

REPORT OF THE COMMITTEE
ON THE
MoU SYSTEM - 2012



GOVERNMENT OF INDIA
MINISTRY OF HEAVY INDUSTRIES & PUBLIC ENTERPRISES
DEPARTMENT OF PUBLIC ENTERPRISES

TABLE OF CONTENTS

BACKGROUND	3
TERMS OF REFERENCE & MAJOR ISSUES	4
Format(s)	
Desirability / need for all CPSEs to be covered under the MoU system	
Target Setting, Parameters and Weights	
Flexibility in Target Setting and Evaluation	
Organisational and other measures to strengthen the Task Force mechanism	
The Guidelines	
The MoU and the RFD system	
OBSERVATIONS AND RECOMMENDATIONS OF THE COMMITTEE ON TERMS OF REFERENCE & MAJOR ISSUES	6
Format(s).....	6
The option of multiple formats	
Desirability / need for all CPSEs to be covered under the MoU system	7
The existing system and the working of MoU mechanism	
Negotiations with Subsidiaries	
Coverage of all CPSEs	
Target Setting, Parameters and Weights.....	8
Financial Parameters – total weight 50	
Operational aspects of financial parameters	
Non-Financial (Dynamic) Parameters – total weight 50	
Flexibility in target setting and evaluation.....	16
Target setting Stage	
The Evaluation Stage	
Organisational and other measures to strengthen the Task Force mechanism.....	18
Syndicate Group composition and allocation of CPSEs to them	
Treatment of Sick / Loss making units	
Number of syndicates	
Formation of Resource Group	
Formation of Experts Group	
Pre-negotiation processes	
The Negotiation meetings, logistics and administrative arrangements	
The Guidelines.....	22
Revisiting the Guidelines	
Desirability of continuous interaction in the context of guidelines	
The MoU and the RFD System.....	23
EXECUTIVE SUMMARY & RECOMMENDATIONS	24

BACK GROUND

- 1.1 The DPE, by its order No.3(2)/2012-DPE(MoU) dated 23rd May 2012 set up a Committee to examine the existing MoU guidelines in light of the experience gained and make suitable recommendations/suggestions to improve the MoU system further.
- 1.2 The Terms of Reference, the composition, and the details of the meetings of the Committee are at **Annex A, B, and C** respectively.
- 1.3 The list of Syndicate Coordinators, CPSES representatives, experts and others who met and were consulted by the Committee are at **Annex D**.
- 1.4 The questionnaire sent by the Committee and the list of recipients are at **Annex E and F** respectively.
- 1.5 A list of the background papers, reports, documents etc. that the Committee referred to and took into consideration is at **Annex G**.
- 1.6 The Committee was ably assisted in its deliberations by Joint Secretary DPE Shri Arun Kumar Sinha, Director Shri J.R. Panigrahi, and a number of resource persons, whose list is at **Annex H**. The Committee would like to extend its sincere thanks for the unstinted support provided to it by all of them. It would also like to place on record the courtesy and consideration extended to it by the Secretary DPE Shri O.P. Rawat.
- 1.7 The Committee attempted to reach out to as large a number, as possible, of the CPSEs, syndicate members, experts, and those involved in or familiar with the MoU system to obtain their inputs, within the given time frame, and to evaluate them objectively. It received valuable inputs from many sources, for which it is thankful to all those who found time to interact with it.
- 1.8 It did not, however, confine itself to the inputs received from outside. The Committee also drew upon its own cumulative experience, and pro-actively sought views on specific matters from those with whom it interacted. It identified issues which would have a bearing on the system and its efficiency, and considered a range of options, holistically for strengthening and improving the system.

2. TERMS OF REFERENCE & MAJOR ISSUES

- 2.1 The major issues that were to be addressed in light of the ToR, most of which were also reflected in some manner in the suggestions received from a large number of those who were consulted, including the convenors of the Task Forces and senior representatives of CPSEs, may be summarised as follows:

FORMAT(S)

- 2.1.1 This relates to the need/desirability of revising the existing format(s) and the possibility of devising specific formats for CPSEs differentiated by parameters like size, sector, activity, scope of operations, status etc.
- 2.1.2 It has been argued that the current format(s), though well designed, are not able to adequately address the widely differing enterprise or sector specific requirements, and lead to targets being set which, in the view of the enterprise concerned, are sometimes not entirely appropriate for it.

DESIRABILITY/NEED FOR ALL CPSES TO BE COVERED UNDER THE MoU SYSTEM

- 2.2 This relates to the desirability/need for review of the current system wherein all CPSEs are covered by MoU exercise.
- 2.3 The existing MoU system covers all CPSEs, including Sick and Loss making units, all of which are required to sign the MoU with their administrative ministries and their subsidiaries which sign the MoU with the holding company.
- 2.4 A question was raised whether enterprises that are sick, or are on the verge of being wound up or merged, or have no revival package, should not be excluded from the MoU exercise?

TARGET SETTING, PARAMETERS, AND WEIGHTS

- 2.5 This relates to the need/desirability of reviewing the current system of setting targets on the five point scale (poor, fair, good, very good, excellent); the parameters within which the targets are set; and the weights assigned to various financial and non- financial (also referred to as dynamic) parameters.
- 2.6 It has been argued that the current system takes an 'excellent' achievement in a given year as the basis for only 'very good' for the next, which makes the target for the 'excellent' level for the next year too high.
- 2.7 It has also been argued by several CPSEs that the present system is not able to take into account the constraints unique to them; that it does not provide adequately for enterprise/sector specific factors; and that while some of the

parameters are not relevant for some units, others are too detailed or fragmented to be effectively implemented.

FLEXIBILITY IN TARGET SETTING AND EVALUATION

- 2.7.1 This relates to the need/desirability of giving more operational flexibility to the CPSEs, the Administrative Ministries, and the Task Forces in the areas of target setting, parameters, and in the process of evaluation.
- 2.7.2 It has been argued that the current practice of not accepting MoU targets with conditions of any nature, of fixed parameters and weights, and evaluation done strictly on the basis of the achievement or non-achievement of the MoU targets without consideration for circumstances beyond the control of CPSEs, is too rigid, and needs to be made more flexible.

ORGANISATIONAL AND OTHER MEASURES TO STRENGTHEN THE TASK FORCE MECHANISM

- 2.6 This relates to issues like the classification, size, and composition of the Task Force syndicate groups; steps for enhancing their operational effectiveness and strengthening the support systems; and matters relating to meetings and logistics etc. which would make the present system more efficient and effective.

THE GUIDELINES

- 2.7 Detailed Guidelines are issued by DPE on various substantive and procedural issues to guide all participants in the MoU process.
- 2.8 It has been suggested that some of these could be made shorter.

THE MOU AND THE RFD SYSTEM

- 2.8.1 This relates mainly to the inter-related issues arising out of the RFD system under the Cabinet Secretariat and the existing MoU mechanism under the DPE.
- 2.8.2 Some issues relating to targets and co-ordination have been raised in this context.

3.OBSERVATIONS AND RECOMMENDATIONS OF THE COMMITTEE ON TERMS OF REFERENCE & MAJOR ISSUES

FORMAT(S)

3.1.1 THE OPTION OF MULTIPLE FORMATS

3.1.2 The Committee was of the view that the current format (s) applicable to most of the CPSEs, (except for section 25 companies and sick/loss making units) need to be modified in a suitable manner to provide more relevant options for enterprise/sector specific factors in target setting, selection of parameters, and their weight.

3.1.3 It considered the option of multiple formats based on differentiating factors among CPSEs, but noted that these were so numerous, complex and overlapping that it did not appear to be a feasible proposition, as can be seen even from the following illustrative list of possible categories :-

Official status (e.g. Maharatna, Navratna, Miniratna);
Legal status, (e.g. listed, unlisted, section 25 companies);
Size (e.g. Fortune 500, mega, large, midcap, and small);
Sector, (e.g. petroleum, power, steel, coal, mining, equipment manufacturing);
Activity/category (e.g. mining, manufacturing, processing, services, agriculture);
Nature of state control (e.g. on price, distribution, investment decisions);
Extent of state control (e.g. near total, substantial, marginal);
Market positioning, (e.g. monopoly, dominant, marginal);
Client base (e.g. International, national, regional, single client ;)
Primary objective (commercial, socio economic, essential services);
Relevance to national economy (e.g. critical, important, marginal);
Financial position (e.g. large profits/ reserves, profitable, loss making, sick) etc.

3.1.4 The Committee felt that the purpose of providing for enterprise or sector specific factors in the MoU format can be served more effectively by keeping a common format for all CPSEs, (except section 25 companies and sick/loss making units), incorporating a larger number of parameters and options for CPSEs to choose what is more relevant for them, with the approval of the Administrative Ministry and the Task Force.

