

Review of the
China State-Owned
Enterprise Restructuring
and
Enterprise Development
(SOERED) Project

by Tony Faint

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

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In May 1997 the Overseas Development Administration (ODA) was replaced by the Department for International Development (DFID). References in this report to the ODA apply to events, actions, etc prior to the changes of title and functions.

The opinions expressed in this report are those of the authors and do not necessarily represent the views of the Department for International Development.

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AC	Advisory Centre (general term for BAC/EDAC, q v)
BAC	Business Advisory Centre
CNY	Chinese New Yuan
CSR	Corporate Social Responsibility
EDAC	Enterprise Development Advisory Centre
ERP	(Polish) Enterprise Restructuring Project
ETC	(Chinese) Enterprise Training Commission
IED/LEAD	Institute for Environment and Development in association with Chinese consultant LEAD
LOGFRAME	(Project) Logical Framework
NRDC	National Reform and Development Council
OPR	Output to Purpose Review
PCR	Project Completion Report
RA	Restructuring Agency
SME	Small and medium enterprises
SOE	State-Owned Enterprises
SOERED	State-Owned Enterprise Restructuring and Enterprise Development project

Summary

Main Findings

The SOERED project was a valuable and innovative project which advanced the agenda of market-based transition in China.

Its key successes were in introducing to the Chinese economic scene credit guarantee funds for small business incorporating best international practice, and in demonstrating a model of self-sustainable paid business services.

The project contributed to poverty reduction primarily through employment and income creation.

The social aspects of the project were not fully integrated with its primary market-based thrust, but in its later stages it made useful contributions in the field of Corporate Social Responsibility in China.

Overall the project is well deserving of the project rating of “2 - largely successful” allocated by the line department, and is above average for the rating.

Recommendations

A further free standing evaluation of SOERED would not be likely to add sufficient value to existing work by the Project Team

The project’s experience in the credit guarantee area deserves wider dissemination within DFID and perhaps beyond.

A regional study should be carried out on approaches to SOE restructuring and reform in Asian Transition countries, possibly bringing in comparative material from the transition experience in Eastern Europe.

A synthesis study of SME financing modalities including credit guarantees, drawing on this and other experience, could be useful and timely (unless covered by recent work).

The review was unable to reach conclusions about the output based contracting method used in the project, and further work on this methodology across DFID’s project portfolio may be worthwhile.

1 Introduction

A preliminary desk review of the SOERED project was commissioned by DFID's Evaluation Department in November 2004, with the aim of identifying key themes and making an initial assessment of lessons arising from the project, with a view to a subsequent more in depth evaluation. The Terms of Reference are at Annex 1.

Following contact with DFID, Beijing it emerged that the Department was itself about to mount a post-project review and it was agreed that the desk review should be suspended until the results of this were available. It was also envisaged that more value could be obtained from the present review by widening it to encompass certain regional dimensions of read-across, particularly in relation to the experience in other Asian Transition countries, notably Vietnam. However it has not proved possible to organise this within the timescale of the review.

This report is therefore a summary of findings relating to the SOERED project only, and is purely a desk review without the addition of interviews as originally intended.

2 Project description

The Goal of the project was to promote economic growth and poverty reduction in China through socially responsible SOE reform and new enterprise development. Its **purpose** was to facilitate replication of effective approaches to socially responsible SOE restructuring and enterprise development. The project LOGFRAME is at Annex 2. The original approved cost of the project to DFID was £19m, eventually increased to about £21m.

A description of the project is set out in the tors at Annex 1, paras 2-10. Briefly, the project operated in two Chinese provinces - Liaoning in the North-East, and Sichuan in the South-West, and within each Province in three Municipalities. Within each municipality three new institutions were set up: a Restructuring Agency (RA), a Business Advisory Centre (BAC, or EDAC - Enterprise Development Advisory Centre) and a Credit Guarantee Fund (CGF). The RAs were intended to provide advice on restructuring to SOEs, the BACs and CGFs to provide business advice and access to finance to small private enterprises.

All project institutions were intended to become self-sustaining after an initial period during which a tapering contribution to their costs was provided by the UK and Chinese Governments.

A Consortium of British Consultants was appointed to provide training and technical support to the new institutions. An overall project manager was also later appointed on the British Consortium side. The Chinese local authorities set up Provincial and Municipal Project Management Offices to monitor the project's progress.

The project design included an element to equip the project institutions to deal with issues of Health, Safety and Environment, subsequently broadened to incorporate concepts of Corporate Social Responsibility.

The project was planned over 3 years, subsequently extended to 4 years (late 1999 to 2004). There were annual OPRs and a Mid-Term Review in late 2001. A PCR was prepared in 2003 and a Post-Project Review was held in December 2004.

3 Project Performance and Outcomes

SOERED was both an innovative and an ambitious project from a number of points of view. It was noteworthy for aiming to address enterprise development across the public and private sectors, for the creation of a substantial number of new and market based institutions, for developing a professional and viable credit guarantee facility and for the contributions it made to developing the concepts and practice of Corporate Social Responsibility in China. The design of the consultants' consortium was also novel, with an early use of output based contracting.

A Institutions

The project was ambitious institutionally in setting up a total of 18 new institutions and setting the goal of self-sustainability. At the time of the post-project review (PPR) it appeared that 14 out of the 18 institutions would be sustainable into the medium term - all 6 CGFs, and 4 each of the RAs and ACs (though at time of writing 1 of the 4 RAs no longer seems sustainable and two ACs remain vulnerable). **The CGFs** in particular brought a model of best practice in the field of SME financing to China which appears to be influential at the national level. **The ACs and RAs** struggled more with the business environment and had more mixed success. Staff continuity and share ownership were issues affecting their viability. But the number of institutions thought likely to survive into the medium term remains impressive.

B State-Owned Enterprises

While the RAs did deliver restructuring plans to some 25 SOEs, in a number of cases with positive outcomes for enterprise operations, developing a business model for paid advice to SOEs proved difficult and the project did not succeed in establishing itself in the area of debt restructuring.

C Wider Influence

While this is harder to gauge, the project has attracted favourable attention from the Chinese authorities, national as well as provincial, and from the donor community. It seems to have made an important contribution to thinking about the development of business services and credit to small businesses, as well as some useful contributions to the developing area of Corporate Social Responsibility in China.

D Poverty and Social Aspects

The project made a significant contribution to poverty reduction through employment creation. The CGFs have had the greatest impact on job creation.

Health, Safety and Environmental issues were incorporated through training provided to the project institutions to enable them to assist client enterprises in improving their performance in these areas and meeting outside standards. In the later years of the project there was an enhanced effort to promote concepts of Corporate Social Responsibility through the project. Consultants IED/LEAD were able both to assist project institutions in incorporating CSR concepts in their work, and also to contribute to a national dialogue on the application of CSR to China's situation.

The “SOERED Successes” paper, prepared by DFID, Beijing, sets out these achievements in a little more detail (Annex 3).

4 Issues Arising

Key issues which arise from this interesting and innovative project include:

- Tensions between its commercial and social/poverty objectives
- The merits and drawbacks of the institution-building strategy adopted
- The approach to restructuring State-Owned Enterprises
- Linkages with local and central Government
- Dissemination and replication
- The management of the project including use of output-based contracting
- Impact assessment

A Commercial vs social/poverty objectives.

One of the major strengths of SOERED was that it deliberately set the new institutions it created within the market-place. They were progressively subject to commercial disciplines and their success as models could be judged from their sustainability and survival. But this placed a strong commercial imperative on the institutions and may have limited their ability or willingness to pursue public good objectives such as re-training laid off workers, targeting vulnerable people or groups, gender awareness.

