC Government requested to be held in April 2005. As a result of the extension, 0.6 person-months were added to the project's original engagement term of 9 person-months for the international consultants and an extension of 2.5 person-months was also approved to the local consultants' initial 17 person-months of inputs. Nevertheless, the additional inputs were contained within the negotiated contract cost of \$490,026.93 which was 98% of the total TA amount.</p> <p>The Final Report was submitted in October 2005. Consulting firm's last claim was submitted in December 2005. Financial transactions with the firm were finalized in January 2006. The TA was financially closed in February 2006.</p>					

3 years and 4 months after the TA became effective in October 2002. Despite of the delays in the TA's completion, the EA performed satisfactorily as it worked closely with BearingPoint and it provided the counterpart support committed by the Government. ADB's performance was also satisfactory since an adequate level of supervision was given and the implementation was closely monitored through the TA review missions and continuous exchange of e-mails.

A minor change in implementation arrangements was approved by then Director, ECGF in October 2003 to change the EA from the International Department of the MOF to SASAC after the government reorganization in April 2003. Such change of implementation arrangement was due to the consolidation of overall SOE administration/supervision in SASAC which did not have any effect on the costs or objectives and scope of the TA.

Evaluation of Outputs and Achievement of Outcome

The consulting team successfully delivered the enhanced EPES. The team introduced in the enhanced EPES: (i) generally accepted financial evaluation indices; (ii) a CGRI that the Government can use to measure corporate governance of SOEs; (iii) the percentile ranking method to identify the strengths and weaknesses of SOEs; and (iv) the concept of the balanced scorecard consisting of five perspectives from finance, client, internal process, learning and growth and corporate governance, which is helpful for long run improvement of SOE performance.

The Government can use the enhanced EPES to evaluate and guide SOEs to improve their financial performance and corporate governance. The enhanced EPES can also provide an initial prototype for each SOE to use in describing its own practical strategy for improving performance. That is, each SOE can use the enhanced EPES as the starting point to customize its own enterprise strategies and performance objectives.

The external training programs conducted under the TA enhanced the understanding of modern enterprise performance measurement tools and techniques of relevant government officials, and thus supported and reinforced the enhanced EPES delivered by the TA.

The consulting team produced a comprehensive final report including a detailed account of the project's output, and proposals and recommendations for further restructuring of SOEs. The report was well received by both ADB and the Government of PRC.

The Final Report has been edited and converted into a published document. The publication will introduce the balanced scorecard methodology by which governments can (i) set strategic goals for their SOEs, (ii) measure progress toward achieving those goals, and (iii) stimulate their SOEs to improve performance through improved performance management. It will contribute to the knowledge of government officials and enterprise managers concerning the measurement and management of performance in both market and transitional economies.

A workshop was held in ADB and introduced the publication to colleagues from other departments. Reaction from other departments was positive, particularly from OIST, where they are trying to adopt a similar methodology for their own work.

Overall Assessment and Rating

The TA is rated successful. It was implemented effectively and efficiently due to satisfactory performance of consultants and active participation of the EA. Its benefits will be sustainable since the training activities enhanced understanding of corporate governance of modern enterprise performance measurement tools and techniques by relevant Government officials, who can further develop the enhanced EPES to improve financial performance and corporate governance practice in SOEs.

Major Lessons

Formulating and developing a comprehensive administrative system requires considerable beta-testing before formal implementation. Budget, timing and resource constraints limited the amount of beta-testing which could be undertaken within the framework of the TA.

Recommendations and Follow-Up Actions

Evaluation of SOEs' performance using the enhanced EPES is just the beginning of the SOEs' reform and restructuring. As the Final Report pointed out and recommended, the Government of PRC needs to strengthen policy, institutional, legal and regulatory frameworks governing SOEs and to improve overall corporate governance framework within the provision of the Company Law and other relevant legislation. ADB should continue to be a key partner of the Government of PRC in the reform and restructuring of SOEs.

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