

INNOVATION ON MONITORING SYSTEM OF THE STATE OWNED ENTERPRISES IN THE CARIBBEAN

RG-T2731

CERTIFICATION

I hereby certify that this operation was approved for financing under **the Public Capacity Building Korea Fund for Economic Development (KPC)** through a communication dated September 16, 2016 and signed by Chang Yeon You. Also, I certify that resources from said fund are available for up to **US\$670,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, i.e. represent a risk that will not be absorbed by the Fund.

ORIGINAL FIRMADO

Sonia M. Rivera
Chief

Grants and Co-Financing Management Unit
ORP/GCM

10/7/16

Date

Approved:

ORIGINAL FIRMADO

Vicente Fretes Cibils

Division Chief Fiscal and Municipal Management
IFD/FMM

10/7/16

Date

TECHNICAL COOPERATION DOCUMENT

I. Basic Information

- Country/Region: Regional
- TC Name: Innovation on monitoring system of the State Owned Enterprises in the Caribbean
- TC Number: RG-T2731
- Team Leader/Members: Hyungon Kim (IFD/FMM), Team Leader; Emilio Pineda (FMM/CUR), Alternate Team Leader; Leslie Harper (IFD/FMM); Gerardo Reyes (IFD/FMM); Maria del Pilar Jimenez de Arechaga (LEG/SGO); and Mariana Canillas (IFD/FMM)
- Taxonomy: Research & Dissemination
- Date of TC Abstract: March 2016
- Beneficiary: Bahamas, Barbados, Guyana, Jamaica, Surinam, and Trinidad & Tobago
- Executing Agency: Inter-American Development Bank through the Fiscal and Municipal Management Division (IFD/FMM)
- Donors providing funding: Public Capacity Building Korea Fund for Economic Development (KPC)
- IDB Funding Requested: US\$ 670,000
- Disbursement period: 24 months
- Required start date: September 2016
- Type of consultant: Individual consultant
- Prepared by Unit: IFD/FMM
- Unit of Disbursement Responsibility: Institution for Development Sector (IFD/IFD)
- Included in Country Strategy: No
- TC included in CPD: No
- GCI-9 Sector Priority: Institutions for Growth and Social Welfare

II. Objectives and justification of the TC

- 2.1 The objective of this Technical Cooperation (TC) is twofold: (i) to develop a comparative framework that assesses the current status of State-Owned Enterprises (SOEs) and performance monitoring and evaluation (M&E) systems of SOEs in the Caribbean countries; and (ii) to identify the issues and challenges facing each country, and thereby facilitating the implementation of a modern M&E system that takes into consideration the lessons learned from Korea's best practices.
- 2.2 In LAC, SOEs account around 8% of GDP,¹ representing significant public expenditures and management of public assets. This situation is of particular importance as the size of the SOE sector in many Caribbean countries is significant compared to other regions. IDB field surveys have found in the range of 20-100 SOEs per country in the Caribbean.² Additionally, low productivity and low return of asset and equity have made SOEs uncompetitive and underperform, increasing the fiscal burden of the state. For example, in Trinidad and Tobago transfers to the biggest 9 SOEs totaled 2.4% of GDP in 2013. In the case of Jamaica, 65 self-financing SOEs gross assets were equivalent to 74.6% of GDP.

¹ SOEs account for 20% of global investment, 5% of global employment, 5% of total OECD economy, 50% of GDP in Middle East and North Africa, 15% of GDP in Africa, 8% of GDP in LAC, 6% of GDP in Asia. Philip Armstrong, IIC Ethical Boardroom Opinion, spring 2015.

² IDB team sampling of three CCB countries (JA, SU, TT) showed 5 times more SOEs per capita than the sample chosen by OECD study in LAC (AR, BR, CH, CO, EC, ME, PE) (OECD 2012).