The project team seems generally to have taken the view that the sustainability of the institutions was an over-riding aim. In the case of the CGFs, where survival was not a problem, prioritising certain types of client such as new starts or re-employment of laid off workers became possible. For the RAs/ACs commercial survival remained the key issue throughout the project’s life.

Work on Corporate Social Responsibility was reinforced in the later stages of the project’s life, in an attempt to show that the strands of sustainability and public good in the project need not be mutually exclusive. The CSR activities were valuable in themselves, but did not wholly resolve the underlying tension.

A perceptive analysis of these tensions is contained in two notes by the project’s contracted social development adviser, Annie Feltham:

- The SOERED Project: Lessons on Gender Issues; and
- Assessing the CSR Impacts of the SOERED Project (August 2003).

These are attached as Annexes 4 and 5.

B The Institutional Framework.

At the outset the creation of 18 new institutions in a complex and changing environment seems exceptionally ambitious. But the extent of sustainability of the project institutions is impressive. However design options did exist: the creation of new institutions rather than identifying and developing existing ones; and the creation of three institutions in each location rather than a more consolidated approach.

Creating new institutions is likely to have been more expensive than supporting existing ones, but can be justified by the trial/pilot nature of the project. The viability of the project models was tested in a clearer way than it could have been by working through existing institutions. It also seems that most pre-existing Business Advisory Services were largely local government run and not well tuned to market requirements.

The decision to create three separate institutions in each municipality is more questionable. While the CGF as a free-standing institution with its own particular brand of expertise proved a good and robust model, RAs and ACs struggled to differentiate their products. RAs initially prepared restructuring plans for a group of SOEs identified by the Provinces/Municipalities, and some of these plans were implemented with some success. But developing a business opportunity in providing advice to SOEs proved difficult, and several RAs gravitated towards advice and the provision of training to SMEs/individuals, suggesting that a single institution instead of two might have been more economic and effective.

C Approach to Restructuring SOEs.

The project essentially relied on advisory services to achieve SOE restructuring. This approach looks, again in retrospect, to have been insufficient. While there was government pressure on SOEs to reform and commercialise, the project does not seem to have been positioned to act as an effective instrument to deliver these Government objectives. Market forces bearing on the private sector and motivating them to seek means of business development were probably less acute and more diffuse for the SOEs. The RAs were short of entry points to SOE management, and for example they never succeeded in establishing a role for themselves in debt management, a key area for SOE Reform in China (though not one particularly strongly highlighted in the original project design).

An interesting alternative approach was adopted in the Enterprise Restructuring Project (ERP) in the early years of Poland's transition, by coming at issues of SOE restructuring through the Banks. The Polish authorities launched a programme to clean up the bad debt portfolios of a group of public sector banks preparatory to privatisation. The Banks were recapitalised to a pre-determined level and set up debt work-out units (with UK consultant support). The work-out units worked with enterprises to restructure debts and turn round enterprises where feasible and liquidate unviable enterprises. The banks had a financial incentive to improve their portfolios and leverage on the enterprises with the possibility of foreclosure. Bringing together the banking and enterprise aspects of debt restructuring might also have worked in China, though it would have had to be in the context of a Government approved policy and programme.

D Linkages with Central and Local Government.

The project lacked a central government base from the start, and had to work over time (partly through the project's Policy Consultant, CD Weinmann) to develop these links, which only came about towards the end of the project's life but have set the scene for a closer cooperation in successor projects. This may have been inevitable because of the project's pilot nature and the need to identify provincial and municipal bases to demonstrate its models. Once the project's successes (especially the CGFs), and also the project's contribution to the growing interest in CSR in China, became more widely known, it achieved a national recognition that would not have been possible at the start.

On the local government side there were integral links from the outset in the form of the Provincial and Municipal Project Monitoring Offices, but these do not always seem to have succeeded in making the right connections for the project institutions. For example closer links with the

provincial/municipal ETCs could have been beneficial, and an issue arose fairly late in the project about accreditation of the ACs/RAs to provide training for start-up businesses: if not accredited the institutions were unable to benefit from funding provided by local government for this type of training.

More generally an important way of squaring the circle between the commercial and poverty aims of the project would have been for project institutions to receive income from local government on a contractual basis to deliver some of its social aims such as re-employment of laid off workers and support for business development for vulnerable groups. This began to be explored only towards the end of the project period.

E Dissemination and Replication.

As noted above, the project's CGF model was exciting quite widespread interest in the concluding period of the project with good prospects of replication or imitation elsewhere in the country. Access to credit proved to be a key issue for the emerging SME sector and the ability of the CGFs to be self-sustaining was a strong plus factor. Explicit efforts to replicate the AC model were made in a few instances by local government, but the main spread effect of the Business Service aspect of the project is probably through dissemination of experience through the Chinese system (notably the NDRC) and through donor networking.

Some resources have been created by the project and in some cases made available widely within China, including:

- CGF manual
- RA/BAC manuals
- CSR web-based resource bank
- Book: CSR in China
- CSR pamphlet on labour protection

F Management

Bearing in mind the complexity of the project, DFID's management arrangements seem to have worked well. Initially there was a lack of coordination within the consultants' consortium, but that was rectified at an early stage by the appointment of an overall consultant project manager. The consultants seem to have provided appropriate inputs to the project institutions, though sometimes more continuity of personnel would have helped. There was an intrinsic problem in the wide geographical dispersal of project inputs, which may have inhibited sharing experience particularly between the two Provinces.

This review has not been able to reach any conclusions about the merits of the output based contracting method used for the consultants' consortium. This is not discussed in the papers reviewed. It seems that there were significant teething problems with the system but it then bedded in. There is no suggestion in the papers that the form of contract had a significant effect on project performance or outcomes.

G Impact Assessment.

The main thrust of the concluding project period has been to assess the project's impact from the point of view of employment creation. A slightly broader approach might have looked at income

generation, probably not producing a markedly different result but presumably yielding a higher estimate of project benefits.

The outputs of the Post Project Review (PPR) include a “Post Project Cost Effectiveness Analysis” by the project’s Policy Consultant, CD Weinmann, dated January 2005. This concludes on stated assumptions that the project is “likely to contribute to employment creation by assisting in the generation of more than 150,000 jobs over the 10 year period 2000-2010”, and that the cost per job would be of the order of CNY5700 (or about £370) per job.

Some Government programmes, e.g. start-up training, claim a lower average cost per job created, though difficulties of attribution and basic assumptions are obviously substantial. The PPR considered that a comparative assessment of the cost-effectiveness of different modalities of employment creation in China would be useful, including various government programmes as well as business advisory services and financial support. Such a study is beyond the scope of this survey. It might be pursued through the donor enterprise development network in China.

But as a pilot project SOERED should not be judged by the same standards as fully operational programmes. Part of its investment must be assumed to be an initial start-up type cost which would not need to be incurred in replication. Its work in testing and proving institutional models went beyond the jobs or income directly created. At a deeper level the project has sought to further the Chinese transition towards a market-based economic system and in particular to encourage commercialisation of the SOE sector and development of the private enterprise sector. While these aspects are difficult or impossible to quantify, the contribution of SOERED in the wider policy area can reasonably be judged to be a significant factor in its overall success. The project rating of “2 - largely successful” - seems to be well deserved with SOERED and SOERED appears to be above the general average for this rating

5 Documentation

A list of papers read in the current review is attached at Annex 6. DFID China holds a larger set of documents on its system but those listed give a good picture of the project and its achievements. While there are some deficiencies in the data generated by project institutions (lack in some instances of poverty or gender analysis of clients, e.g.), overall the project is very fully and generously documented.