3.1.5 While the Committee appreciated the value of choices and flexibility, it also felt that this must be done within a broad common framework to maintain a desirable level of uniformity of approach among syndicates, and to minimise the element of subjectivity in the selection of options.

3.2 DESIRABILITY/NEED FOR ALL CPSEs TO BE COVERED UNDER THE MoU SYSTEM

The existing system and the working of MoU mechanism-

3.2.1 The existing MoU system covers all CPSEs, including sick and loss making units, all of which are required to sign the MoU with their administrative ministries and their subsidiaries which sign the MoU with the holding company. A Task Force mechanism, comprising experts from various disciplines and divided into syndicates has been put in place to coordinate and conduct the negotiations with CPSEs. A brief note on the current system is at Annexe I.

3.2.2 The Committee noted that steps have been taken by DPE on a continuing basis to nurture, update and strengthen the MoU mechanism, with the objective of making the CPSEs more efficient, competitive and result oriented. It also found, in its various interactions with a wide range of organisations and experts, that by and large, the MoU system, as it has evolved, is perceived as being useful and robust, and some problems and shortcomings notwithstanding, as having worked well over the years to enhance public sector performance.

Negotiations with Subsidiaries –

3.2.3 The Committee felt that while the current system of the DPE/Task Force being involved in the process of MoU negotiation and performance evaluation of subsidiaries, which ultimately sign the MoU with their holding companies, may continue, DPE may also examine the possibility of setting up an enabling mechanism to consider and permit leaving the entire process of negotiations/evaluation of the subsidiaries to the CPSEs/administrative ministries if they so desire in some specific cases.

Coverage of All CPSEs

- 3.2.4 The Committee discussed the desirability or otherwise of limiting the MoU exercise to selected CPSEs to make it more focussed, but concluded that since the exercise is and has always been meant to be for the Public Sector as such, irrespective of the size, sector or activity of the enterprise, it is desirable to continue with the existing system of including all CPSEs in it. It also felt that it would be for the Government, as the principal shareholders of these enterprises to take a call on the issue of exclusion of any of them from the requirement of signing MoUs with it, if it so desires.
- 3.2.5 The Committee discussed the issue of exclusion of sick/loss making units from the MoU exercise, but concluded that it was a matter relating to policy to be decided by the Government. It did, however, feel that it would be desirable if enterprises that were certain to be wound up, or where no meaningful MoU was possible without a revival package being put in place, were left out of the MoU exercise, for which DPE would need to consult the administrative ministries concerned and take a view.

3.3 TARGET SETTING, PARAMETERS, AND WEIGHTS

Desirable Attributes for Targets

- 3.3.1 In order to be relevant for any meaningful evaluation of the performance of the CPSEs, the MoU targets need to be realistic and attainable, as also aspirational, growth oriented, and challenging enough to bring the best out of the enterprise for meeting and exceeding the targets.

Setting Targets – some essential considerations

- 3.3.2 The targets suggested by the CPSEs and the Administrative Ministry at the draft stage should be the maximum achievable under the given and anticipated circumstances including its own past performance, with some comparative benchmarking, supported by relevant data, and in line with expectations of the government, the Five Year Plan, the Corporate Plan, and interests of the shareholders.

3.3.3 The Committee also felt that in preparing the draft targets, CPSEs should keep in view and present to the Task Force details about the projections that may have been made in their own business plans; those submitted to the administrative Ministry/Planning Commission; and in relevant cases, disclosed to potential investors for raising of capital. This is desirable not only in the context of proper target setting, but also for avoiding any substantive or unexplainable discrepancy between the MoU targets and those in other relevant documents.

Perception about minimum fixed growth requirement in targets

3.3.4 In the context of target setting, the Committee also noted the concern expressed by some CPSEs about the inappropriateness of a fixed minimum target for growth year on year, (usually mentioned as 10% by them). It also noted that in reality, the current guidelines did not stipulate any such mechanical or minimum growth requirement, and hence this was not an issue that needed to be addressed by the Committee.

Determination of the Basic Target on the Five Point Scale

3.3.5 After detailed discussion, the Committee felt that it was not feasible to set down any formula for this, as it can vary from year to year and from enterprise to enterprise in light of the business conditions, current levels of capacity and likely expansion, operational factors, government policies and various external factors. It was therefore deemed best to leave this to the Task Force and the CPSEs to discuss and settle.

3.3.6 Accordingly, the Committee was of the view that the Task Force should have the discretion and flexibility in deciding the basic target on the five point scale, as also the difference of points between the various levels.

The present structure of parameters and weights

3.3.7 The MoU formats incorporate the parameters against which targets are set, and the weights assigned to them to facilitate the final evaluation on a quantifiable basis. Presently, two major categories of parameters are prescribed, namely, financial, and non- financial (also called dynamic). Each category carries a weight of 50 points on a scale of 100, and each is further sub divided into specific parameters. Details of the current system are at **Annexe J.**

Desirability of change in parameters/weight

3.3.8 The Committee discussed in detail the need / desirability of changing the categories in which parameters are divided, the sub-parameters prescribed within them, as well as the weights (points) assigned. It felt that the division of parameters into the two major categories of financial and non-financial is adequate and does not need to be changed, although within them, changes in terms of specific parameters and weights are desirable.

3.3.9 The Committee considered the option of changing the weight given to the two basic categories from 50:50 to 40:40:20 (with 20 being assignable to either category, in full or part, as considered desirable on an enterprise specific basis). However, after detailed consideration, the Committee opted in favour of the existing level of 50:50 for each major category viz. financial and non-financial. This was essentially in view of the importance of financial parameters for any business enterprise and hence a feeling that their weight should not be less than that of non-financial parameters, and also because more options in terms of sub-parameters and flexibility in terms of weight is being suggested in the common format which should accommodate enterprise specific requirements in both categories.

3.3.10 The Committee recommends that the total number of parameters, both financial and non-financial chosen for MoU should not exceed 16 i.e. 8 each from both categories. The Task Force should ensure that CPSEs lay emphasis on relevant and significant parameters and as a result there is no fragmentation.

Financial Parameters – total weight 50.

(i) Growth/Size/Activity (Mandatory Group) – weight 12 to 16

- a) Turnover or Sales, excluding interest and other income (operating growth)
- b) Gross Operating Margin
- c) Loans sanctioned
- d) Disbursements & recoveries

(ii) Profitability– weight 8 to 10 (Mandatory)

- a) PBT/Net Worth
- b) EBIDTA/Net Block
- c) EBITDA/Average Capital Employed
- d) PAT/Stockholder Equity

- e) PAT/Total Assets
- f) PAT/Total Revenues

(iii) Costs and Output Efficiency- weight 8 to 10(Mandatory)

- a) Manpower Productivity-Value Added/Employee Cost
- b) Capital Productivity-Value Added/Capital Employed
- c) Cost Optimisation
- d) Unit Revenue Realisation
- e) PBT per Employee

(iv) Liquidity/Leverage – weight 6 to 8

- f) Current Ratio
- g) Net working capital Ratio
- h) Debt Equity Ratio
- i) Debt Service Coverage Ratio
- j) EBIT/interest expenses

(v) Efficiency of Asset Use - weight 8 to 10

- a) Turnover/Inventory- (average or number of days)
- b) Average Collection Period of Trade Receivables
- c) Resource Mobilisation
- d) NPA; NPA/Assets
- e) Average cost of funds
- f) Interest rate spread

(vi) Common Stock - weight 4 to 6

- a) Earnings Per Share
- b) Price Earning Multiples
- c) Market Capitalisation

(vii) Dividend - weight 4 to 6

- a) Pay-out ratio
- b) Book Value per Share
- c) Price to Book Ratio

Operational aspects of financial parameters

Selection process and final decision

3.3.11 Parameters and their weights may be finalised in the Task Force syndicate meeting after discussion among the CPSEs, the administrative Ministry, DPE and the syndicate. The decision of the convenor shall be final, and reasons should be recorded in minutes of the meeting .

3.3.12 The CPSEs would normally have the option to pick two or three sub-parameters from each group , or such number as may be prescribed in the Guidelines/Format.

Definition of Financial Terms and Ratios

3.3.13 DPE should prepare and issue a glossary of Definitions of Financial and Accounting Terms used in the MoU Documents, along with the relevant Guidelines, and include explanations as needed for the terms and abbreviations used. These should be in consonance with the Companies' Act and its Schedules, as also with Accounting Standards generally accepted and followed by leading Organisations and Practitioners in the field of accounting and audit.

Non–Financial (Dynamic) Parameters – total weight 50

Importance and need for awareness

3.3.14 Given the special mandate of the public sector, the performance of its enterprises in areas other than those directly linked to the balance sheet, profit and loss account and market valuation acquires extra significance.

3.3.15 Even for private sector enterprises, there is a growing, and global, recognition that it is not possible for any business entity to survive or thrive in today's environment without due attention to its role as a corporate citizen, especially in areas like sustainable development and corporate social responsibility. Where businesses have been slack in appreciating this, often the law or international conventions have stepped in.