- 2.3 As of now, extensive research and diagnosis of SOEs corporate governance practices has been focused on major countries in the Latin America³ and most of them have shown concrete progress in the implementation of good practices and comprehensive reforms. However, an analysis of current practices and trends focused on SOEs in Caribbean countries has been limited. Although there has been significant interest to improve the performance management, issues such as the reform of legal framework for SOEs and establishment of sound performance monitoring system need to be consolidated.⁴
- 2.4 The M&E system of SOEs in many Caribbean countries is precarious. Significant data gaps and institutional weaknesses of the oversight units in the ministries of finances impede a proper M&E analysis on the performance of the SOEs, which poses a risk to fiscal sustainability. For example, time series on the financial statements, debt and employment figures, and transfers to and from public bodies, etc., either does not exist or it is not made available to the public. The literature on SOEs shows that this asymmetry of information is among the leading causes for underperformance at SOEs.⁵ In addition, the lack of regulatory consistency and transparency leads to ad hoc governance and operations of SOEs. Also, insufficiency for harmonized assessment on SOEs makes it difficult to diagnose the core problem they are facing and give them appropriate solutions to reform.
- 2.5 In this respect, it is necessary to modernize the oversight systems of SOEs in Caribbean countries by assessing their current status and performance M&E systems. Most importantly, a more detailed capacity building process for public servants in charge of SOEs and managers at SOEs must be put in place.
- 2.6 The Korean experience of performance management system of SOEs can support the Caribbean governments to improve their M&E systems of SOEs and oversight capacity.⁶ Likewise many countries in LAC, Korea suffered from performance deficits of SOEs at earlier development stages, but the role of the Korean government contributed considerably in addressing the problem. In 1983, the Framework Act on the Management of Government-Invested Institutions was established, and under the Act, the first management evaluation was implemented in 1984. The evaluation of the previous year's performance is executed during the first half of every year, and presentations of evaluation results and efforts to improve upon highlighted problems begin in the second half. With the enactment of the Act on Public Institutions Management in 2007, the management system was integrated, as the Framework Act on Management of Government-affiliated institutions⁷ and the Framework Act on Management of Government-invested institutions were abolished. The government also promoted the corporate transparency of SOEs by requiring them to publish important data and information regarding management of SOEs on their websites and also on the consolidated website designated by the MOSF, and thereby improving management efficiency of SOEs through oversight by the public.

³ Diagnostic studies about corporate governance have been carried out in cases such as BR, CH, CO, PR, PE, UR, EC, ME and PA. See Governance Arrangements of LAC SOEs published by the World Bank Group (2014), Musacchio, Pineda and Garcia (2015), Ownership Oversight and Board Practices for Latin American SOEs (2012).

⁴ See Corporate Governance of State-Owned Enterprises in Latin America (2014) for a review of the literature

⁵ See Garcia, Musacchio and Pineda (2015).

⁶ The performance of SOEs in South Korea uses innovative modalities such as pay-for-performance contracts for SOE managers, using quantitative and qualitative measures.

⁷ Enacted in 2004.