Key documents are:

- The Project memorandum of 1999 and LOGFRAME
- 3 annual OPRs and the PCR of 2003
- The Mid-Term Review Consultants report of 2001
- Tracer Studies: (1) 2 Studies on the Project’s Impact on Poverty Reduction and
- (2) A Study on Replication and Local Government Links, November 2004.
- The Final report of the DFID Policy Consultant dated November 2003
- Driving Forces of Corporate Social Responsibility in China - an analysis by IED/LEAD consultants, dated January 2005.

- SOERED Successes latest version dated January 2005 (Annex 2)
- Post-Project Review Aide Memoire dated January 2005.

6 Further action

The review suggests that a more in depth, free-standing evaluation of the SOERED Project as such might not add a great deal of value, in view of the considerable assessment work carried out by DFID, Beijing and of this study itself. The project's experience, especially in the credit guarantee area, is worth further dissemination.

A regional evaluation of approaches to SOE reform/restructuring, taking in experience of other Asian transition countries and possibly comparing this with Eastern European experience in the 1990s, could produce instructive results.

There might also be a case for an Evaluation Dept synthesis study of SME financing modalities. Further work could be merited on the output-based contracting approach used for the Consultants' consortium in the project.

7 Acknowledgements

I am most grateful to Strahan Spencer and colleagues in the Project Team in DFID China for their help, ideas and suggestions, and also to Richard Boulter in Palace Street and DFID's Evaluation department for their cooperation.

Tony Faint
International Development Consultant

14 March, 2005.

Terms of Reference

Summary

1. The assignment is to carry out a preliminary desk review, with some interviewing, of the China State Owned Enterprise Restructuring and Enterprise Development Project. The purpose of the review is to identify key themes and make an initial assessment of lessons that can be drawn from the project experience, with a view to subsequent more in-depth evaluation.

Background

2. In late 1999, DFID launched implementation of the State-Owned Enterprise Restructuring and Enterprise Development (**SOERED**) Project in China. Initially planned for a three year term, the project was concluded after an extension in late 2004.
3. The project was based in **two Provinces of China, Liaoning and Sichuan**, and had two components, restructuring State-Owned Enterprises (SOEs) and Enterprise Development. DFID's original financial commitment was £19 million, eventually increased to around £21 million.
4. The Province of Liaoning is in the North-East of China, while Sichuan is in the south-central part of the country. In each of the chosen Provinces, three municipalities were chosen as beneficiaries. In Sichuan these were Mianyang, Chengdu (the provincial capital) and Leshan. In Liaoning they were Shenyang (the capital), Anshan and Dalian.
5. The first (**SOE Restructuring**) component aimed to turn round a number of loss-making SOEs in each Province through consultancy advice and the preparation and implementation of a restructuring plan. It was envisaged that in most cases some reduction in the labour force would be necessary, and that the resultant social problems could be addressed through absorption by the small (private) enterprise sector. The second, **Enterprise Development** component offered consultancy advice and loan guarantees to Small and Medium Enterprises (SMEs). Social responsibility and HSE concerns were incorporated into the Project as cross-cutting issues.
6. In each municipality three **new institutions** were created: a Restructuring Agency to identify suitable SOEs and deliver restructuring plans; a Business Advisory Centre (or Enterprise Development and Advisory Centre) to provide advice to small and medium enterprises; and a Loan Guarantee Facility to provide partial guarantees to Banks for lending to SMEs.
7. A UK **Consultancy consortium** was appointed to assist with project implementation, led by Price Waterhouse Cooper (PWC) who supported the SOE Restructuring activities, Durham University which assisted the BACs, and Enterplan which advised on the setting up and operation of the Loan Guarantee Funds.
8. **Coordination** with Provincial and Municipal Government agencies was provided by a Committee and Office in each Province (Provincial Project Monitoring Offices, PPMOs) and Municipality (MPPMOs). An overall project manager from PWC was appointed after this was shown to be desirable by early monitoring missions.

Annex 1

9. The project incorporated a number of **innovative features**: SOE restructuring has rarely been attempted by DFID, most notably in Eastern Europe during the transition from a state planned to a market-based economic system; and similarly there have been few precedents for the creation of loan guarantee facilities for SMEs; the project was ambitious in terms of the number of institutions, intended to be sustainable in the medium term, which it created; the contract was an early example of output based contracting; the consultants' consortium was novel in design.
10. The Project design included a **lesson-learning** element and it was the intention from the start to carry out an ex post **evaluation**.

Objective

11. Against this background the objectives of the current study are:
 - To summarise existing views and documentation on the main successful and less successful aspects of the project, and identify in a preliminary way some of the key lessons that emerge
 - To flag up the main issues that would benefit from further in-depth evaluation

Key Issues

12. Bearing in mind the limited scope and inputs to the present study, particular attention should be paid to the following aspects:
 - Project outputs and impact, as far as feasible, compared with project design;
 - The institutional arrangements of the project, both operational and managerial;
 - The coordination between the project and the Chinese authorities, national, provincial and municipal and project consultants and institutions;
 - The relative performance of the project and its institutions in the different provinces and municipalities;
 - The performance and coordination of the consultants' consortium;
 - DFID's arrangements for monitoring the project and liaising with the Chinese authorities;
 - The impact and effectiveness of the consultants' output-based contractual arrangement;
 - The extent to which it can be shown that the project's examples were replicated elsewhere in the pilot municipalities and provinces, or more widely;

Timing

13. The work began in early November and is to be concluded before Christmas.

Reporting

14. The report should be concise - not more than 20-25 pages including any Annexes - and should consist of:
 - An Executive Summary (1 page)
 - Background (concise)

- A main analytical section focussing on the key issues above
- Main findings and recommendations

Resources

15. Up to 10 days of consultant time, including reading documentation, interviews and report writing. Evaluation Department will provide office space in 1 Palace Street and assist with access to documentation. DFID China will provide supplementary documentation as needed and make time for interviews (by telephone or video-conference). The consultant will be engaged under CONTR 02 4374 which will determine the contractual arrangements, terms and fee rates.

Liaison

16. The Project Officer is Iain Murray, Evaluation Department. The Liaison officer in DFID China is Strahan Spencer.

Evaluation Department
DFID

16 November, 2004

Annex B - LOGICAL FRAMEWORK FOR RESTRUCTURING AND ENVIRONMENTAL DEVELOPMENT PROJECT (VERSION 02.01.13) – PART ONE (PROLOGUE)

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
<p>Goal</p> <p>1. Promoting economic growth and poverty reduction in China through socially responsible BOB reform and new enterprise development.</p>	<p>1.1 Progress on BOB reform and rate of job creation in state and small businesses.</p>	<p>Data from national statistical sources (NBTC, MOFSS).</p>	<p>Project outcomes are adopted in other municipalities in participating provinces and lessons learnt disseminated across widely within China.</p>
<p>Purpose (main objective)</p> <p>1. To develop and facilitate the replication of effective approaches to socially responsible BOB restructuring and enterprise development.</p>	<p>1.1 The financial viability of each pilot enterprise has improved by the end of the project.</p>	<p>Enterprise accounts, ETC data.</p>	<p>Progress is Good. Governmental commitment to BOB reform continues through EAs of project.</p>
	<p>1.2 Enterprise reform is a socially responsible way including the equitable treatment of workers and users in the restructuring process.</p>	<p>Project reviews and in-part evaluation.</p>	
	<p>1.3 Effective, sustainable, and socially and environmentally responsible institutions established.</p>	<p>As above.</p>	