3.3.16 Many of the non-financial activities can also contribute to the efficient operation of the businesses, with an ultimate impact on the bottom line, as would be the case with the management of human resources, customer focus, and attention to productivity, quality and technology. In some cases, it also pays to be socially responsible and environmentally conscious, as shown by the value of the carbon credits.

3.3.17 The Committee would like to reemphasise the need for a continuous programme of education and awareness creation to ensure that CPSEs understand and appreciate the relevance of these, and other, non-financial parameters, and give it the degree of attention that they deserve.

Discontinuation of parameter on compliance with DPE guidelines

3.3.18 Currently, the mandatory non-financial parameters include corporate social responsibility, sustainable development, human resource management, research and development, and compliance with guidelines issued by DPE.

3.3.19 In the context of the last parameter, the Committee felt that it has achieved its purpose of drawing the attention of CPSEs to the issue of compliance with government policies and directives, which, in any case, is mandatory, and as such, no incentive by way of MoU points needs to be continued any more for doing so. The Committee felt that it would be preferable to reallocate these points to other performance related parameters.

Treatment of areas where regulatory compliance already prescribed

3.3.20 The listed CPSEs are already under the ambit of regulators like SEBI and Stock Exchanges in the area of corporate governance. For unlisted entities, DPE may prepare guidelines based on the same lines as those prescribed for the listed ones, with suitable modifications as needed. Compliance with these would be mandatory and hence these need not be included in the MoU, but it would be desirable for their Boards and administrative ministries/DPE to do so at their level for all CPSEs, and inform the Task Force/DPE as a part of the MoU exercise.

Concept of negative marking

3.3.21 The Committee also felt that it may be useful to consider introducing the concept of negative marks for non-compliance with the directives of the government, including the DPE guidelines/ regulatory requirements, at least in cases where it is of a substantive, deliberate and continuing nature, and the directives require time bound compliance.

3.3.22 The Committee felt that this may be introduced on an experimental basis, for up to 5 points, and applied judiciously and after due consideration, so that technical lapses, or delays caused by essential administrative procedures, or where the inability to comply is due to reasons genuinely beyond the control of CPSEs, do not invite a penalty.

3.3.23 The Committee was of the view that the other four parameters, namely, CSR, SD, R&D, HRM need to be continued.

Merging of CSR and SD

3.3.24 The Committee also considered the merging of the CSR and SD parameters, as suggested by many enterprises. It felt that each one was important enough in its own right to find a place in the list, and should receive individual attention, especially when the CPSE concerned has a large budget for them or is in sectors like mining or natural resource consuming / polluting industries, where SD is of even greater relevance.

Corporate Social Responsibility (CSR), Sustainable Development (SD) - (Mandatory Groups) – weight 8 to 10 (4 to 5 for each).

(i). Corporate Social Responsibility

3.3.25 The key components of this parameters are the formulation of an enterprise specific vision, strategy, and annual/medium term plans for CSR; development of in house capacity; selection of projects through a transparent and normative process; and their supervision, monitoring and evaluation.

3.3.26 Action on all these should normally be initiated and completed in the first year itself, but some relaxation may be given by the Task Force in suitable cases. In situations where action is likely to take longer, annualised targets for MoU purpose may be set.

3.3.27 The sectors/activities under CSR, preferably not more than two, should be selected from the list of DPE Guidelines. DPE may revise the existing Guidelines and the evaluation template suitably.

(ii). Sustainable Development

3.3.28 The sectors/activities under Sustainable Development, preferably not more than two, should be selected from the list of DPE Guidelines. DPE may revise the existing Guidelines and evaluation template suitably.

(iii). Productivity and Internal Processes (Mandatory Group) – weight 10 to 16

- a) Asset/machine/Facility Utilisation/ Turnaround time/ Downtime
- b) Product manufacture/Project Cycle Time

- c) Measures taken to increase efficiency and productivity of manpower/ resources
- d) Benchmarking and performance evaluation
- e) Customer satisfaction and redress of customer grievances
- f) Customer Focus - Customer Satisfaction Index and Complaints per unit of sales etc.

3.3.29 System Efficiencies and performance parameters within Maharatna and Navaratna CPSEs could be aligned/benchmarked, to the extent possible and in course of time, with their comparable global counterparts, to enhance their competitiveness.

(iv). Technology, Research & Development, Quality, Innovation (Mandatory Group) – weight 10 to 16

3.3.30 It needs to be recognised by all CPSEs that R&D is not meant as fundamental scientific research (though it is not excluded) but is linked to improvements in their operational efficiencies in all activities, including manufacture, processing, product development, packaging, marketing, and even work processes, through innovation, adaption, and application of available and emerging technologies and techniques. DPE may address this suitably in the guidelines.

- a) New Technologies/improving existing ones
- b) Intellectual property – patents, trade-marks, copyrights
- c) Quality Management - methods like TQM, six Sigma and ISO. Baldrige Performance Excellence Criteria, etc.
- d) Safety Management - Safety incidents Index, reportable incidents
- e) Cyber Security - developing/setting up security systems; monitoring and detection of cyber security breaches .
- f) R&D - The sectors/projects/activities under R&D should be selected from the list of DPE Guidelines. DPE may revise the existing Guidelines and evaluation template suitably.

(v). Human Resource Management – weight 4 to 5

3.3.31 Projects/activities under HRM should be selected from the DPE guidelines. DPE may revise the existing guidelines and evaluation template suitably to address the perception that these are very lengthy and complex.

(vi). Project Management– weight 10 to 16

3.3.32 : a) Project performance index – percentage of milestones achieved within specified time during the year and cost/impact of shortfalls, if any.

b) Time/cost overruns and cost thereof for each on-going project and total cost to company

c) Number of on-going projects to be completed during the year.

d) Milestones to be reached for on-going projects that cannot be completed during the year.

3.3.33 With a view to facilitating the understanding of the Task Force about where a particular CPSE stands in the context of project management and implementation it would be desirable that a list of projects started / completed in the last five years, their original cost and time estimates along with the final actual ones for completed projects, and current position of incomplete projects, and with details of capital and manpower locked up and their cost, should be made an integral part of MoU background papers for reference. DPE may take appropriate steps in this regard in the document formats/guidelines as needed.

(viii) Initiatives for Growth - weigh 8 to 16

3.3.34 : a) Physical targets/output

b) Corporate/strategic plans – preparation and achievement of goals

c) Expansion/diversification/ acquisitions/joint ventures

d) Brand building/ Marketing initiatives/new products/new markets

e) Import substitution/exports/globalisation of operations

f) Risk identification and mitigation

3.4 FLEXIBILITY IN TARGET SETTING AND EVALUATION

Target setting Stage

The Issue of flexibility

3.4.1 The issue of flexibility in target setting has already been addressed in the revised structure and contents of the formats and parameters, with the provision for options and choices for the CPSEs, and authority to the Task Force to make exceptions.

The issue of permitting Conditional Targets/ providing for a Mid-Term Review, and mitigation of genuine problems

- 3.4.2 Many CPSEs have demanded that they should be allowed to accept targets subject to certain conditions and a mid-term review of targets may also be provided for, as otherwise they have to suffer for actions or defaults on the part of others upon whom they are dependent, or due to unforeseen changes in factors like exchange rate and international prices.
- 3.4.3 The Committee, while not unmindful of the problem, felt that it would not be desirable or even workable to allow for conditions to be attached to targets or to provide for a mid-term review. It was of the view that in business operations, the fulfilment of almost any target depends upon some variables and external factors, and unforeseen developments are a part of business life. It is for the enterprise to anticipate problems as best as it can, and take mitigating action to achieve its objectives and targets.

The Issue of Assurances by Government

- 3.4.4 A number of CPSEs have expressed the view that to make the MoU a genuine two way exercise, some assurances should also be forthcoming from the administrative ministries regarding decisions and action on their part that are relevant and essential for finalising and realising the MoU commitments made by the CPSEs.
- 3.4.5 The intrinsic validity of this expectation cannot be questioned, and the Committee felt that granting of such assurances could go a long way in mitigating the misgivings about the MoU exercise being one sided. The Committee, however, also felt that this needs consideration by the government, and as it could involve a policy decision affecting various ministries, it would be more appropriate if DPE considers taking it up suitably at the government level, including with the High Power Committee. A workable arrangement could be to enlist these obligations in the MoU document and incorporate these appropriately in the RFD exercise, every year.

The Evaluation Stage

3.4.6 While conditional targets were not found to be acceptable and a mid-term review of targets was also not found to be administratively feasible, the Committee recognised that in some exceptional cases, where situations entirely beyond the control of CPSEs, especially involving policies or directives of the Government, could render the fulfilment of the committed targets almost impossible, despite their best efforts, it would be reasonable to make some provision to address such a situation.