- 2.7 As a consequence, the Korean management evaluation system of SOEs has been viewed as a highly successful case by the international community. Some of SOEs in Korea have achieved extraordinary performance with high efficiency.⁸ Korea's success in implementing sustainable management evaluation system of SOEs for the last 30 years-despite its changing political and economic circumstances-is mainly attributable to the sound legal and regulatory framework for corporate governance. Another important contributor is related to a detailed categorization of public institutions depending on its shares, revenues and number of employees and the establishment of more customized quantitative and qualitative performance indicators applicable for specific types of entities.⁹
- 2.8 This TC program aims to support the governments in the Caribbean countries to assess the status and the challenges related to M&E systems of SOEs and to modernize their systems including the capacity building. This will be achieved through the design and implementation of frameworks with surveys to assess SOE performance in the following areas: Institutional Framework, Operational Efficiency, Corporate Governance, and Financial Management; and the conduction of pilot projects in one or two selected countries using the Korean experience as a benchmark. The motivation behind the inclusion of these areas are described below:
- a. The institutional framework for SOEs is essential for setting clear boundaries and defining the relationship between the government as shareholder and SOE boards and management. It also serves to separate government control and oversight for ensuring SOE accountability from the managerial autonomy in commercial decision making.
 - b. The operational efficiency is important because it allows to better allocate the resources and to enhance labour productivity, and also to pursue add value leading to financial stability of the enterprise. This can be achieved by designing a sound performance-monitoring system with clear-cut indicators and targets, and defining SOE mandates, strategies, objectives, financial and nonfinancial performance indicators to ensure good performance.
 - c. The corporate governance, when fully and properly implemented, may have a positive influence on SOEs' performance. Many studies show that poor SOE performance arises from their governance deficits, rather than exogenous or sector-specific problems. In this regard, corporate governance issues to be resolved can include complicated and contradictory mandates, the absence of clearly identifiable owners, politicized boards and management, lack of autonomy in day-to-day operational decision making, and weak financial reporting and disclosure practices.
 - d. The financial management is the critical factor for reducing government liabilities and simultaneously strengthening incentives for improved SOE governance and performance. It includes the mechanism of identifying and separating out the cost and funding of public service obligations and monitoring and managing the fiscal burden and potential fiscal risk of SOEs, which leads to a fiscal balance and net contribution to the budget and higher dividend payments.

⁸ The Incheon International Airport Corporation, for example, has ranked first in the world in airport service quality for ten consecutive years. South Korea also provides the world's highest-quality electricity in terms of blackout time and losses through transmission and distribution.

⁹ See Park, Ra and Heo (2014), Management Evaluation System for Public Institutions in Korea.

2.9 This TC is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is strategically aligned with the development challenge of productivity and innovation; by supporting a stronger institutional framework for innovation policies, that in conjunction with other TC will encourage productivity growth. The TC is also aligned with the cross-cutting theme of institutional capacity and rule of law by improving SOEs' efficient provision of public services through the development of M&E systems in the region. Additionally the program is consistent with the Bank's Sector Strategy Institutions for Growth and Social Welfare (GN-2791). This TC's outcome of public servants' better recognition of their PFM systems and motivation to modernize their systems is closely aligned to the objective of KPC stipulated in the Fund operational guidelines as follows: The purpose of the KPC will be to strengthen public sector management in all fiscal related sectors through assistance aimed at facilitating efficient allocation and use of public sector resources to generate higher public value at the national and the sub-national government level.

III. Description of activities/components and budget

- 3.1 **Component I. Diagnostic study and review of the Korean case (US\$190,000).** This component aims to diagnose the current status of M&E systems of SOEs and to identify best practices, with a primary focus on the Korean experience. It involves the following activities; (i) design of the assessment framework on the current status and M&E systems of SOEs in six Caribbean countries;¹⁰ (ii) review of the Korean case on SOEs; and (iii) design of surveys based on the framework.
- 3.2 Activity 1: Design of the assessment framework on the current status of SOEs and M&E systems of SOEs. The first step of this TC is to design the comparative framework that facilitates diagnosis on the current status of SOEs and M&E systems of SOEs in the following four areas: (i) institutional framework; (ii) operational efficiency; (iii) corporate governance; and (iv) financial management.¹¹ In order to design the framework, several internationally recommended SOE management toolkits¹² will be considered. In line with the framework, surveys for public servants will be designed to identify key issues and weaknesses in their M&E systems.
- 3.3 Activity 2: Review of Korean case on SOEs. This activity will include mainly the review of the current framework of SOEs monitoring and evaluation system of Korea as well as good international practices through various documents reviews and technical meetings. A toolkit for evaluation indicators and methods of the Korean framework will be explained and also its implication and possibilities of adoption of the system to the targeted countries.
- 3.4 Activity 3: Application of the Framework through Surveys. Surveys will be designed and conducted mainly for public servants at Ministry of Finance, ministries in charge of SOEs, and related entities in each country. Local consultants will be hired to

¹⁰ Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad & Tobago.