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
<p>Outcomes</p> <p>Subproject Restructuring</p> <p>1. Comparative strategies restructuring programmes addressed in six municipalities in Linying and Shizhen provinces through establishment of sustainable Restructuring Agencies (RAs).</p>	<p>1.1 Positive business impact of assistance on first group of 13 enterprises by July 2001 (i.e. at the end of Phase 1).</p>	<p>Measured by the PwC Impact Report on each enterprise as verified by the MMR Team Review (MTR) and DFID including MMR consultants.</p>	<p>Key institutions (e.g. Banks, PWC, MMR, SS and business related Interregional Bureau) committed to project programme.</p> <p>Clear and stable ownership structures of the enterprises.</p>
	<p>1.2 Positive business impact of assistance on second group of 12 enterprises demonstrated by the end of August 2002 (i.e. at the end of Phase 2) measured against the Terms of Reference (TORs) of each project.</p>	<p>Measured by the PwC Impact Report on each enterprise against project TORs as verified by DFID independent monitoring and evaluation (IME) consultants.</p>	<p>As 1.1 above</p>
	<p>1.3 Positive business impact of assistance on second group of 12 enterprises demonstrated by the end of December 2002 measured against Key Performance Indicators established for each enterprise.</p>	<p>Measured by the PwC Impact Report on each enterprise against requirements in the Key Performance Indicators specified in the Diagnostic Report / TORs deliverables section for each enterprise, consistent with 1.2 above. Verified by the end of project review and DFID including MMR consultants.</p>	<p>As 1.1 above.</p>

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
	<p>1.4 Each enterprise inspired for introducing initiatives with a social responsibility component, demonstrate improvements in corporate social responsibility as measured against the social assessment action plan.</p>	<p>Report from Social Development consultant (using the social assessment checklist) as verified by IDFD.</p>	<p>As 1.1 above.</p>
	<p>1.5 Each enterprise inspired for introducing initiatives with an IDDI component, demonstrate improvements in IDDI management as measured against IDDI improvement plans.</p>	<p>ASAT and enterprise contracting agency reports, as verified by MTR, IDFD.</p>	<p>Reliability of enterprises for IDDI and cleaner production improvement initiatives</p>
	<p>1.6 Establishment of Structuring Agencies by end July 2000.</p>	<p>Consentment reports, RA reports, MTR, IDFD.</p>	<p>Availability of sufficient reliable local personnel to train.</p>
	<p>1.7 Each RA carries out four pilot structuring programmes by the end of August 2000.</p>	<p>Consentment reports, RA reports, MTR, IDFD.</p>	
	<p>1.8 Twelve local consultants in each municipality have been trained and become skilled in project proposals and techniques for enterprise structuring by end of project.</p>	<p>Consentment reports, RA reports, MTR, IDFD.</p>	

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
	<p>1.9 Six RA Managers trained in the managing of Restructuring Agencies by December 2000.</p>	<p>Concession reports, RA reports, NEIL, DFID.</p>	
	<p>1.10 At least one corporate social responsibility specialist (non-RA staff member) is made available to support weekly responsibilities restructuring by December 2000. PRMO</p>	<p>Assessment report from the Social Development consultant.</p>	
	<p>1.11 Each RA has an ongoing revenue stream sufficient to maintain their institutions by the end of financial Year 3 (July 2000).</p>	<p>Cash flow forecasts and order books of RA's.</p>	<p>Availability of resources to maintain RA post 2000/01.</p>

INDICATORS NOT ASSESSMENT DETERMINED				
OBJECTIVES	INDICATORS	VERIFICATION	ASSIGNMENTS	
<p>Enterprise Development</p> <p>2. Supporting small business creation and development through the establishment of sustainable Advice Centres (ACs) in each participating municipality.</p>	<p>2.1 ACs established in each of the six pilot cities by July 2001.</p>	<p>Measured by Consultant reports, MTR, DFID reports.</p>	<p>Support from municipal Governments and Chambers of Commerce to establish and maintain centres.</p>	
	<p>2.2 AC portfolio of services developed, measured by consistency and training services being delivered through direct contacts with at least 1000 businesses, and reliability evidence provided to at least 200 businesses - both by the end of 2003.</p>	<p>Measured by AC reports and Business Plans, Consultant reports, MTR, and DFID Reports. Client satisfaction surveys.</p>	<p>Clients willing to pay for AC services. Project stakeholders recruited to AC services. ACs can adjust to the change of market demands.</p>	
	<p>2.3 Small businesses created and developed that have an impact on poor people by the end of 2003. To be achieved by ACs targeting such clients - ACs to be financially supported by local government in delivering to these clients.</p>	<p>Measured by AC reports and Social Development consultant report.</p>	<p>Support from Local government, DFID, financial market institutions</p>	

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
	<p>2.4 Capacity built to enable ACs to operate effectively as WASH service centres by the end of 2002.</p>	<p>Measured by AC reports and Business Plans, Concession Reports, MTR, and DFID Reports</p>	
	<p>2.5 ACs to develop financial sustainability measured by Cost-recovery of least 20% of income from client services and significant income from local government by the beginning of the third financial year and at least 20% at the beginning of the fourth financial year.</p>	<p>AC Reports and Business Plans, Concession reports, MTR, and DFID Reports</p>	<p>Local government support</p>
	<p>2.6 By July 2002, AC staff using checklist as standard practice to screen clients on DHS completion matters.</p>	<p>Measured by AC Reports, Concessions (AMBAT) reports, DFID reports</p>	<p>Provision of checklist and appropriate training.</p>

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
<p>1. Mobilization of finance for small business development through the establishment of sustainable Credit Cooperative Funds (CCFs) in each participating municipality.</p>	<p>1.1 Six CCFs legally established with profiles and trained staff by the end of July 2011.</p> <p>1.2 CCFs equity built by end of 2010 year 1 measured by:</p> <ul style="list-style-type: none"> • cumulative number of guarantees 10 or more, • cumulative amount of guarantees built of capital¹ or more, and • default rate 20% or less. 	<p>Consultant, MPMO and PPMO reports.</p> <p>COF analysis</p>	<p>Stakeholders willing to utilize the services of the Credit Cooperative Fund.</p>
	<p>1.3 CCFs equity improved by end of 2010 year 2, measured by:</p> <ul style="list-style-type: none"> • cumulative number of guarantees 25 or more, • cumulative amount of guarantees twice capital or more, • default rate 15% or less, • own income covering 10% or more of needs, and • agreements signed with 2 or more partner banks. 	<p>COF analysis</p>	

¹ Capital for purposes of the indicators for the COF component is defined as DFD capital required to date plus Municipal matching capital as the agreed matching ratio of DFD 70%, Municipality 30%.

OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
	<p>3.4 COP's capability both by the end of 2010 year 1 measured by:</p> <ul style="list-style-type: none"> • cumulative number of generations 30 or more; • cumulative amount of generations 4 times capital or more; • default rate 10% or less; and • own income covering 60% or more of costs. 	COP studies	
	<p>3.5 COP's contributing to creating 1,000 employment opportunities for poor people and improving on poor people through income enhancement.</p>	COP's reports, Generation reports, MAM consultant reports.	
	<p>3.6 COP staff retains MAM receiving percentage of all clients by the end of 2010 year 2.</p>	COP's reports, Generation reports, MAM consultant reports.	
OBJECTIVES	INDICATORS	VERIFICATION	ASSUMPTIONS
<p>4. Dissemination of successful models and approaches - end of 2010 period - at national, provincial and national levels with a view to managing replication.</p>	<p>4.1 Dissemination strategy developed, agreed and implemented throughout the project by the end of February 2011.</p>	<p>Measured by distribution of agreed dissemination strategy.</p> <p>Delivery of the dissemination strategy objectives (through the provincial dissemination plan) as verified by DARD (MAM consultant).</p>	<p>Support from key stakeholders outside of the project (e.g. local governments).</p> <p>Responsivity to project models and approaches is non-SKILLED municipalities and provinces</p>

OBJECTIVE	INDICATORS	VERIFICATION	ASSUMPTIONS
	<p>4.1 Provincial Dissemination Plans, that include MEMO and Institution activities, to be developed and agreed by the end of May 2002 and implemented by the end of December 2002.</p>	<p>Measured by PFMO, Coexistence and DFDD MAB reports. Data provided on dissemination outputs in other cities or other provinces.</p>	<p>Project institutions are engaged and continue to implement. Provincial Dissemination Plans are adequately located.</p>
	<p>4.2 Approaches to Social Responsibility and Health, Safety and Environmental matters are integrated into the provincial Dissemination Plans by the end of 2002.</p>	<p>Measured by PFMO, Coexistence and DFDD MAB reports. Data provided on dissemination outputs in other cities or other provinces.</p>	
	<p>4.4 Key institutional stakeholders (i.e. PFMOs, MEMOs, institutions) in each province strengthen and support the SOREED contribution to pro-poor development.</p>	<p>Measured by PFMO, Coexistence and DFDD MAB reports. Data provided on dissemination output in other cities or other provinces.</p>	
	<p>4.5 Evidence of tangible interest in SOREED type models in non-SOREED municipalities and provinces.</p>	<p>Measured by Government and media reports. Data provided on dissemination outputs, including replication, in municipalities and other provinces.</p>	

Successes of the State Owned Enterprise Restructuring and Enterprise Development (SOERED) Project 1999-2004, DFID China

Summary

The project was designed to assist China in its transition from a planned to a market economy. This transition involves both the restructuring of State Owned Enterprises (SOEs) to improve their competitiveness, and the development of private Small and Medium-sized Enterprises (SMEs) as the new engine of growth and employment generation. The project's purpose was therefore to develop and facilitate the replication of effective approaches to socially responsible SOE restructuring and SME development, with a focus on six cities in two provinces (Liaoning and Sichuan) suffering from inefficient SOEs and weak private sectors. SOERED was judged as having achieved this purpose, by effectively informing government policy and practice on its two main approaches:

- ***New intermediary commercial institutions:*** these were to provide services to assist SOEs restructure (the Restructuring Agencies); and SMEs gain access to finance (the Credit Guarantee Funds) and business know-how (Business Advice Centres);
- ***Corporate Social Responsibility (CSR):*** as SOEs were having to reduce their social responsibilities in terms of providing social services to their workers, CSR held out an alternative model for social responsibility for China that was consistent with the market economy.

Although the project was not designed with an explicit focus on poverty reduction, urban vulnerable groups benefited in a number of ways. Laid-off workers and migrant workers in need of employment were either directly assisted in creating new businesses or indirectly assisted by supporting the growth of SMEs that could employ them.

Sustainable and effective institutions

Six ***Credit Guarantee Funds (CGFs)*** were established to provide loan guarantees to banks to reduce their risk of lending to SMEs. Although CGFs existed before in China, the SOERED CGFs were based upon international best practice and are now among the best in the country. For instance, by using sophisticated risk assessment techniques they do not require collateral from clients (unlike the government's own CGFs). All six are financially viable.

Six ***Advisory Centres (ACs)*** were established to provide advice to SMEs to support their creation and growth. Of these, four out of six are now commercially viable, a high success rate given the weak economic environment in many of the cities and the lack of awareness among SMEs of the benefits of such advice.

Six ***Restructuring Agencies (RAs)*** were established to provide advice to SOEs in how to restructure in order to improve their competitiveness. Of these, four out of six are now commercially viable. The RAs have had to work in a more challenging environment than the ACs for a number of reasons. Firstly, advising SOEs on restructuring debt and ownership was not possible given political constraints. And secondly, although SOEs may be in greatest need of advice to improve their

business processes, they are even less aware than SMEs of the benefits of it, and potentially less able to pay given financial problems. Some RAs have therefore turned to advising SMEs, suggesting that with hindsight the AC and RA functions should have been combined into one institution in each city.

The principle of **Corporate Social Responsibility (CSR)** was mainstreamed throughout these institutions. The vision underpinning this was that a company, by managing its core business to add social, environmental and economic value, can produce a positive sustainable impact for both society and for the business. Particular focus was placed on socially responsible restructuring, human resource management, and health, safety and the environment. Through training and on the job working, the CSR programme has supported a remarkable growth in the skills and expertise of people involved in the project, including staff within the project institutions, local experts and project clients. Many of the project institutions are now actively committed to the CSR agenda and have incorporated the training materials into their advisory services.

Poverty Impact

Job creation data from the project institutions themselves suggest that after 10 years of operation, they will have **generated more than 150,000 jobs**. This is likely to be an overestimate given problems of attribution, but would mean a cost per job created of RMB 5,700, or £370. Although this is not as cost effective as some Chinese government programmes claim to be, some of the costs have been spent on developing resources which future replications can use for free. The approach of setting up new institutions was also more costly than assisting existing ones, although has meant that the SOERED institutions are able to be more effective demonstration models.

The component with the **greatest impact on job creation has clearly been the CGFs**. Lack of access to finance is a key constraint to the creation and growth of SMEs in China, and is the main area where its investment climate is worse than other countries in Asia. 92% of sampled CGF clients said that they would not have been able to receive a loan from another source, suggesting that the SOERED CGFs have been extremely effective in improving SME's access to finance. Approximately a quarter of the jobs created were filled by laid-off workers and rural migrants, who are the key members of the urban poor.

The ACs had a direct impact on poverty by providing training to laid-off workers in how to start businesses, and an indirect impact by supporting the growth of SMEs that could employ them. The 25 SOEs that were targeted by the RAs achieved considerable positive impact from the project and in some cases were turned around. This not only saved jobs, but also created them.

CSR can increase the impact of businesses in reducing poverty in a number of ways:

- Paying wages and taxes on time contributes to economic growth;
- Respecting environmental standards contributes to sustainable growth;
- Respecting labour standards and encouraging local sourcing contributes to pro poor growth;
- Creating jobs, providing skills and training, and producing products that meet the needs of the poor, has a direct impact on the poor.

All enterprises supported by the project improved on some aspect of CSR including links with the community, health and safety, and human resource management. Documented case studies highlight the impact of advice on CSR in a wide range of industries, including heavy engineering, the service sector, paper-making (see Box 1), agriculture and food processing.

Yongfeng Paper Mill (Muchan County near Leshan, Sichuan)

This company is an example of a restructured enterprise that has made very good progress in integrating CSR into its day-to-day activities. It has seen clear benefits from this in terms of not just its wider stakeholder relations, but also in terms of its current and expected future sustainability as a business. It has made huge improvements in water purification by investing in new machinery. It has also encouraged local peasant farmers to grow bamboo for the mill. Locally grown bamboo reduces transportation costs and cultivation improves the soil by cutting soil erosion. The farmers' incomes rise and so the local economy also benefits. Tax revenues from individuals and the company now amount to about one third of the total tax revenues to the county. CSR compliance improves the company's profitability and in turn the company contributes more to the local economy.