3.4.7 The Committee recommends that in such force majeure kind of circumstances, the affected CPSEs could seek, at the stage of performance evaluation, suitable adjustments / offsets through its administrative Ministry, which may forward it to the DPE with its comments/recommendation for placing before the Task Force.

3.4.8 The Task Force should take up the matter in the evaluation meeting where the CPSE can present its case in detail, and examine the request in the light of the recommendation/comments of the administrative Ministry / DPE and all relevant factors, and take an appropriate decision regarding the relief to be given. The reasons for the decision should be recorded in the minutes of the meeting.

3.5 ORGANISATIONAL AND OTHER MEASURES TO STRENGTHEN THE TASK FORCE MECHANISM

Syndicate Group composition and allocation of CPSEs to them-

3.5.1 The details of the current and previous syndicates are at **Annex K**.

3.5.2 The Committee felt that a syndicate should normally have no more than four or five members, including the convenor, though the number could be exceeded in suitable cases. The basic composition would include the convenor who can provide leadership and have varied experience, preferably having held very senior positions in the Government of India or the State Governments, as in fact has been the practice till now; one expert in finance/accounts; one domain specialist, preferably a former CEO of a CPSE; and one person with knowledge and experience of non-financial parameters and management. Where required, one or more member(s) with expertise in areas like projects, operations, productivity, human resources, turnaround of sick units, marketing, financing of social sector activities, or specialised domain knowledge could be considered to strengthen the group.

Treatment of Sick/Loss making units

3.5.3 The Committee recognised the merits in the present system of a separate syndicate for sick/loss making units, but was of the view that on balance, it would now be preferable to place them in their relevant sector-based syndicates, because the sick/loss making units, with their diverse domains and functionalities, are likely to have more in common with units in a similar sector than with those where the only commonality is sickness/losses, which also could have been caused by reasons entirely dissimilar to their own.

Number of syndicates

- 3.5.4 The Committee was in agreement with having separate syndicates for section 25 companies and for financial sector companies. It felt that the remaining could either be kept as they are, or in light of the suggestions given by the convenors, more syndicates could be created as may be needed to bring greater cohesion and homogeneity. The Committee was broadly in favour of more syndicates if needed rather than go in for clubbing disparate ones merely to keep the number down for the purpose of logistical convenience.
- 3.5.5 The Committee was also of the view that in the final analysis, it should be left to DPE to determine the number and composition of the syndicates, especially in view of the administrative, budgetary and logistics aspects that also need to be taken into consideration in any decision in this regard.

Formation of Resource Group

- 3.5.6 The current system of resource persons has, for reasons not related to its intrinsic utility and merit, led to avoidable resentment among CPSEs, and the Committee felt that it would be desirable to remove the perceived irritants while retaining the essence of the mechanism. It is accordingly suggested that the resource persons may be designated as Members of the Resource Group for the Task Force, (MRG) with whom they may interact closely, but need not make the opening presentation or take direct part in the negotiations, unless invited by the convenors to do so.
- 3.5.7 The Resource Group would constitute the main support mechanism for the Task Force and DPE in collecting and analysing data and information relating to the economy, industry, and sectors, which should be done from multiple sources, including planning commission and ministries, industry associations, industry or sector specific organisations, banks, rating agencies and economic research organisations. This group would also assist DPE/Task Force in the exercise of negotiation of the MoU draft and performance evaluation of MoU targets.

3.5.8 Members of this group should be chosen with care, and with special attention to their analytical ability, range and diversity of business experience, understanding and expertise, including that of the public sector operations, balance of approach, and willingness to be a part of this exercise. Their contribution should be recognised and conveyed to the appropriate quarters by DPE and suggest to the parent organisation/ department that it should find a mention in their APAR's. They may also be given adequate infrastructure support and opportunity for updating their own knowledge and experience base so as to be able to assist the DPE/Task Force more effectively.

Formation of Experts Group

3.5.9 DPE may also form a small expert panel of persons with expertise and experience in the field of finance/accounts from among the existing members of the Task Force, and from outside, preferably those who may have been associated with the MoU exercise earlier, to advise and assist the Task Force as and when needed in dealing with matters relating to financial parameters and allied issues.

3.5.10 A similar panel may also be set up for dealing with issues relating to non-financial parameters.

Pre-negotiation processes

3.5.11 It would be of great value to the MoU exercise if DPE could convene a meeting of the High Power Committee headed by the Cabinet Secretary and the Secretaries from the administrative ministries dealing with major/important CPSEs, before the start of the MoU negotiations every year.

3.5.12 Such a meeting could discuss and bring out the expectations of the government from the public sector in general and the major/important CPSEs in particular for the current year and over a three year perspective, and the extent to which the administrative ministries can facilitate their fulfilment in terms of policy initiatives and administrative support, or indicate, to the extent possible, if there are any measures contemplated that would have a direct relevance on the MoU with these CPSEs and should thus be kept in mind by the Task Force.

3.5.13 This meeting will also be of valuable guidance to DPE and the Task Force in dealing with issues of interdependence and coordination. It will also help in determining the approach to sick and loss making units where decisions for revival/further investments rest with the government.

- 3.5.14 In addition to the meeting of the High Power Committee, DPE may also consider holding a meeting with the secretaries having administrative jurisdiction over the concerned MoU signing CPSEs, in groups or separately, before the start of the negotiations to discuss the priorities and policy initiatives relating to their ministries.
- 3.5.15 Preparatory meetings with convenors may also be arranged by DPE to brief them appropriately, answer their queries, and to discuss relevant issues including those relating to cohesion and commonality of approach among different syndicates in the ensuing negotiations/evaluations.
- 3.5.16 Each syndicate may hold one or more meeting (s) well before the start of negotiations to discuss the draft MoU received from all CPSEs in their syndicate among itself and with the resource group member and DPE representatives; following which queries and suggestions for revision, if any, can be sent to the CPSEs/administrative Ministry through DPE, with a reasonable margin for them to respond.

The Negotiation meetings, logistics, and administrative arrangements

- 3.5.17 There should not be more than one meeting in a day for any syndicate, unless the syndicate and the CPSEs concerned so desire, and minutes should be recorded and finalised preferably on the same day and in no case later than the next working day.
- 3.5.18 Adequate time, preferably at least one hour may be provided before the negotiation meeting for an internal meeting of the syndicate to discuss the MoU targets and the negotiating points, with the resource group members being available for assistance.
- 3.5.19 In view of the coordination issues that have come up in the past involving Coal India, NTPC and BHEL(or others) it is suggested that in addition to the regular syndicate meetings, either one joint meeting of the syndicates in which these are included may be held, with railways, the concerned administrative ministries and DPE also present; or a separate meeting of these CPSEs, Railways, administrative Ministries, DPE and the convenors of their respective Task Forces be convened to sort out cross cutting issues.
- 3.5.20 The Committee felt that the administrative Ministry must be represented in every negotiation meeting, and suggested that DPE may pursue this with the ministries to ensure their effective representation at an appropriate level.

3.6 THE GUIDELINES

3.6.1 These are the basic documents guiding all participants in the MoU process in its various stages, issues relating to their nature, structure, content and interpretation are of critical relevance for the entire MoU exercise.

3.6.2 The Committee noted that over the years, detailed guidelines have been prepared for various components of the MoU document, covering the financial and the non-financial dynamic parameters and targets, as also for the processes/procedures for the preparation and submission of documents, for meetings and other relevant issues. These have been revised and supplemented from time to time by additional guidelines to meet the emerging requirements, and by and large, the DPE has done a commendable job in this regard.

Revisiting the Guidelines

3.6.3 The Committee, however, also noted that paradoxically, sometimes the very comprehensiveness of the guidelines seems to have gone against them in terms of the inability of some of the players to fully comprehend them, leading to a negative, though not necessarily justified perception about them.

3.6.4 It is, therefore, felt that a review of these by DPE on a priority basis, with redrafting as/where needed, would be desirable. In the view of the Committee, the guidelines should be simple, clear and brief, and can be supplemented by additional explanatory notes if and as required, though it also recognised that ultimately it is the DPE which will be the best judge of how the guidelines should be drafted.

Desirability of continuous interaction in the context of guidelines:

3.6.5 The Committee felt that some of the perceptions of the CPSEs expressed during the discussions with them seemed to be due to a different understanding of the guidelines than intended, or were probably based on a syndicate specific experience. The Committee felt that further clarity in guidelines and closer and continuous interaction with CPSEs in explaining these would assist in dispelling such misconceptions where they may exist.