¹¹ For institutional framework this will include not just the SOE laws, but also transparency, competition, etc. With regard to operational efficiency, it will include financial ratios, coverage, price and quality of the public services, social objectives, etc. For corporate governance, it will include the ownership structure, institutional capacity, boards, and fiscal governance, etc. For financial management this will include the budget, fiscal risk, etc.

¹² The design of the SOE framework will consider the recommendation and management toolkit used by the World Bank, OECD and the Commission of Management of Public Institutions of Korea (CMPPI).

collect information, to support knowledge of local context, and facilitate communication with government bodies, ministries and the SOEs.

- 3.5 **Component II. Roadmaps for improving the M&E system (US\$90,000).** This component will focus on identifying challenges related to M&E systems of SOEs in some dimensions described in Activity 1. It also provides a specific set of recommendations and roadmaps for each country to address the problems in their M&E systems of SOEs.
- 3.6 Activity 4: Roadmaps and policy recommendations report. This activity will process data cleaning and analyse data collected through surveys under Activity 3. Also include the drafting of a specific set of recommendations for participating countries to improve their M&E systems of SOEs taking into account the Korean experience.
- 3.7 **Component III: Pilot project implementation (US\$250,000).** The objective of this component is to support one or two pilot programs of the M&E system, which will be launched on a first come, first serve basis upon letter of request. This component will intend to facilitate selected countries the implementation of the policy recommendations. In particular, this component will support a feasible strategy for improving government's capacity to manage the M&E system. In doing so, the Korean government will actively support this activity.
- 3.8 Activity 5: Design and implementation of pilot project. Based on the policy recommendations, one or two countries that demonstrate innovative capacity and strong commitment will be selected for the pilot project. The team will carry out more in-depth analysis in line with the Activity 1 through additional data collection and interviews for government officials. The modernized M&E systems for SOEs will be developed and implemented with a more feasible strategy for improving the government's capacity to monitor and evaluate the performance of SOEs. In particular, more tailored consultancy services will be provided to encourage public officials to commit to the whole process and to foster their ownership.
- 3.9 Activity 6: Korea's technical assistance to targeted countries. In order to support more closely and in-depth the project implementation, experts from the Korean government and entities will cooperate with Caribbean officials, taking into account the specific characteristics of pilot countries. The component supports the participation of public servants from Korea and targeted countries in a capacity-building training activity with the purpose of sharing the more detailed technical issues from Korea and looking for opportunities for further collaboration.
- 3.10 **Component IV: Dissemination of results (US\$120,000).** The objective of this component is to disseminate the findings and recommendations of the technical cooperation with the goal of strengthening countries' institutional capacity and promoting policy dialogue.
- 3.11 Activity 7: Publication and dissemination events. This activity will include the publication of papers on findings from all components. In addition, the dissemination workshop will be held in one of the target countries or at the Bank's Headquarters in Washington D.C., with the objective to present the results to government officials and adjust them according to the feedback.
- 3.12 Activity 8: A conference between IDB and Korean government. This activity supports a conference between the IDB and the Ministry of Strategy and Finance in Korea with the participation of public servants from Korea and LAC countries and private

experts in order to share this project results and to deepen the cooperation between LAC countries and Korea regarding SOEs reform.

- 3.13 At the end of this TC, the Bank will strengthen its knowledge on Caribbean SOEs and their M&E system of SOEs, therefore, improving its ability to provide better policy advice to countries in the region. The main expected products include a framework, surveys, workshops, and SOEs modernization plans.¹³ The expected outcome relates to public servants' better recognition of their M&E systems of SOEs and motivation to modernize their systems by getting technical assistance.