Informed Policy and Practice

Over the course of the project, using **CGFs** to improve access to finance for SMEs and particularly laid-off workers starting their own businesses, has become an increasing government priority. The project has therefore provided effective models to achieve this, with impacts including:

- **Local government funding:** 5 out of 6 CGFs have received substantial additional funds from local government;
- **CGF association:** project CGFs have formed an association that they are using to network with all CGFs in China in order to spread best practice;
- **Central government interest:** DFID has been approached by the central government to provide assistance in developing national policy on CGFs in recognition of the effective model used by the project.

During the course of the project an SME Promotion Law was promulgated which calls for the development of intermediary institutions to support SMEs. The project's work with **ACs** has therefore provided practical experience for national, provincial and city governments in how to do this:

- **Local government contracts:** Bureaus of Labour and Social Security in a couple of cities have been contracting with some ACs to provide business start-up training to laid-off workers, recognising that they have more expertise than government training providers.
- **Work with the National Development and Reform Commission (NDRC):** the NDRC is the national agency responsible for SME promotion, and is together with DFID jointly

publishing a book on international and domestic experience of how to provide business services for SMEs; and producing national guidelines to assist local governments in supporting SME business services, which will draw on the SOERED experience.

Providing services to assist SOEs has not been such a policy priority as for SMEs, and so the impact on policy and practice has been less than for the ACs. However, one province decided to use surplus project funds to replicate an RA to another city.

The **capacity to operationalise CSR at the enterprise level** in China has been significantly enhanced through the project, and the findings from this communicated to all key national stakeholders through a number of tools:

- **Web-based Resource Bank:** on web (www.csr.ied.cn), containing CSR methodologies and toolkits, related Chinese laws, and good practice case studies. It has received 250,000 hits within six months.
- **Roundtable discussion:** of government, private sector and civil society.
- **National conference on CSR:** organised with the help of project consultants by the Propaganda Department of the Chinese Communist Party Central Committee.
- **Book 'CSR in China':** was published, including training modules and case studies from SOERED, copies of which were requested by the Ministry of Labour and Social Security, Propaganda Department of the Party Central Committee, All China Trade Union, and Ministry of Commerce.
- **CSR pamphlet on labour protection:** published in October with 10,000 copies in print.

DFID CHINA PROJECT

THE SOERED PROJECT: LESSONS ON GENDER ISSUES

This note is a commentary on progress made on gender issues in the State Owned Enterprise Reform and Enterprise Development Project (SOERED) written:

- (i) to respond to the DFID China Gender Review by Nazneen Kanji and Du Jie
- (ii) to look back on my involvement in the project which comes to an end on this visit to China
- (iii) to contribute to the Final Project Review (FPR) .
- (iv) as a contribution for the gender workshop within the Asia Region which Sushila Zeitlyn is running.

For those not familiar with SOERED - its purpose is “to develop and facilitate the replication of effective approaches to socially responsible SOE restructuring and enterprise development. One of the purpose level OVIs is “Enterprises perform in a socially responsible way including the equitable treatment of women in the restructuring process”. So at the design stage gender issues were perceived to lie at the heart of the project. I have been working on the strengthening the social development impacts in the project since the Mid Term Review in November 2001.

The Gender Review undertaken by Nazneen Kanji and Du Jie has been very helpful. I should at the outset say I agree with all their comments with respect to SOERED. In their box on how gender was addressed (focus on implementation) they note: “No focus on gender (market and product oriented, not people) financial sustainability rather than poverty or gender issues. Little attention to labour issues, unemployment, micro-enterprise development. Conflict between financial viability and socially responsible restructuring. Latter sidelined/peripheral. Post OPR checklist/development training on Human Resources/Corporate Social Responsibility including attention to legislation on women’s rights in employment. PMO and new institutions conform to equal opportunity legislation, show awareness that women’s child-related and domestic responsibility constrain performance and promotion at work”. There is more, but in my view this gets to the heart of the matter.

The review findings are also an opportunity to consider more widely the contributions to social development which the project has made. Reviews of the project have recognised the huge strides made on social issues since the Mid Term Review. There are now teams of social experts in both provinces who are led by a Beijing- based ngo who have worked with staff in the project institutions. They have made huge progress on a range of social issues, some of which are enumerated below. They should be justly proud of their achievements which have been a real team effort.

The first task was to select appropriate elements from the social development discipline. We selected corporate social responsibility (CSR) as most applicable to the project’s enterprise reform and enterprise development objectives and crucially because it also allowed us to build on the progress which had already been made on HSE in both provinces and to human resource management and enterprise-based social assessments, primarily in Sichuan.

But progress on gender issues has been sporadic. Does that matter? My view is that it does for a variety reasons. But the crux of the issue is that this project turned out to not be a very good

instrument for achieving gender neutral, let alone gender positive development. The reasons for this situation are basically the same reasons for the problems in strengthening broader social development impacts.

The design of the project is very familiar to the extent that it owes much to the market oriented perspectives which were used in the programmes in the transition countries of eastern Europe and the former Soviet Union in the mid to late nineties. This approach tried to identify ways of breaking with the mechanisms of an economy dominated by the state and establishing in their place a commitment to the private sector. These approaches were adapted to fit the policies and operating environment in China.

The meat of this project has been the creation of three institutions (Restructuring Agencies, Advice Centres and Credit Guarantee Funds) in each of the three pilot cities in the two project provinces - Liaoning in north east China and Sichuan in the south west, giving 18 project institutions in all. Of the initial 18, 16 now remain. The project also contains a focus on dissemination of successful models and approaches - and lessons learnt - at municipal, provincial and national levels with a view to encouraging replication. Project management offices were set up at the provincial level and in each of the pilot cities (PPMOs and MPMOs)

An important indicator for the project is the sustainability of these project institutions. And here at this stage sustainable means commercially sustainable. This was an extremely complex undertaking for a range of bureaucratic, legislative, practical and cultural reasons. The need to allow extra time for start-up and for institutional development was one of the main reasons for extending the three year project to four years. Over the piece in the project's own terms the institutions have done a good job. With 16 of the original 18 institutions remaining it looks as if all will survive beyond the end of the project and some on current evidence are undoubtedly sustainable. In this respect it is therefore fair to judge the project a success.

Another output is concerned with dissemination.... "of successful models and approaches - and lessons learnt - at municipal, provincial and national levels with a view to encouraging replication". Considerable progress has been made here over the past year. However replication does not necessarily bode well for socially responsible approaches - because if the models weren't socially responsible then obviously neither will the institutional "daughters or sons" be. Progress has also been made here, particularly in the final year.

But where does that leave the social development agenda in general and requirement for gender relevant impacts in particular? There are a number of points to make here. Firstly the balance between sustainability and achieving developmental outcomes is complex. Across all six project cities the institutions which on current evidence are most likely to be sustainable are the CGFs and they are precisely the institutions which at this stage of the project are also most likely to have gender positive impacts. For instance Chengdu CGF tops the project sustainability table. It has also provided 168 loan guarantees to laid off workers and created about 400 new jobs. Data collected by Shenyang CGF indicates that as of September 2003 of the loan beneficiaries - 43% of enterprises are owned by women, 53% are market traders and 43% are first time recipients. Dalian CGF is opening branches at the district and country levels. The CGFs are guaranteeing loans to marginalised groups and micro businesses who would not otherwise be able to get loans.