3.7 THE MoU AND THE RFD SYSTEM

- 3.7.1 The Committee noted the view, expressed by CPSEs and DPE, that there is a need to bring harmony between RFD of the administrative Ministry and the MoU targets of the CPSEs. It was also noted that DPE, which is the nodal Department to coordinate policy matters relating to CPSEs but does not administer or control their functioning has been given an “RFD target of Growth in Turnover and Gross Margin of CPSEs by 5% for the year 2012-13.”
- 3.7.2 The Committee discussed this issue and was informed that MoU meetings are held in January-February, and targets are fixed in due consideration of the Budget Estimates of the CPSEs as submitted to their ministries. These are by definition, for the future, and are based, among others, on certain assumptions regarding economic factors, business conditions, and the expectations and commitments, where available, of the government.
- 3.7.3 The targets for RFD, on the other hand, are finalized much after the MoU are signed, and as such, any change in sequencing does not appear to be a feasible proposition.
- 3.7.4 The Committee recognised the problem being faced by DPE in being asked to deliver what was not in its control, and felt that DPE may consider bringing this up at the High Power Committee meeting, and the issues relating to better harmony, synchronisation and synergies between the two systems, whose ultimate objectives are similar.

4. EXECUTIVE SUMMARY & RECOMMENDATIONS

- 4.1 The MoU system is perceived to be useful and robust, and has worked well over the years to facilitate performance improvement of CPSEs. However, some changes are desirable in the evolving scenario.
- 4.2 The main areas / issues to be looked at in this context are the formats for MoU, the targets, parameters and their weights, the need for more flexibility at negotiation and evaluation stages, the guidelines for the MoU exercise, measures for strengthening the Task Force and its syndicates, and the issues relating to the RFD system.

The main recommendations of the Committee may be summarised as follows:

FORMATS

- 4.3 A common format with options instead of multiple formats recommended providing flexibility for enterprise / sector specific factors. These should be operated within a broad common framework to maintain a desirable level of uniformity of approach.

TARGET SETTING, PARAMETERS & THEIR WEIGHTS

- 4.4 The determination of basic target and the difference of points between levels on the five point scale should be left to the Task Force.
- 4.5 Parameters and their weights would be finalised in Task Force syndicates, and the final decision would be with the convenor.
- 4.6 DPE should bring out a glossary of Definitions of Financial and Accounting Terms used in MoU documents.
- 4.7 Non-Financial parameters would be divided in the following main groups, related to Corporate Social Responsibility & Sustainable Development; Productivity and Internal Processes ; Technology, R&D, Quality, Innovation; Human Resource Management; Project Management; and Initiatives for Growth, each with a weight / range of weights assigned to it.

- 4.8 There is need for a continuous programme of education and awareness to ensure that CPSEs understand and appreciate the importance of non-financial parameters.
- 4.9 The concept of negative marking for non-compliance with DPE guidelines, directives of government and compliance requirements of regulators in serious cases may be considered on an experimental basis, with adequate safeguards to prevent penalisation of minor lapses.

FLEXIBILITY IN TARGET SETTING AND EVALUATION

- 4.10 Conditional targets or mid-term review of targets are not recommended, but mitigation of genuine serious problems may be made possible at evaluation stage.
- 4.11 DPE may examine and follow up the issue of assurances from administrative ministries regarding decisions and action on their part that are relevant for realising the targets set in MoU.

ORGANISATIONAL AND OTHER MEASURES TO STRENGTHEN THE TASK FORCE MECHANISM

- 4.12 A syndicate should normally not have more than four / five members, but this can be increased where required.
- 4.13 Sick / loss making units may be kept in the sector based syndicates which would have more in common with them, than being clubbed in a separate syndicate only for sick / loss making units.
- 4.14 Separate syndicates for Section 25 companies and for the financial sector units may continue, along with their formats.
- 4.15 The total number of syndicates could be increased, if needed, to bring greater cohesion and homogeneity, but final decision on the composition and number of syndicates would be with DPE.

- 4.16 A Resource Group for the Task Force, with adequate infrastructure, may be set up, and the resource persons may be designated as members of this group, with a clear mandate about their role. This group will also collect relevant data from multiple sources and analyse it, and would constitute the main support mechanism for the Task Force / DPE for assessing draft targets, in negotiations and for performance evaluation.
- 4.17 Two small expert groups, one each for finance / accounts and for non - financial matters may be set up from among existing members of syndicates and outside experts, to assist the Task Force.
- 4.18 A series of pre-negotiation meetings may be held, including those of the High Power Committee under the chairmanship of the Cabinet Secretary; of secretaries of administrative departments; and of convenors of syndicate groups.
- 4.19 One or more internal meeting(s) of the syndicate / DPE should be held to discuss the draft MoU received, and queries / suggestions arrived at should be sent to the CPSEs in advance of the start of the negotiations.
- 4.20 There should not be more than one negotiation meeting in a day, and the minutes should be recorded on the same day, barring in exceptional circumstances. The schedule should provide adequate time for each syndicate to have an internal meeting before the start of the negotiation meeting(s).
- 4.21 Joint meetings of syndicates or convenors and CPSEs concerned may be held, as needed, to address issues arising out of the interdependence and its impact on their respective targets.
- 4.22 The administrative Ministry must be represented in every negotiation meeting, at an appropriate and effective level.

THE GUIDELINES

4.23 These have been updated from time to time by DPE, and are quite comprehensive. However, these would need to be revised in light of the changes proposed in the system. It is desirable to keep them as simple, clear and brief as possible to make them comprehensible to the CPSEs.

THE MoU AND THE RFD SYSTEM

4.24 The issues of harmony, synchronisation and synergies between MoU and RFD systems, and of the redress of genuine problems faced by DPE can best be addressed at government level, and DPE may consider taking them up in the High Power Committee meeting.

CONCLUSION

The Committee feels privileged at having been given the opportunity to contribute to the exercise to make the MoU System more effective and relevant to the needs of the CPSEs. It feels that given the complex and dynamic nature of the exercise, it would be desirable not to treat the introduction of the changes suggested by it, to the extent accepted by the government, as a one- time exercise, but also to keep open the option of making suitable adjustments in the future, in light of the experience of its working.

(P .G. Mankad)
Chairman, Working Group

(Shri Ajay Dua)
Member

(Shri Amarjit Chopra)
Member

(Shri Anil Razdan)
Member

(Shri Brijesh Kumar)
Member

(Shri P.P.Vora)
Member

(Shri P.R.Khanna)
Member

(Shri R.K.Mishra)
Member

(Shri S.D.Kapoor)
Member

(Shri U.D.Choubey)
Member

(Shri Arun K Sinha)
Joint Secy, DPE & Convener

Annex A

Terms of Reference of the Committee on MoU System

- I. Examine the desirability/possibility of different MoU Formats for different sizes and categories of CPSEs including Maharatna/Navratna.
- II. Examine the issue of the desirability/need for all CPSEs to be covered by the MoU exercise, especially in its current format and process which is common to all CPSEs.
- III. Examine the current system of setting targets on five-point scale.
- IV. Examine the issues arising out of the Results Framework Document (RFD) System of the Ministry/Department.
- V. Look into the aspects of giving more operational flexibility to CPSEs/administrative Ministry and the Task Force on MoU in the matter of target setting and performance evaluation.
- VI. Look into organizational and other measures to strengthen the Task Force.
- VII. Look into any other matter of relevance that the Working Group and the Department may consider appropriate for the empowerment and enhancement of CPSEs especially in the context of their role in the economy and to make the MoU exercise more effective.

Composition of the Committee on MoU System

NAME

1. Shri P. G Mankad,	Chairman
2. Shri Anil Razdan,	Member
3. Shri Ajay Dua	Member
4. Shri S.D.Kapoor	Member
5. Shri Brijesh kumar	Member
6. Shri R.K. Mishra	Member
7. Shri Amarjit Chopra	Member
8. Shri U.D.Choubey, DG SCOPE	Member
9. Shri P.R.Khanna	Member
10.Shri P.P.Vora	Member
11.Shri Arun Kumar Sinha, JS DPE	Member Secretary

Meetings of the Committee on MoU System

Sl . No.	Date of Meeting	Remarks
1.	24.05.2012	Discussion among members of the Committee
2.	07.06.2012	Discussion among members of the Committee
3.	20.06.2012	Discussion among members of the Committee
4.	28.06.2012	Discussion among members of the Committee
5.	11.07.2012	Discussion among members of the Committee; Discussion with CPSEs - HCL, NMDC, SAIL, MECON, MMTC, MDL, GRSE, SPMCIL
6.	12.07.2012	Discussion among members of the Committee; Discussion with CPSEs - EPIL, CWC, BEL, EIL, CONCOR, PFC, MSTC
7.	26.07.2012	Discussion among members of the Committee; Discussion with CPSEs – CIL, NTPC, IOC, ONGC, GAIL (India) Ltd.
8.	31.07.2012	Discussion among members of the committee
9.	01.08.2012	Discussion among members of the Committee; Discussion with Convenors of Syndicate Groups
10.	10.08.2012	Discussion among members of the committee
11.	11.08.2012	Discussion among members of the committee
12.	13.08.2012	Discussion among members of the committee
13.	14.08.2012	Discussion among members of the committee