Table 1. Indicative Results Matrix

Indicators	Unit	Baseline 2016	Target 2017	EOP Target 2018	Means of Verification
Expected result: (i) improved knowledge to implement the more robust M&E system of SOEs, presenting evidence that knowledge derived from sharing best practices and training was used in the process of design and implementation of SOEs related reforms; and (ii) increase demand for technical assistance in the design of M&E system modernization. ¹⁴					
Outputs					
Component I. Assessment framework for the current status of SOEs and M&E systems in the Caribbean countries ¹⁵ created	Framework	0	1	1	Assessment Framework Report by PT
Component I. Surveys for public servants in charge of SOEs carried out	Survey	0	4	4	Survey Database by PT
Component II. Roadmap and policy recommendation report approved	Report	0	4	1	Policy Recommendation Paper by PT
Component III. M&E system modernization action plans approved	Action plans	0	1	1	Action Plan Paper for Selected Country by PT
Component IV. Dissemination event held	Event	0	1	2	Seminar Report by PT
Component IV. A conference between IDB and Korean government held	Conference	0		1	Conference Report by PT
Outcomes					
Countries that improve their knowledge on M&E system of SOEs and recognize the need to improve them	Country	0	2	4	Report by Project Team Based on Post-Event Surveys
Countries demand for technical assistance in the design of M&E system modernization	Country	0	1	1	Letter of Request by Selected Country

- 3.14 The total cost of the TC is US\$670,000, which will be financed by KPC fund. ([See Detailed Budget](#)).

Table 2. Indicative Budget (US\$)

Component	IDB	Total
Component 1. Diagnostic study and review of the Korean case	190,000	190,000
Component 2. Roadmaps for improving the M&E system	90,000	90,000
Component 3. Pilot project implementation	250,000	250,000
Component 4. Dissemination of project results	120,000	120,000
Contingencies	20,000	20,000
TOTAL	670,000	670,000

¹³ Period of accomplishment of each phase of the project.

¹⁴ The self-reporting perception survey will be conducted after the workshops in order to measure the improvement of participants' knowledge on M&E systems.

¹⁵ The assessment framework will be finalized through the internal review and consultations with public servants of participating countries on the draft delivered by the consultant as a part of Component 1 during the period of Activity 1. The assessment framework covers all areas mentioned in 2.9.

3.15 This TC will have an external monitoring and evaluation by an independent consultant, paid by the project, who will certify the fulfilment of the indicators and goals included in the results matrix.

IV. Executing agency and execution structure

4.1 The Bank will be executing the technical cooperation through the Fiscal and Municipal Division (FMM).¹⁶ The Bank will contract individual consultants, consulting firms, and non-consulting services in accordance with Bank's current procurement policies and procedures. Prior to the initiation of any project activities, the project team (PT) will obtain a non-objection letter from the corresponding official entity in each country. In addition, in advance of the pilot project, the team will get the request letter from the participating countries.

V. Major issues

5.1 The first risk is the unwillingness of stakeholders to participate in the survey and data collection process. To mitigate this risk, the team is working through existing IDB networks¹⁷ and will adapt each survey to fit the regional context in collaboration with IDB country offices. The second risk is difficulties in the execution of pilot projects. This risk is best mitigated by seeking the support of entities in the Caribbean countries from the diagnostic to the preparation of the roadmap for the pilots onwards in collaboration with agencies with which the Bank has worked successfully in the past and with the Korean government.

VI. Exceptions to Bank policy

6.1 No exceptions to Bank policy have been identified.

VII. Environmental and Social Strategy

7.1 There are no environmental or social risks associated with the activities outlined in this TC. According to the Environmental and Safeguards Compliance Policy (OP-703) this TC has been classified as category C (see [Safeguard Filters](#)).

Required Annexes:

- Annex I: [Donor's Approval Letter](#)
- Annex II: [Terms of Reference](#)
- Annex III: [Procurement Plan](#)

¹⁶ Information related to the progress reports and financial reports will be informed annually through the GCM system and included in the IDB docs.

¹⁷ Latin American and Caribbean Community of Practice on Managing for Development Results (CoPLAC-GpRD) is an example of the IDB networks.