Secondly with regard to the two institutions providing consultancy services the demand for commercial sustainability is not compatible with a more developmental approach over the short to medium term and the commercial imperatives have won out. As DFID funding reduced over the four year term from 100% to zero the institutions have increasingly needed to build their own revenue streams in their local market. The Restructuring Agencies began by focusing primarily on the state owned enterprises (SOEs) the Advice Centres and Credit Guarantee Funds in various parts of the SME sector. They have little capacity (financial or human) to cope with lost leaders or to take on a more developmental agenda if it challenges commercialism.

Thirdly their ability to run with the CSR agenda therefore depends on the willingness of local government to commission them as service providers. Crucially success here has turned out to depend on relationships with various parts of government which were not in place at the start of the project. The PPMOs and the MPMOs have by the FPR have established relationships with government through the normal course of business of the project and through dissemination activities. Realistically therefore within the timeframe of the project it was not within their control to take advantage of methodologies which might have ensured that women and men were treated equally or have delivered other gender specific impacts.

Fourthly one group of clients, the burgeoning private sector, anecdotally are reported to make it harder to address issues other than what they perceive as the obviously commercial. For many the consultancy approach remains a novel one and they are not used to paying for advice. Not surprisingly they are going to be even less willing to pay for advice on issues they are not issues they are only remotely if at all interested in. Their focus is initially on their own survival and then on their profitability. New to the different ways in which market systems function, much of the time discussions seem to come out of an extreme, or ill-thought out version of economic liberalism, very reminiscent of other transition country experience. As yet they are unable to see CSR as a way of growing their business.

This illustrates the stages in the process of building the impacts: from design, to training the local CSR teams, to sensitising and establishing commitment within the project institutions and the PPMOs and MPMOs so that they in turn work with clients and other recipients. It is only through the changed behaviour of the enterprises whether SOEs and SMEs that social indicators will change. So the question remains how much time/inputs is required to deliver that sort of change? Realistic time frames are important and in many ways this is a young project.

There are other types of social responses which paint a more diversified and positive picture of the responsibilities which enterprises often take on than these limited perspectives otherwise suggest. The SOEs traditionally have had broader social roles in both their productive and administrative processes and in the ways in which their contributions to economic and social structures were measured and evaluated. However privatisation, restructuring and huge inherited debts are all conspiring to introduce a greater concern about balance sheets (and some would say not before time) and offloading of these non-commercial activities. Reform of the pension sector, cutting the workforce may be part of the process of enabling businesses to function in an emerging market economy, but they are also increasing levels of vulnerability. And they have gender relevant impacts because for instance women are disproportionately laid off.

The project is able to respond to some of the social consequences of restructuring. For instance start-up training is a free service provided by the Advice Centres and is designed to help laid-off workers

to create small businesses. However the findings from an additional evaluation study commissioned by DFID suggest that the training is not hitting its target population as its clients tend to be slightly younger and better educated. (The Tracer Study - see below) As with other development programmes, helping the chronically disadvantaged is harder and more expensive. The multi-deprivations experienced by the laid-offs demonstrate the extent of their poverty and so the question remains: how to reduce their marginalisation? In addition is the start-up training the most effective instrument?

A further problem has been tracking and developing a reliable evidence base. Tracking these issues is complex and also requires some longitudinal investigation which could easily put an unrealistic burden. However at a basic level is the paucity of data. Data availability on impact by has been limited. Baselines were not routinely established and tracking project impacts has not been systematically done across the project. In order to go some way to correcting this situation DFID commissioned a Tracer Study which investigated the impacts of operations in 4 institutions in three cities Anshan, Chengdu and Shenyang. More than that, opportunities for collecting qualitative data are excellent, although not probably a reasonable expectation for project staff. The project staff have a vast if unsystematic body of knowledge, experience, stories. How to collect and collate what they have is more complicated.

From the gender perspective the project has not led by example. With respect to Chinese staff: of the 18 project institutions two have had female directors, but only one is still in place. The Provincial Project Management Offices are both headed by men and all six Municipal Project Management Offices are headed by men. Women are better represented at less senior levels. With respect to the contractors all the resident long-term consultants have been men. From the long list of short-term consultants only four have been women. (In the same vein only one has not been white.) But this consortium is not alone in performing poorly on diversity indicators.

The structure of the project and the momentum required to reach its institutional development targets have turned out in some cases, but not all, to be at odds with the social OVIs. This tension constitutes a fundamental oversight in the project design. However this problem could have been addressed within the existing project architecture. My view has always been that this should have been at least a five-year project. Four years were probably required for the institutions to become sustainable. A fifth year would have allowed for different sets of relationships and alliances to become fully operational.

Opportunities for strengthening gender impacts in the future.

Overall over the short to medium term I would judge the likelihood of better gender impacts through the isolated adoption of good practice models to be high, but the likelihood of significant strengthening of the gender impacts across the board to be no better than fair. Progress is likely because the CSR work will continue for 2004 through an extension of the contract to the Beijing-based ngo. Also awareness of the gender issues is good in some institutions and there is support from some secondary stakeholders. But elsewhere within the project institutions and external stakeholders there remains considerable resistance to putting gender high on the list of CSR issues.

A number of actions could be undertaken to improve the gender impacts:

- Hold roundtable for those components in the project which already have some experience of gender issues to assess what has actually been done across the project.
- More systematic data collection and utilisation. This should include longitudinal and qualitative studies as well as quantitative. There is a huge body of information and experience within the institutions and their clients and little has been done to collect and analyse this.
- Agree how far gender can be brought into next year's work plan
- Strengthen networking and collaboration with women's organisations
- Continue to build alliances with local government

Annie Feltham
Contracted Social Development Adviser

ASSESSING THE CSR IMPACTS IN THE SOERED PROJECT: ANNIE FELTHAM

In preparation for the OPR in November I would like to start a debate on the CSR impacts in the SOERED project. Our expectations following the MTR of the difference which the augmented social development inputs would make were captured in the log frame revised by May 2002 (Section One). On the one hand we have outperformed those expectations by a wide margin and credit to everyone for that. On the other hand our impacts have in some cases been different from our expectations. It is this point which requires some investigation (Section Two).

This minute is written to accompany my visit report and to also to inform discussions on the sort of CSR programme we might like to support in 2004.

SECTION ONE FROM THE CURRENT LOG FRAME

Purpose level:

Enterprises perform in a socially responsible way including the equitable treatment of women and men in the restructuring process

Comment: All targeted enterprises have improved in some aspect of the CSR/HSE agenda including: links with the community (Yongfeng Paper Making Company), health and safety (SanLi), human resource management (Heavy Machinery Group, SiPu). None have improved across the whole agenda and impacts reflecting a sharper gender focus have not emerged. (See separate minute commenting on gender in the light of the gender review.)

Effective, sustainable and socially and environmentally responsible institutions established.

Comment: At the MTR we identified a tension between sustainability and the development agenda. This was true then and to some extent still remains the case. Because of project design the main drivers of sustainability are commercial and financial. On the other hand using different principles at the design stage they could have become more sustainable had they been more closely allied to government policy and therefore received more public sector support. Extra public sector support is still possible with the current structures although once the PPMOs and MPMOs are disbanded the last cohesive force in the project will go and I anticipate that such change will become more difficult. The project institutions themselves remain primarily individualistic and see little advantage in working together to achieve more joined up (and in our view probably also more profitable) impacts. They seem to have got hold a very competitive approach to the market. Their differences always seem to be more powerful than their similarities. Therefore poverty reduction impacts are much harder to achieve.