Annex D**List of Syndicate Convener, CPSE Representatives, Experts & Others Met/
Consulted By the Committee**

Sl. No.	Name (Sri /Smt./ Sushri)	Syndicate / CPSE
1.	D P Bagchi	Transport & Tourism
2.	Dr.S S Meenakshisundaram	Sick & Loss Making-II
3.	K Rajendran Nair	Section 25 CPSEs & Financial Services
4.	A K Jain	Sick & Loss Making-I
5.	Pawan Chopra	Trading & Marketing
6.	K S Sarna	Electronics, Telecommunication & IT
7.	J N L Srivastava	Agriculture, Fertilizer, Chemicals & Pharma
8.	Srinibas Rath	Steel & other Minerals
9.	Shakeel Ahmed	Hindustan Copper Ltd., CMD
10.	Subimal Bose	NMDC, Director (Production)
11.	Anil Chowdhury	SAIL, Director (Finance)
12.	S Chattopadhyay	MECON, Director (Project)
13.	Sunir Khurana	MMTC, Director (Mktg.)
14.	M G Gupta	MMTC, Director (Fin.)
15.	Cdr P R Raghunath	MDL, Director (Shipbuilding),
16.	S S Hiremath	MDL, DGM -PSC
17.	S P Singh	GRSE, GM (Corp. Plg.)
18.	S Mallikarjun Swamy	ED – Corporate Planning
19.	M S Rana	SPMCIL, CMD
20.	A K Verma	EPIL, Director (Finance)
21.	B B Pattanaik	CWC, MD
22.	S K Sharma	BEL, Director (BC)
23.	Ram Singh	EIL, Director (Finance)
24.	P Alli Rani	CONCOR, Director (Finance)
25.	Satnam Singh	PFC Ltd, CMD
26.	B B Singh	MSTC Ltd, D (Comm)
27.	S Venkatraman	GAIL (India) Ltd., Director
28.	Sudhir Vasudeva	ONGC, CMD
29.	R S Butola	IOC, CMD
30.	A R Chodhury	NTPC, CMD
31.	S Narsing Rao	CIL, CMD

Annex E

F.No. 3(2)/2012-DPE (MoU)
Government of India
Ministry of Heavy Industries & Public Enterprises
Department of Public Enterprises
(MoU Division)

Block No. 14, 3rd Floor
CGO Complex, Lodi Road
New Delhi-110 003
Dated: 31st May, 2012

Dear Sir/Madam,

This is to inform you that a Working Group headed by Shri P G Mankad, Chairman Task Force has been constituted to review the MoU System/Guidelines for CPSEs.

I have been directed to request you to send suggestions/feedback on the existing MoU system and to specifically give your views on the following issues:

- 1) Whether the MoU format currently being used is compatible with the business of the CPSEs or should there be any changes made to get a better understanding of the performance and the constraints etc. facing the enterprise?
- 2) Whether the current system of setting of Basic Targets (B.T.) and other parameters on a five-point scale is comprehensive enough or should any modifications be made in it?
- 3) Whether it is desirable to give greater operational flexibility to CPSEs/administrative ministries including the concerned Task Force on MoU to devise parameters and weightages to set targets of performance and the evaluation mechanism?
- 4) What other provisions be introduced in the MoU system keeping in view the expected role of the CPSE in the current economic environment?
- 5) Suggestions for making the MoU system more effective as a management tool from the point of view of both the CPSE and the shareholders.

It should be kindly noted that the suggestions/feedback should be in maximum of two pages (font size-14) and should reach DPE latest by 14th June 2012 through fax or mail at mou-dpe@nic.in. Any communication received after 14th June, 2012 will not be entertained.

Sd/-

(J.R. Panigrahi)
Director (MoU)

Tel: 011-24360841

Fax: 011-24362613

E-mail: mou-dpe@nic.in

To:

1. All CPSEs concerned
2. Administrative Ministry/Department concerned

List of CPSEs who responded for Suggestions/Modification in MoU System**(Ref: DPE letter no.3 (2)/2012-DPE (MoU) dated 31.05.2012)**

SI no	Name of the CPSE	SI. no	Name of the Admn. Ministry
1	National Seed Corporation Ltd.	1	Dept. of Agriculture & Cooperation
2	Hindustan Copper Ltd.	2	Dept of Heavy Industries
3	Indian tourism Development corporation Ltd.	3	Ministry of Statistics & Prog.Implementation
4	EdCIL India Ltd.	4	Ministry of Coal
5	Central warehousing corporation		
6	BEML Ltd		
7	Bharat Electronics Ltd.		
8	Export Credit Guarantee Corporation		
9	Bharat Petroleum Corpn. Ltd.		
10	Goa Shipyard Ltd.		
11	Rail Vikas Nigam Ltd.		
12	Madras Fertilizer Ltd.		
13	Container Corp. of India Ltd.		
14	Misra Dhatu Nigam Ltd.		
15	HMT Ltd.		
16	National Backward Class Fin & Dev Corp.		
17	Tehri Hydro Dev Corp.		
18	Rashtriya Chemical & Fertilizers Ltd.		

19	Airport Authority of India	
20	NTPC Ltd.	
21	BHEL	
22	IOC	
23	MSTC	
24	Balmer Lawrie & Co. Ltd.	
25	MECON	
26	Konkan Railway Corp. Ltd.	
27	RITES	
28	EIL	
29	Indian Railway Finance Corpn.	
30	Chennai Petroleum Corp. Ltd.	
31	WAPCOS	
32	Oil India Ltd.	
33	ALIMCO	
34	GAIL	
35	HPCL	
36	Nevyeli Lignite Corp.	
37	Shipping Corp. of India Ltd.	
38	IRCON	
39	Hindustan Aeronautics Ltd.	
40	SAIL	
41	Mazagon Dock	
42	SJVN	
43	PGCIL	
44	TCIL	

45	NHPC	
46	Cochin Shipyard Ltd	
47	Cement Corp. of India Ltd	
48	ONGC	
49	MRPL	
50	NALCO	
51	National Schedule Caste Fin &Dev Corp.	

Annex G

List of Background Papers, Reports, Documents, etc. referred by the Committee

Sl. No.	Reference
1	Study on the Revamping of the MoU System by NCAER,2004
2	Report of the Working Group on Review of MoU Guidelines in CPSEs by Sh. Ashok Chandra, Chairman Task Force on MoU 2008
3	Consultancy Report on activities related to Performance of CPSEs by Consultant, MDI Gurgaon, 2010
4	Report of Panel of Experts on Reforms in CPSEs submitted to Planning Commission 2011
5	MoU Guidelines and other Documents of DPE

Annex H

List of Resource Persons who assisted in the deliberations of the Committee

SI No.	NAME
1	Sh Anand Prakash, Asst. Director (MoU)
2	Sh Prakash Gurbaxani
3	Sh Jyoti Ranjan Panda
4	Sh Ram Chandra Patra
5	Sh Saurabh Jain
6	Smt Lekha Khare
7	Smt Poonam Singh

BRIEF NOTE ON THE CURRENT MoU SYSTEM

1. The Performance Contract System first originated in France in the late 1960s. It was later adopted by Pakistan and Korea. India took to the system of Memorandum of Understanding (Indian version of Performance Contracting) in 1986.
2. In the past two and half decades more than 30 developing countries have introduced the Performance Contract system for enhancing performance of their public sector enterprises and for providing operational autonomy. In Asia, the Performance Contract concept has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka. In Africa, performance Contracts have been used in selected enterprises in Benin, Burundi, Cameroon, Cape Verde, Congo, Cote d'Ivoire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia and Zaire.
3. In Latin America, they have been used at different times in Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, U.S.A, Canada, Denmark and Finland.
4. The Government of India introduced the system of MoU in the year 1986, based on recommendations given by Arjun Sengupta Committee report (1984). The report recommended that the Central Public Undertakings enter into agreements with their Administrative Ministries for five years, while progress would be reviewed annually. The committee recommended three parameters for regulating the control-freedom interaction between government and CPSEs: price fixation, investment planning and financial management. These parameters are essentially financial in nature.
5. The MoU system was given broader thrust by the Industrial Policy of 1991 where in it was mentioned in that policy statement "there will be greater thrust on performance improvement through the MoU system through which management would be held accountable. Technical expertise on the part of the Government would be upgraded to make the MoU negotiations and implementation more effective".

6. During the initial years of MoU implementation, Government of India laid greater emphasis on the core sectors like Steel, Heavy Engineering, Coal, Power, Petroleum and Fertilizers. Initially, MoUs were done for enterprises belonging to these select sectors only. The first set of MoU was signed by four CPSEs for the year 1986-87. Over the years, more CPSEs were brought within the system and for the year 2012-2013 197 CPSEs have signed MoUs with their respective administrative ministries.
7. Revamping Initiatives taken by Gol;-Initially the process of MoU was based on negotiations between the enterprise and the respective Ministry. The system was revamped in 1989 and it moved closer to the “signalling system” of the Pakistani and the Korean models as developed by Prof. Leroy P. Jones (Director, Public Enterprises Programme, Boston University). The ‘performance contract’ under the MoU system got de-linked from the medium-term agreement as recommended by Arjun Sengupta Committee which was implemented till 1986. Under the new MoU system that was implemented from the financial year of 1989-90, performance evaluation was based on the annual targets agreed upon between the government and the CPSEs, rather than the five-year target. From 1989-1990 the Signalling System was adopted and it remains in vogue till the present.
8. The MoU system was again revamped in 2004-05 by a study conducted by the National Council of Applied Economic Research (NCAER) engaged by DPE. While the performance evaluation under the earlier system allocated 60% weight to ‘financial parameters’ and 40% weight to ‘non-financial parameters’, the NCAER recommended equal weights (50%) to both ‘financial’ and ‘non-financial’ parameters. As per the recommendations given by NCAER, which is being followed in the current MoU guidelines, equal weights are given to financial (50%) and non-financial (50%) parameters. This is done according to the Balanced Scorecard approach to performance management. The financial parameters are presented in absolute values as well as in ratios. The non-financial parameters are further divided into dynamic parameters, enterprise-specific parameters and sector-specific parameters.

9. The evolution of MoU as a management tool is of fairly recent origin and it evolved to improve the efficiencies of the PSE. The specific objectives of the MoU system are to:
- Improve the performance of PSEs through increased management autonomy;
 - Remove the haziness in goals and objectives;
 - Evaluate management performance through objective criteria; and
 - Provide incentives for better future performance.
10. MoU system is essentially a system of management audit. It is not an attempt at a reappraisal of the original investment decision which brought the PSE into being, or a review of the policies, which lay behind the establishment of the PSE. The MoU is an instrument to evaluate the performance of the management in a given year with reference to the commitments against specific indicators made in the MoU for the year. It tries to reduce the information asymmetry that exists between the govt. acting as the owner of the enterprise and the managers of the PSE.
11. A Working Group headed by Shri Ashok Chandra, the then Chairman Task Force was constituted in August 2008 by Government of India to review the MoU guidelines in CPSEs. The report recommended that while determining the basic targets, the enterprise performance for the past 5 years must be taken into consideration, otherwise if the estimated achievement for the year is taken into consideration as it was being done, it could lead to distortions. The Group recommended that though the Balanced Score Card method was acceptable wherein 50% weightage was given to both financial and non-financial parameters, it went ahead and said that for those enterprises which are not purely commercial in nature, or which are operating in a purely government administered pricing regime, enterprises working in social and financial sectors, the weightages for financial and non-financial parameters may be suitably altered.
12. Another study was conducted during 2011 by Department of Public Enterprises, Government of India, wherein the study was given to MDI Gurgaon to suggest measures for improving the system of MoU. The report suggested six different kinds of formats for MoUs between CPSE and its Ministry (Manufacturing and Mining Sectors, Trading and Consulting Sectors, Social Sector, Financial Sector

and Sick enterprises). The report also suggested that the Administrative Ministry and the CPSE may formulate two additional enterprise specific parameters like physical production, globalization, capital expenditure, expansion plans, economy measures to cut costs etc) of 10 marks each against the 10 marks meant for enterprise specific variations.

13. The High Power Committee (HPC) on MoU is a Committee of Secretaries (COS) set up by the Government as the Apex Committee to assess the performance of MoU signing CPSEs with reference to the commitments made by them in the MoU and also to assess how far the Administrative Ministries/Departments have been able to give the necessary support as committed by them in the MoU. HPC is headed by the Cabinet Secretary and is assisted by an independent, neutral body of experts called Task Force on MoU for annual goal setting of CPSEs and their performance evaluation during and at the end of the year. They also assist DPE and HPC on MoU for determining the MoU format, parameters and inter se weights. The Task Force is further divided into different groups called syndicates and each syndicate is entrusted with the tasks relating to MoU exercise of CPSEs of a particular sector.
14. As per the decision of the “High Powered Committee on MoU” headed by the Cabinet Secretary, all CPSEs, Holding as well as Subsidiaries Companies and including sick and loss making CPSEs are required to sign MoUs with their administrative Ministries/Departments by 31st March every year. It is expected that signing of MoU would improve the performance of CPSEs and also help the Government in monitoring their performance.
15. Performance targets for MoUs are framed on a five point scale (Excellent, Very Good, Good, Fair, and poor). The draft MoUs submitted by the CPSEs to Department of Public Enterprises through their administrative Ministries/ holding companies are discussed and after mutual acceptance of finalized the parameters at the MoU negotiation meetings arranged by the Department of Public Enterprises.
16. Performance Evaluation is based on the ‘Balance Score Card’ approach and includes both “financial” and “non-financial parameters” having equal weight of 50% each. However, in the case of syndicate groups “Sick and Loss Making CPSEs” and “Section 25 CPSEs’ the weights for financial and non-financial parameters are 40% and 60% respectively

17. The content of the MoU has changed over the years with dynamic factors being introduced. These factors such as Human Resource Development (HRD), Research & Development (R&D), Sustainable Development (SD), Corporate Governance, Corporate Social Responsibility (CSR) were consequentially given a higher weightage so as to duly reward those PSEs which aim for not just short-term profit but longer term sustainable growth .
18. Performance Evaluation of the CPSE is done at the end of the year on the basis of actual achievements vis-à-vis the MoU targets. CPSEs are required to submit performance evaluation reports on the basis of audited data along with Annual Accounts, Balance Sheet etc. to Department of Public Enterprises through their administrative Ministries/Departments within the target date of 31st August.
19. The evaluation of the MoU signing CPSEs is done at the end of the year by the Task Force on the basis of actual achievement vis-à-vis the MoU targets. The weighted score for each parameter in the MoU is worked out by taking into account the actual achievements and the weights assigned to that parameter. The overall MoU composite score is, thus arrived at by adding weight score for all parameters. This system is based on 'Five-point' scale and 'criteria weight' for the calculation of Composite Score, which is index of the performance of the CPSE with reference to its targets. The system of Rating CPSEs on the basis of MoU Composite Score is as follows:

MoU Composite Score	Rating
1.00 – 1.50	Excellent
1.51 – 2.50	Very Good
2.51 – 3.50	Good
3.51 – 4.50	Fair
4.51 – 5.00	Poor

20. After completing the evaluation of the performance of the MoU signing CPSEs with the assistance and expertise the Task Force, DPE submits the results to the High Power Committee headed by the Cabinet Secretary for its approval. Once the High Power Committee gives its seal of approval to the evaluation done by the Task Force, the composite score and the ratings of the CPSEs become final. Composite score, thus, facilitates measuring the ability of the CPSEs to meet their own commitments and to compare and rank various CPSEs even though the commitments of these enterprises are different.
21. As per the Jagannath Rao Committee's (Second Pay Revision Committee) recommendations, MoU performance evaluation is one of the basic criteria for Performance related pay (PRP). The Government has accepted this recommendation. The signing of MoU by the CPSEs with their parent Ministries/ Departments/ Holding Companies has been made mandatory for making them eligible for performance related pay/variable pay. The MoU rating also forms the basis of PRP, with all the key result areas identified in the MoU. The PRP will be payable at 100% eligibility levels in case the CPSE achieves the MoU rating as "Excellent". In respect of "Very Good", "Good" and "Fair" MoU ratings, the eligibility levels for PRP would be 80 %, 60% and 40% respectively. If the MoU performance of a CPSE is rated as 'Poor', it will not be eligible for PRP irrespective of the profitability of the CPSE.
22. The non-monetary incentive is in the form of MoU Excellence Award. Apart from providing an incentive for the Central Public Sector Enterprises towards achieving excellence in their performance, these MoU awards are an expression of commitment of the policy makers to the CPSEs and the MoU system.
23. The total number of MoU Excellence Awards are 12 (1 from each of the 10 Syndicate groups, 1 from the listed CPSEs, 1 from amongst the turnaround sick and loss making enterprises). All other 'Excellent' performing CPSEs get MoU Excellence certificates.
24. The following three basic principles for selection of CPSEs for MoU Excellence Awards and Certificates from amongst the Syndicate groups are followed:
- The profit of the CPSE in the year should be higher compared to the previous year.
 - It should not be a loss-making enterprise.
 - The composite score of the CPSE should not be more than 1.5 (Excellent rating).