One of the most persistent hindrances to strengthen CSR compliance has been to convince the various institutions in the project (primarily the project institutions themselves) to think outside of their box. Joined-up thinking and operations has been our rock of Sisyphus. Delivering any sort of linkages has been hard: within municipalities; across components. It has been almost impossible to bring the provinces together. It has proved difficult to share lessons learnt because of an apparent historical lack of any contacts plus the physical and financial constraints. The upcoming joint CGF workshop is the exception which proves the rule. Better resourced MPMOs with a stronger role may have facilitated some of the joined-up thinking which CSR compliance requires.

A core part of our CSR implementation strategy has been to present the business development case for CSR compliance. Li Lailai developed a matrix which identified three levels: legislative requirements, business development and investment in social capital. Not unreasonably many businesses would primarily be focused on the first level, perhaps with some attention at the second level. Only a small minority would be able to make a commitment to the third.

We also tried to develop a more joined up approach which envisioned the huge CSR agenda as an umbrella concept which included human resource management and health, safety and the environment. This has proved difficult because of the contractual arrangements in the project within which the HSE strengthening was delivered by an international company with only limited contact with other implementers. In addition until we started to become actively engaged there was always a disbalance in the project whereby the Restructuring Agencies received far more attention on these issues than the other two components. We have redressed that balance. Until recently we have however found it rather harder to achieve a more joined-up CSR approach across all institutions. Preparation for the Resource Bank is finally bringing the specialists together.

If we look at the CSR agenda we have overall found that success on environmental issues perhaps the easiest case to make. We still struggle with encouraging commitment to human resource issues with many enterprises. The SOEs have said that they have quote two problems: debts and the workers unquote. The SMEs see a sellers' market in attracting a new workforce. As with the SOES, it is hard to convince them that their workers are an asset. And so long as these enterprises require in the main semi-skilled labourers and there seems to be no likelihood of the pool running dry, there are precious few levers to encourage considered recruitment and retention policies and practices. For sure the legislation may be there, but it has to be enforced and there well rehearsed reasons why it might not be.

This is an important point because it demonstrates the limitations of making even the business case for CSR compliance. As I indicated earlier we have relied most on the stimulus of profitability as the underpinning for greater compliance. What we have not done is to rely very much on the rights-based case. We took the view, rightly or wrongly, that to make progress we had to confront enterprises in their own terms. I remain convinced that had we used a more normative, rights-based approach we would have been largely sidelined and not made nearly as much progress as we have made. It might be that rights can only be effectively used with strong government backing and a clear willingness to enforce compliance. We had neither of those commitments. Our decision not to rely on the rights-based approach might turn out to be the main reason why we have made comparatively little progress on gender issues.

Our efforts to encourage CSR compliance have primarily been focused on the clients of the institutions. Only more recently has the question about the extent to which the institutions themselves are CSR compliant come into our field of vision. And the issue here is about how they treat their staff. To what extent are they models of good practice? Do they have codes of practice, staff development policies, grievance procedures etc etc? This was not part of our remit and it is only when we have heard of individual cases of poor practice that we have come to realise belatedly that maybe it should have been. If it was part of the training in the earlier phases of the project, then fine and good, but we should probably also have picked it up. Now as the DFID funding comes to end, we have lost our only serviceable lever.

Output level

Output 1

Each enterprise targeted for restructuring with a social responsibility component demonstrates improvements in corporate social responsibility as measured against the social assessment action plans

Comment: Done

This OVI refers to the social assessment checklist used initially for Phase II RA enterprises in Sichuan. The list comprising 22 items was developed by PwC short term consultant, Iain Wylie and Guo Hong, Sichuan Academy of Social Sciences and was based on the 63 pieces of relevant legislation. It was subsequently used in Liaoning. It turned out to be a very good starting point. Later a key weakness turned out to be that it was too easy to score high marks. We did discuss its revision, but in the end it was overtaken by a more joined up approach.

At least one CSR specialist (non – RA staff member) in each province able to support socially responsible restructuring by December 2002

Comment: Done and exceeded. We now have two social specialists in Liaoning and three in Sichuan with different and complementary skills. The Liaoning specialists are government officials and first and foremost practitioners whereas the Sichuan contingent are more academically oriented. Again opportunities for joint working are gradually improving. Initially it was difficult to brief the specialists so that they could present their knowledge and experience in a way which showed a clear relevance to institutions and clients in the other province.

The most notable way in which we have exceeded this output is the reliance we have placed on Li Lailai and her team from IED. (see below). Without their commitment this part of the project would have been much less successful.

Output 2

Small businesses created & developed which have an impact on poor people by the end of 2003. To be achieved by ACs targeting such clients – ACs to be financially supported by local government in delivering to these clients.

Comment: This level of monitoring is beyond the scope of this team and the full extent to which this has been achieved across the whole of the project may never be fully recognised. However some of these developments will become clearer once the information being collected in the Tracer Study becomes available. Some ACs have received local government funding. This however was due to the work of FoSMED and not the CSR team.

Output 3

CGFs contributing to creating employment opportunities for poor people & impacting on poor people through income enhancement

Comment: Again this information will become available through the Tracer Study

Output 4

Approaches to social responsibility and HSE are integrated into the provincial dissemination plans by the end of 2002

Comment: This is happening, but probably by mid 2003 rather than the end of 2002. In addition reflecting the greater commitment of Liaoning PPMO, it is probably being more energetically pursued there rather than in Sichuan.

SECTION TWO

ADDITIONAL OVIs

As we have designed and implemented the CSR programme, it has become clearer that we have additional impacts which in some cases could probably indicate more sustainable developments. I have grouped these under five OVIs. I don't think that we could have predicted these outputs when we began the design the increased social development inputs at the start of 2002. The prerequisite for this progress has been the involvement of Li Lailai and her team. Their contribution has provided the bridge between international experience and current process of development and change in China and enabled Chinese colleagues to be in the driving seat at a much earlier stage.

1. Clients more CSR compliant

MOV: 10 case studies for each province

2. CSR resource base strengthened. Initially available to project institutions and by mid-2004 available on website

- (i) IED (Beijing-based ngo) provides support to delivery of CSR outputs and takes over leadership of further CSR development in 2004. No further international inputs required
- (ii) Local CSR teams functioning in both provinces
- (iii) CSR principles and practices adapted for Chinese environment by both CSR consultants and non-project specialists
- (iv) Resource Bank available electronically and selected components also available in hard copy (print, CD Rom)
- (v) Resource Bank comprises: CSR Manual on Legislation; Case Studies - project and non-project; Training Manual; Proceedings of High Level seminars

3. Institutions' CSR capacity operational

- (i) By mid 03 CSR inputs demand led by institutions rather than being proposed by consultants
- (ii) As it becomes available institutions use and value CSR products
- (iii) Institutions trained in the delivery of CSR training packages
- (iv) Chengdu EDAC provided training to army dependents
- (v) CGF assessments checklist for client proposals includes CSR conditions

Risk: staff turnover in institutions may undermine future capacity to support CSR.

4. Further progress on CSR beyond the EOP likely to continue in pilot municipalities because:

- (i) Practices and principles reflect current government policies
- (ii) Professional interests of CSR team members
- (iii) Website used widely and maintained by IED

5. Increased government and enterprise commitment to CSR continues beyond EOP:

Network of contacts on CSR issues includes commercial, state and social organisations and is used as a resource by both project institutions and their clients.

Annie Feltham
August 2003

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