- Compliance of Corporate Governance is one of the criteria for the consideration of MoU Excellence Awards.
25. Award is given to the CPSE meeting the above criteria and having the best MoU composite score in the concerned Syndicate Group. In case two or more CPSEs score the same MoU composite score in a Syndicate Group, the CPSE recording the highest growth rate of net profit over the previous year is eligible for the Award.
26. Ranking of CPSEs for MoU Excellence Award in the category of 'listed CPSEs' and 'sick and loss making CPSEs' is done by the Department of Public Enterprises. The "listed CPSEs" with the highest percentage growth in market capitalization are arranged in descending order and the CPSE with the highest growth is selected for the MoU Excellence Award.

Annex J

Brief note on the Current MoU Formats

Financial Parameters	Mining and manufacture	Trading & Consulting Sector	CPSEs under section 25	Financial Sector	Sick & Loss Making CPSEs	CPSEs Under construction
Profit Related i) Disbursements ii) Resource mobilization Loan sanctions iii) Projects commissioned in value terms iv) Financial returns (differential between cost of borrowings and disbursements) v) Recoveries as a % of amount due vi) Recoveries as a % of amount overdue for varying years vii) Cash generation from Operations			12+2+5+4+5	22	5	NONE
Gross Margin to Gross Block (manufacturing) or to Gross Sales (Trading)	2	10				
Gross profit to capital employed	10					
Operating turnover/Employee		12				
Size Related						
• Gross Sales	4	4		4	10	
• Gross Margin	8	8	10	8	10	
Net Profit					5	
Gross Profit					5	
Added Value						
Productivity related Management Ratios						
• PBDIT/Total Employment	7	7	2	7		
• Net profit/Net Worth	10					
• Added Value/Sales	9	9		9		
• Working Capital/Turnover					5	
SUB TOTAL	50	50	40	50	40	

Non-Financial Parameters & Indicators	Mining and manufacture	Trading & Consulting Sector	CPSEs under section 25	Financial Sector	Sick & Loss Making CPSEs	CPSEs Under construction
Capital Expenditure						
Project Implementation milestone						
Project related parameters Physical achievement(time over run)						25
Project cost(cost over run)						25
Strategic Planning/Corporate planning/vision						
Physical targets						
Order booking						
Diversification/modernization/expansion/Adoption of Innovative practices						
No. of Beneficiaries assisted during the year						
%age of beneficiaries inspected during the year						
%age of beneficiaries found during inspection to have possessed the assets created						
%age of assisted beneficiaries found during inspection to have crossed poverty line						
%age reduction in non-performing assets - yearwise break up						
No. of beneficiaries got assisted under govt. schemes						
Financial Parameters	Mining and manufacture	Trading & Consulting Sector	CPSEs under section 25	Financial Sector	Sick & Loss Making CPSEs	CPSEs Under construction
No. of target group provided Entrepreneurship Dev/skilldev prog. That help						

<i>them to secure employment Partnership with govt. depts.. to leverage existing schemes</i>						
<i>Partnership with EDP Institutes to train beneficiaries</i>						
HRM	5	5	5	5	5	
Quality: ISO Certification						
Customer satisfaction as measured by repeat orders by same customers						
Globalization						
R&D	5	5		5		
Corporate Social Responsibility	5	5		5		
Sustainable Development	5	5		5		
Corporate Governance	5	5	5	5	5	
Sector –specific Parameters						
<i>Preparation/ Implementation of the Business/ Revival Plan</i>						
<i>Generation of funds from non-performing assets</i>						
<i>Reduction in receivables</i>						
<i>Inventory Control</i>						
Enterprise-specific Parameters						
Compliance of DPE Guidelines						
SUB TOTAL	50	50	60	50	60	100
GRAND TOTAL	100	100	100	100	100	100

Annex K

DPE TASK FORCE ON MoU for 2012-13

CHAIRMAN – Shri P.G. Mankad, IAS 1964							
S.No.	Syndicate	Convener	Finance Expert	CSR	Sustainable Development	R&D	Human Resources Management
1	Agriculture, Fertilizer, Chemicals & Pharma.	Sh. J.N.L. Srivastava, Ex-Secy, GOI, (IAS:66, PB)	Sh. Mahendra K. Agrawala, Chartered Accountant,	Sh. A.S. Bansal, Ex-CMD, TCIL	Dr. Sirish Sangle, Prof, NITIE,Mumbai	Dr.Baldev Raj IGCAR	Ms Shiela Bhide, Ex-Secretary, GOI (IAS: 73, AP)
2	Steel & other Minerals	Sh. Srinibas Rath, Ex-Addl.Chief Secy., Orissa, (IAS:68,Orissa)	Sh. Jyoti Prakash Gadia, Chartered Accountant	Sh.S.N. Dash, Ex.Secr etary, GOI, IAS- Kerala;73	Ms Seema Arora CII-ITC Centre for Excellence on SD	Sh. R.K. Mishra, Director, IPE,	Sh. R.Bandyopadhyay Ex-Secretary,GoI IAS : WB : 74
3	Crude Oil, Gas & Petroleum	Sh. Ajay Dua, Ex-Secy. (IAS:71, MH)	Sh Kavish Sarawgi Financial Consultant	Dr S.Sivaram Ex-Director,NCL,Pune	Sh T.Jayaraman Professor,,TISS	Dr A.K.Bhatnagar Former Director(R&D) IOC	Prof V.G.Gaikar Former Tech Mumbai
4	Engineering, Transport Equipment & Consumer Goods	Sh. Brijesh Kumar, Ex-Secy, GOI, (IAS:68, UP)	Sh K.K.Gupta Ex-GM Central Bank of India	Dr. Ahindra Chakrabarti, Professor,IMI,Delhi	Ms Aditi Halder GRI Focal Point,India	Shri T S Laschar IES Retd. 1973 Principal Economic Advisor	Sh Brahm Dutt Ex-Secretary,GoI IAS:73;KTK
5	Energy, Power Generation & Transmission	Sh. Anil Razdan, Ex-Secy. GOI, (IAS:72, HR)	Sh. C.S.Jog, Financial Consultant	Prof. Vinod Kumar Bhalla, FMS, University of Delhi,	Sh.U.D. Choubey, Ex -CMD, GAIL & DG (SCOPE)	Prof J.P.Subrahmanyam, Prof, IIT,Delhi	Sh. Uddesh Kohli, Ex-MD, PFC Ltd
6	Trading & Marketing	Sh. Pawan Chopra, Ex-Secy, GOI, (IAS:67,Raj.)	Shri Manish Kedia Chartered Accountant	Sh. K.L. Mehrotra Ex-CMD, MOIL	Mr G.C.Varughese Development Alternatives	Dr V.T.Satyanathan Ex-BHEL	Smt. Rama Rani Hota, Ex-Chief Commissioner, I-Tax (IRS:69)
7	Contract & Consultancies	Sh. Dipak Chatterjee, Ex-Secy, GOI, (IAS:66, WB)	Ms Rima Dhawan, Chartered Accountant	Sh. P.P. Vora, Ex-CMD, FACT,	Sh. A.K.Rath Ex-Secretary,GoI IAS:73	Dr.M K Joshi Ex-Director, EIL	Sh. Adesh C. Jain, Hon. President, PMA
8	Transport & Tourism	Sh. D.P. Bagchi, Ex-Secy, GOI, (IAS:66, Orissa)	Sh. B.K. Sahoo, Chartered Accountant	Sh. Vinod Somani, Chartered Accountant,	Dr Prasad Modak IIT,Mumbai	Sgri RK.Narayan Ex-CMD,Powergrid Corpn	Sh V.K.Malhotra (IAS:70,U.P.) Ex –CMD,FCI
9	Electronics, Telecommunication & IT	Sh. K Subramanya Sarma, IAS(68)	Sh. P.K. Sharma, Chartered Accountant	Sh. B.R. Kumar, Ex-CMD,NMDC	Sh. B.C. Mahapatra, Ex. Chairman, OFDC	Dr. P. K. Choudhuri, Ex-Member, PESB,	Shri Amarendra Mohapatra Former Director,MMTC
10	Section 25 CPSEs & Financial Services	Sh. K.R. Nair, (IAS:67, PB)	Sh. Rajib Sekhar Sahoo, FCA	Shri G. Upadhyaya Former Director, SAIL	Sh. B. Samal, Ex-Chairman, Allahabad Bank	Shri R.P.Ojha Former ED,PGCIL	Shri V.Shivakumar Member,Prasar Bharati
11	Sick & Loss Making-I	Sh. A.K. Jain, Ex-Secy, GOI, (IAS:70, UP)	Sh. R.K. Agrawal, Chartered Accountant	Sh. S.D. Kapoor, Ex-CMD, MMTC	NA	NA	Sh. K. Cherian Varghese, Ex-Chairman, BIFR
12	Sick & Loss Making-II	Dr. S.S. Meenakshisundaram, Ex-Secy, GOI, (IAS:68, Karnataka)	Sh. Suresh Chand Gupta, Chartered Accountant	Dr. Kinner Murthy Prof,Centre for Mgmt Studies, Hyderabad	NA	NA	Shri A.I.Bunet Former Director,PGCIL